CA INTER

ADVANCED ACCOUNTING

MUST DO QUESTIONS FOR BEFORE EXAM

Total Questions - 151

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1. AS – 1
DISCLOSURE OF ACCOUNTING POLICIES

Question 1 (Q.AS1.SM.02)

Jagannath Ltd. had made a rights issue of shares in 2012. In the offer document to its members, it had projected a surplus of ₹40 crores during the accounting year to end on 31st March, 2014. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹10 crores. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹30 crores).

(ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹27 crores is lower than the amount of ₹45 crores which would have been provided had the old method been followed, by ₹18 cores.

(iii) Not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹600 crores.

(iv) Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2013-2014.

Solution

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

Notes on Accounts:

(i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital-intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹50 crores and the profit for the year is increased by ₹20 crores.

(ii) In view of the heavy capital-intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by ₹18 crores. To that extent, the profit for the year is increased.

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

The company has decided to provide ₹10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹10 crores.

Question 2 (Q.AS1.RMP.05: (EXAM Nov18) (MTP May21 & May22))

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

i. Does this amount to change in accounting policy?
ii. Can the company change the method of accounting?
iii. Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2019 -20

SOLUTION

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

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 4 lakhs to Rs. 3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2019-20 in the following manner:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by Rs. 1 lakh."

Question 3 (Q.AS1.RMP.06: (Exam May23))

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

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

(2) Cee Limited sold its Office Building for ₹ 10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is ₹ 4,00,000. On 31st 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.

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

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

Solution

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

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

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

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

2. AS – 2
VALUATION OF INVENTORIES

Question 4 (Q.AS2.SM.05: (also RTP Nov.22))

The closing inventory at cost of a company amounted to Rs. 2,84,700. The following items were included at cost in the total:

(a) 400 coats, which had cost Rs. 80 each and normally sold for Rs. 150 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(b) 800 skirts, which had cost Rs. 20 each. These too were found to be defective. Remedial work in April cost Rs. 5 per skirt, and selling expenses for the batch totaled Rs. 800. They were sold for Rs. 28 each.

What should the inventory value be according to AS 2 after considering the above items?

SOLUTION

Valuation of Closing Stock

Particulars	Rs.	Rs.
Closing Stock at cost		2,84,700
Less: adjustment required for 400 defected coats Cost of 400 coats (400 x 80) Net Realisable Value [400 x (75 – 5% of Rs. 75)] (400 coats should be measured at NRV which is lower i.e. 28,500 therefore adjustment of 3500 is required)	 32,000 28,500	3,500
Value of Closing Stock		**2,81,200**

Note: There is no adjustment for skirts because for skirts were sold at above cost.

Question 5 (Q.AS2.RMP.10: (RTP May20))

Particulars		**Kg.**	**Rs**
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases of Raw Material		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was Rs. 20 per kg and the replacement cost for the raw material was Rs. 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

SOLUTION

Calculation of cost for closing inventory

Particulars	**Rs**
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead 75,000X10,200/15,000	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	Rs 22.50

Net Realisable Value per unit	Rs 20.00

Since net realisable value is less than cost, closing inventory will be valued at Rs. 20.
As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 9.50.
Therefore, value of closing inventory: Finished Goods (1,200 x 20) Rs. 24,000
Raw Materials (900 x 9.50) =Rs. 8,550
Total =Rs. 32,550

Question 6 (Q.AS2.RMP.15: (RTP May23))

An enterprise ordered 20,000 KG of certain material at ₹ 110 per unit. The purchase price includes GST ₹ 12 per KG, in respect of which full input tax credit (ITC) is admissible. Freight incurred amounted to ₹ 1,17,600. Normal transit loss is 2%. The enterprise actually received 19,500 KG and consumed 18,000 KG of the material.

(i) You are required to calculate cost of material per KG;
(ii) Allocation of material cost.

Solution

Calculation of Normal cost per Kg.

	₹
Purchase price (20,000 Kg. x ₹ 110)	22,00,000
Less: Input Tax Credit (20,000 Kg. x ₹ 12)	(2,40,000)
	19,60,000
Add: Freight	1,17,600
A. Total material cost	20,77,600
B. Number of units normally received = 98% of 20,000 Kg.	Kg. 19,600
C. Normal cost per Kg. (A/B)	106

Allocation of material cost

	Kg.	₹ /Kg.	₹
Materials consumed	18,000	106	19,08,000
Cost of inventory	1,500	106	1,59,000
Abnormal loss	100	106	10,600
Total material cost	19,600	106	20,77,600

Note: Abnormal losses are recognized as separate expense.

3. AS - 4
CONTINGENCIES & EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Question 7 (Q.AS4.SM.105)

A Limited Company closed its accounting year on 30.6.20X1 and the accounts for that period were considered and approved by the board of directors on 20th August, 20X1. The company was engaged in **laying pipeline for an oil company deep beneath the earth**. While doing the boring work on 1.9.20X1 it had met a **rocky surface** for which it was estimated that there would be an extra cost to the tune of Rs.80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.20X1.

ANSWER

AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above mentioned definition and requirements given in AS 4 (Revised).

In this case the incidence, which was expected to push up cost, became evident after the date of approval of the accounts. So it is not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Report of Approving Authority.

Question 8 (Q.AS4.RMP.205: (RTP May22))

Smart Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March, 2024 are to be approved by the approving authority on 30th June 2024. During the first quarter of 2024-2025, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Smart Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31st March, 2024. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2024, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15th April, 2024. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) The company has entered into a sale agreement on 30th March, 2024 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2024 when conveyance and possession get completed.

(iv) The company has received, during the year 2022-2023, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15th June, 2024 due to violation of some of the conditions of grant during the year 2023-2024.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2024.

SOLUTION:

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate.

In the given case, financial statements are approved by the approving authority on 30th June 2024.
On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31st March 2024:

(i) Since on 31st March 2024, Smart Ltd.was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2024 will be considered as an adjusting event. Hence, Smart Ltd.needs to adjust the amounts recognized in its financial statements w.r.t. net realisable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be 50 machines x ₹ 4,000 = ₹ 2,00,000.

(ii) A fire took place after the balance sheet date i.e. during 2024-2025 financial year. Hence, corresponding financials of 2023-2024 financial year should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.

(iii) Since the transfer of risk and reward and sale was complete in the month of May, 2024 when conveyance and possession got complete, no revenue should be recognised with respect to it in the financial statements of 2023-2024. However, a disclosure for the same should be given by the entity.

(iv) Since the notice has been received after 31 March but before 30 June 2024 (approval date), the said grant shall be adjusted in the financial statements for financial year 2023-2024 because the violation of the conditions took place in the financial year 2023-2024 and the company must be aware of it.

Question 9 (Q.AS4.RMP.206: (RTP May22 & May'25))

Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March 2020 are to be approved by the approving authority on 30th June 2020. During the first quarter of 2020-2021, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Tee Ltd. has an inventory of 50 stitching machines costing at Rs. 5,500 per machine as on 31st March 2020. **The company is expecting a heavy decline in the demand in next year**. The inventories are valued at cost or net realizable value, whichever is lower. During the month of April 2020, **due to fall in demand, the prices have gone down drastically**. The company has sold 5 machines during April, 2020 at a price of Rs. 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15th April 2020. The company has estimated a loss of Rs. 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) A **suit against the company's advertisement was filed** by a party on 10th April, 2020 10 days after the year end claiming damages of Rs. 20 lakhs.

You are required to state with reasons, how the above transactions will be dealt with in the financial statements for the year ended 31 March 2020.

SOLUTION:

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate. In the given case, financial statements are approved by the approving authority on 30 June 2020. On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2020:

(i) Since on 31 March 2020, Tee Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, **decline in the value during April, 2020 will be considered as an adjusting event**. Hence, Tee Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realizable value at the end of the reporting period. Accordingly, inventory should be written down to Rs. 4,000 per machine. Total value of inventory in the books will be 50 machines x Rs. 4,000 = Rs. 2,00,000.

(ii) A fire took place after the balance sheet date i.e., during 2020-2021 financial year. **Hence, the financial statements for the year 2019-2020 should not be adjusted for loss occurred due to fire**. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern, assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.

(iii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. **Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.**

Question 10 (Q.AS4.RMP.207: (RTP Sep'24))

For five companies whose financial year ended on 31st March, 2023, the financial statements were approved by their approving authority on 15th June, 2023.

During 2023-2024, the following material events took place:

(a) A Ltd. sold a major property which was included in the balance sheet at ₹ 1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of ₹ 2,50,000.

(b) On 30thApril, 2023, a 100% subsidiary of B Ltd. declared a dividend of ₹3,00,000 in respect of its own shares for the year ended on 31st March, 2023.

(c) On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to ₹ 2.5 million.

(d) On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for .which there would be no corresponding recovery from the customer.

(e) A fire, on 2nd April, 2023, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company

You are required to state with reasons, how each of the above items numbered (a) to (e) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2023.

SOLUTION:

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

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2023 and the profit on sale of property ₹ 1,50,000 would be treated as an extraordinary item.
(b)	B Ltd.	The declaration of dividend on 30th April, 2023 of ₹ 3,00,000 would be treated as a non-adjusting event in the financial statements of 2022-2023. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared and not before that.
(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate financial statement/additional statement for the attention of the members in general meeting.
(e)	E Ltd.	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.

4. AS - 5
"NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGE IN ACCOUNTING POLICIES"

Question 11 (Q.AS5.SM.105)

In the current year, A Ltd. changed the depreciation method from the Straight Line Method (SLM) to Written Down Value (WDV) method. When A Ltd. recomputed depreciation retrospectively as per the new method, deficiency arose in depreciation in respect of past years. Therefore, it reduced the carrying amount of the asset by the amount of deficiency and such change in carrying amount (deficiency amount) has been debited to the statement of profit and loss as an extraordinary expense.
Whether the change in the carrying amount of assets due to the change in depreciation method should be treated as an extraordinary item?

Solution:

As per AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
A change in the method of charging depreciation is not an event that is clearly distinct from the ordinary activities of the entity. In the instant case, A Ltd. has changed the depreciation method and treated the reduction in carrying amount (or amount of deficiency in depreciation) of the asset as an extraordinary expense. This is not correct. Such deficiency should be treated as a normal expense.
A change in the estimated useful life of a depreciable asset (i.e. change in depreciation method) affects the depreciation in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods, is recognised in future periods.
The change in depreciation method is considered as a change in accounting estimate as per the provisions of AS 5.

Question 12 (Q.AS5.RMP.202: (RTP May18 & Nov22))

Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of Rs 1O Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at Rs 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of Rs 2 lakhs was disclosed as net profit from sale of assets.
You are required to examine the treatment and disclosure done by the company and advise the company in line with AS 5.

SOLUTION

As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.
In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.
Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

Question 13 (Q.AS5.RMP.204: (EXAM May22))

TQ Cycles Ltd. is in the manufacturing of bicycles, a labor-intensive manufacturing sector. In April 2022, the Government enhanced the minimum wages payable to workers with retrospective effect from the 1st January,2022. Due to this legislative change, the additional wages for the period from January 2022 to March 2022 amounted to Rs. 30 lakhs. The management asked the Finance manager to charge Rs. 30 lakhs as prior period item while finalizing financial statements for the year 2022-23. Further, the Finance manager is of the view that this amount being abnormal should be disclosed as extra-ordinary item in the Profit and loss account for the financial year 2021-22.

Discuss with reference to applicable Accounting Standards.

Solution

As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances which though related to prior periods, are determined in the current period.

It is given that revision of wages took place in April, 2022 with retrospective effect from 1st January, 2022. Therefore, wages payable for the period from 1 01.2022 to 31.3.2022 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item. The full amount of wages payable to workers will be treated as an expense of current year and it will be charged to profit & loss account for the year 2022-23 as normal expenses.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Such an expense does not qualify as an extraordinary item. Therefore, finance manager is incorrect in treating increase as extraordinary item. However, as per AS 5, when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Therefore, additional wages liability of Rs. 30 lakhs should be disclosed separately in the financial statements of TQ Cycles Ltd. for the year ended 31st March, 2023.

Question 14 (Q.AS5.RMP.205: (RTP Nov18, Nov19, May22 & MTP May20, Nov22) (EXAM Nov22))

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS 5

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

SOLUTION

(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus, change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

Question 15 (Q.AS5.RMP.207: (RTP Nov21))

a. There was a major theft of stores valued at Rs. 10 lakhs in the preceding year which was detected only during current financial year (2020-2021). How will you deal with this information in preparing the financial statements of R Ltd. for the year ended 31st March, 2021.

b. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization. Explain whether this will constitute a change in accounting policy or not as per AS 5.

SOLUTION

(a) Due to major theft of stores in the preceding year (2019-2020) which was detected only during the current financial year (2020–2021), there was overstatement of closing inventory of stores in the preceding year. This must have also resulted in the overstatement of profits of previous year, brought forward to the current year. The adjustments are required to be made in the current year as 'Prior Period Items' as per AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Accordingly, the adjustments relating to both opening inventory of the current year and profit brought forward from the previous year should be separately disclosed in the statement of profit and loss together with their nature and amount in a manner that their impact on the current profit or loss can be perceived. Alternatively, it may be assumed that in the preceding year, the value of inventory of stores as found out by physical verification of inventories was considered in the preparation of financial statements of the preceding year. In such a case, only the disclosure as to the theft and the resulting loss is required in the notes to the accounts for the current year i.e, year ended 31st March, 2021.

(b) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Accordingly, the adoption of a new accounting policy of paying pension to retired employees is a policy for events or transactions which did not occur previously. Hence, it will not be treated as a change in an accounting policy.

Question 16 (Q.AS5.RMP.209: (RTP Jan'25))

During the course of the last three years, a company owning and operating Helicopters lost four Helicopters. The company's accountant felt that after the crash, the maintenance provision created in respect of the respective helicopters was no longer required, and proposed to write it back to the Profit and Loss account as a prior period item.

Is the company's proposed accounting treatment correct? Discuss.

SOLUTION

The balance amount of maintenance provision written back to profit and loss account, no longer required due to crash of the helicopters, is not a prior period item because there was no error in the preparation of previous periods' financial statements. The term 'prior period items', as defined in AS 5 (revised) "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", refer only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The balance amount left in the provision created earlier

is not as a result of error in the past. So it will not be considered as prior period item. Such write back of provision is not an ordinary feature of the business, it shall be considered as an extra-ordinary item.
As per paragraph 8 of AS 5, extraordinary items should be disclosed in the Statement of Profit and Loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner that its impact on current profit or loss can be perceived. Hence, the amount so written-back (if material) should be disclosed as an extraordinary item as per AS 5 rather than as prior period items.

5. AS – 7
CONSTRUCTION CONSTRACTS

Question 17 (Q.AS7.RMP.108: (Exam May 18 & May 23, MTP Nov21))

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:

	Rs In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

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

(i) Profit/Loss for the year ended 31st March, 2018.

(ii) Contract work in progress as at end of financial year 2017-18.

(iii) Revenue to be recognized out of the total contract value.

(iv) Amount due from/to customers as at the year end.

SOLUTION:

(i)	**Loss for the year ended, 31st March, 2018**	**(Rs in lakhs)**
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

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

Loss for the year ended, 31st March, 2018 amounting Rs 4,250 will be recognized.

(ii)	**Contract work-in-progress as on 31.3.18**	**(Rs in lakhs)**
	Contract work-in-progress i.e., cost incurred to date are Rs 7,500 lakhs:	6,250
	Work certified	1,250
	Work not certified	7,500

(iii) **Proportion of total contract value recognised as revenue**

Cost incurred till 31.3.18 is 46.15% (7,500/16,250×100) of total costs of construction.

Proportion of total contract value recognised as revenue:

46.15% of Rs 12,000 lakhs = Rs 5,538 lakhs

(iv) **Amount due from/to customers at year end**

(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= (7,500 + Nil – 4,250) – (5,500 + 1,500) Rs in lakhs

= [3,250 – 7,000] Rs in lakhs

Amount due to customers = Rs 3,750 lakhs

Question 18 (Q.AS7.RMP.109: (RTP May'24) (% of Completion))

The following data is provided for M/s. Raj Construction Co.

- Contract Price - ₹ 85 lakhs
- Materials issued - ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused.at the end of the period.

- Labor Expenses for workers engaged at site - ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid
- Further Cost estimated to be incurred to complete the contract - ₹ 35 Lakhs
- Specific Contract Cost – Rs. 5 Lakhs
- Sub-contract Cost (word done) – Rs. 7 Lakhs
- Advance to Sub-contractor – Rs. 4 Lakhs.

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

SOLUTION:

Computation of Contract Cost

	₹ Lakh	**₹ Lakh**
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract		16
(including outstanding amount)	given	5
Specified contract cost		7
Sub-contract cost (advances should not be considered)		**45**
Cost incurred (till date)		35
Add: further cost to be incurred		**80**
Total contract cost		

- **Percentage of completion** = Cost incurred till date/Estimated total cost
  = ₹ 45,00,000/₹ 80,00,000
  = 56.25%
- **Contract revenue and costs to be recognized**
  Contract revenue (₹ 85,00,000x56.25%) = ₹ 47,81,250
  Contract costs = ₹ 45,00,000

Question 19 (Q.AS7.SM.106 (Contract Revenue))

AB contactors enters into a contract on 1st January 20X1 with XY to construct a 5-storied building. Under the contract, AB is required to complete the construction in 3 years (i.e., by 31st December 20X3). The following information is relevant:

Fixed price (agreed) ₹5crore

Material cost escalation (to the extent of 20% of increase in material cost) Labour cost escalation (up to 30% of increase in minimum wages)

In case AB is able to complete the construction in less than 2 years and 10 months, it will be entitled for an additional incentive of ₹ 50 lakh. However, in case the construction is delayed beyond 3 years and 2 months, XY will charge a penalty of ₹ 20 lakh. At the start of the contract, AB has a reason to believe that construction will be completed in 2 years and 8 months. Assume that the construction was actually completed in 2 years 9 months.

Labour cost was originally estimated to be ₹1.20 crore (based on initial minimum wages). However, the costs have increased by 25% during the construction period.

Material costs have increased by 40% due to short-supply. The total increase in material cost due to the 40% escalation is ₹ 80 lakh.

You are required to suggest what should be the contract revenue in above case?

Assume that in year 20X2, XY has requested AB to increase the scope of the contract. An additional floor is required to be constructed and there is an increase in contract fee by ₹ 1 crore.

AB has incurred a cost of ₹ 20 lakh for getting the local authority approvals which it will be entitled to claim from XY in addition to the increase in the fixed fee.

Also measure the total contract revenue in this case.

SOLUTION

Total Revenue after considering the escalation costs, claims and incentives:

Fixed Price:	5.00 crore
Incentive for early completion	0.50 crore
Material costs recovery (to the extent of 20%)	0.40 crore
Labour costs recovery (Actual increase is less than 30%)	0.30 crore [1.20 crore x 25%]
Total Contract Revenue	6.20 crore
Add: Variation to the contract	1.00 crore
Add: Claims recoverable from XY	0.20 crore
Total Contract Revenue	7.40 crore

6. AS – 9
REVENUE RECOGNITION

Question 20 (Q.AS9.RMP.103: (Exam Nov19, Nov22; RTP May22))

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

(1) Trade discount and volume rebate received.
(2) Where goods are sold to distributors or others for resale.
(3) Where seller concurrently agrees to repurchase the same goods at a later date.
(4) Insurance agency commission for rendering services.
(5) On 11-03-2019 cloths worth Rs 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2019.

SOLUTION

(1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

Question 21 (Q.AS9.RMP.105: (RTP May'24 & May'25))

Following information of BS Products Ltd. is given:

I. Goods of ₹ 2,00,000 sold to Den Ltd. on 20-03-2023 but at the request of the buyer these were delivered on 10-04-2023.

II. On 15-01-2023 goods of ₹ 3,00,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.

III. ₹ 4,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered as sold. Buyer sent approval for 75% goods upto 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

IV. Apart from the above, BS Products Ltd. sells goods to dealers also. One of the condition of sale is that interest is payable @ 2% p.m. for delayed payments by dealers. Percentage of interest recovery is only 10% i.e. ₹ 50,000 on such overdue outstanding due to various reasons. During the year 2022-23, company wants to recognize the entire interest receivable of ₹ 60,000.

You are required to advise the accountant of BS Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-03-2023.

SOLUTION:

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

II. No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. BS Products Ltd. should recognize the entire sale of ₹ 2,00,000 for the year ended 31st March, 2023.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (80% of ₹ 3,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 4,00,000 as the time period for rejecting the goods had expired.

Case (iv)

As per the standard, "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, interest should be recognized only if the ultimate collection is certain and the company expects to realize interest for the delayed payments for ₹ 50,000 only. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is certain only to the extent of this amount and not ₹ 60,000. Therefore, the interest income of ₹ 50,000 should be recognized in the books for the year ended 31st March, 2023.

Thus total revenue amounting ₹ 8,90,000 (2,00,000 + 2,40,000 + 4,00,000 + 50,000) will be recognized for the year ended 31st March, 2023 in the books of BS Products Ltd.

Question 22 (Q.AS9.SM.110: (RTP Jan'25))

Mithya Ltd. Entered into agreement with Satya Ltd. For sale of goods costing ₹ 8 lakh at a profit of 20% on cost. The sale transaction took place on 1st February, 2024. On the same day, Satya Ltd. Entered into another agreement with Mithya Ltd. To resell the same goods at ₹ 10.80 lakh on 1st August, 2024. State the treatment of this transaction in the financial statements of Mithya Ltd. As on 31.03.2024. The pre-determined re-selling price covers the holding cost of Satya Ltd. Give the Journal Entries as on 31.03.2024 in the books of Mithya Ltd.

SOLUTION:

In the given case, Mithya Ltd. concurrently agreed to repurchase the same goods from Satya Ltd. on 1st February, 2024. Also the re-selling price is pre-determined and covers purchasing and holding costs of Satya Ltd. Hence, the transaction between Mithya Ltd. and Satya Ltd. on 1st February, 2024 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakh received by Mithya Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

Journal Entries in the books of Mithya Ltd.

				₹ in lakh
1.2.2024	Bank Account To Advance from Satya Ltd*. (Being advance received from Satya Ltd. amounting [₹ 8 lakh + 20% of ₹ 8 lakh = 9.60 lakh] under sale and re-purchase agreement)	Dr.	9.60	 9.60
31.3.2024	Financing Charges Account To Satya Ltd. (Financing charges for 2 months [(10.80 – 9.60) x 2/6]	Dr.	0.40	 0.40
31.3.2024	Profit and Loss Account To Financing Charges Account	Dr.	0.40	 0.40

	(Being amount of finance charges transferred to P& L Account)			

Question 23 (Q.AS9.OM.202: (MTP – Oct20, May22))

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

SOLUTION:

As per para 12 of AS 9 "Revenue Recognition", In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished.
In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.
Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2014 and ₹ 2,40,000 will be treated as payment received against the sale.
However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014. The amount received from sale of advertising space on 10.03.2014 of ₹ 2,40,000 will be considered as an advance from advertisers for the year ended 31st March, 2014.

Question 24 (Q.AS9.SM.401: (RTP Nov19))

The Board of Directors decided on 31.3.20X2 to increase the sale price of certain items retrospectively from 1st January, 20X2. In view of this price revision with effect from 1st January 20X2, the company has to receive Rs 15 lakhs from its customers in respect of sales made from 1st January, 20X2 to 31st March, 20X2. Accountant cannot make up his mind whether to include Rs 15 lakhs in the sales for 20X1-20X2.Advise.

SOLUTION:

Price revision was effected during the current accounting period 20X1-20X2. As a result, the company stands to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 20X2 to 31st March, 20X2. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 20X1-20X2.

7. AS – 10
PROPERTY, PLANT & EQUIPMENT

Question 25 (Q.AS10.SM.04)

On 1st April 20X1, an item of property is offered for sale at Rs. 10 million, with payment terms being three equal installments of Rs.33,33,333 over a two years period (payments are made on 1st April 20X1, 31st March 20X2 and 31st March 20X3).
The property developer is offering a discount of 5 percent (i.e., Rs. 0.5 million) if payment is made in full at the time of completion of sale. Implicit interest rate of 5.36 percent p.a.
Show how the property will be recorded in accordance of AS 10.

Solution

AS 10 requires that the cost of an item of PPE is the cash price equivalent at the recognition date. Hence, the purchaser that takes up the deferred payment terms will recognise the acquisition of the asset as follows

On 1st April, 20X1	**(Rs)**	**(Rs)**
Property, Plant and Equipment Dr.	95,00,000	
To Cash		33,33,333
To Accounts Payable		61,66,667
(Initial recognition of property)		
On 31st March 20X2		
Interest Expense Dr.	3,30,533	
Accounts payable Dr.	30,02,800	
To Cash		33,33,333
(Recognition of interest expense and payment of second installment)		
On 31st March 20X3		
Interest Expense Dr.	1,69,467	
Accounts payable Dr.	31,63,867	
To Cash		33,33,334
(Recognition of interest expense and payment of final installment)		

Question 26 (Q.AS10.SM.10)

Akshar Ltd. installed a new Plant (not a qualifying asset), at its production facility, and incurred the following costs:

- Cost of the Plant (as per supplier's invoice): ₹ 30,00,000
- Initial delivery and handling costs: ₹ 1,00,000
- Cost of site preparation: ₹ 2,00,000
- Consultant fee for advice on acquisition of Plant: ₹ 50,000
- Interest charges paid to supplier against deferred credit: ₹ 1,00,000
- Estimate of Dismantling and Site Restoration costs: ₹ 50,000 after 10 years (Present Value is ₹ 30,000)
- Operating losses before commercial production: ₹ 40,000

The company identified motors installed in the Plant as a separate component and a cost of ₹ 5,00,000 (Purchase Price) and other costs were allocated to them proportionately. The company estimates the useful life of the Plant and those of the Motors as 10 years and 6 years respectively and SLM method of Depreciation is used.
At the end of Year 4, the company replaces the Motors installed in the Plant at a cost of ₹ 6,00,000 and estimated the useful life of new motors to be 5 years. Also, the company revalued its entire class of Fixed Assets at the end of Year 4. The revalued amount of Plant as a whole is ₹ 25,00,000. At the end of Year 8, the company decides to retire the Plant from active use and also disposed the Plant as a whole for ₹ 6,00,000. There is no change in the Dismantling and Site Restoration liability during the period of use. You are required to explain how the above transaction would be accounted in accordance with AS 10.

Solution

1. Cost at Initial Recognition:

Particulars	₹
Cost of the Plant (as per Invoice)	30,00,000
Initial Delivery and Handling Costs	1,00,000
Cost of Site Preparation	2,00,000
Consultants' Fees	50,000
Estimated Dismantling and Site Restoration Costs	30,000
Total Cost of Plant including Motors	33,80,000
Less: Cost of Motors identified as a separate component (1/6)*	5,63,333
Cost of the Plant (excluding Motors – balance 5/6)	**28,16,667**

* Purchase price of Motors = ₹ 5,00,000 out of ₹ 30,00,000 i.e., 1/6 of value of Plant

Note: Since the asset is not a qualifying asset, payment of interest to the supplier is not capitalized. Further, operating losses of ` 40,000 incurred before commercial production is not a directly attributable cost, and hence excluded from cost of asset. These costs are expensed to the P/L as and when they are incurred.

2. Recognition of Motors Replacement

Particulars	₹
Cost of Motors determined above	5,63,333
Less: Depreciation for 4 years (as per SLM)	3,75,555
5,63,333 ÷ 6 years x 4 years	
Carrying Amount of Motors at the end of Year 4	**1,87,778**

Accounting: The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 1,87,778. Further, the acquisition cost of new motors of ₹ 6,00,000 would be capitalized as a separate component. This amount will be depreciated over the next 5 years at ₹ 6,00,000 ÷ 5 years = ₹ 1,20,000 p.a.

3. Revaluation

Particulars	₹
Cost of the Plant at initial recognition [from (1) above]	28,16,667
Less: SLM Depreciation for 4 years: ₹ 28,16,667 ÷ 10 years x 4 years	11,26,667
Carrying Amount of Plant at the end of Year 4	16,90,000
Revalued Amount of Plant (Excluding Motors, since the same is treated as a separate component: ₹ 25,00,000 – ₹ 6,00,000)	19,00,000
Therefore, Gain on Revaluation credited to Revaluation Reserve	**2,10,000**
Revised Depreciation Charge p.a.: 19,00,000 ÷ 6 years	**3,16,667**

4. **Derecognition**

Particulars	Motors	Plant (excluding Motors)
Cost / Revalued Amount at end of Year 4	6,00,000	19,00,000
Less: Depreciation for Years 5-8	1,20,000 x 4 = 4,80,000	3,16,667 x 4 =12,66,668
Carrying Amount before Disposal / De- recognition	1,20,000	6,33,332
Less: Disposal Proceeds ₹ 6,00,000 allocated in ratio of carrying amount	95,575	5,04,425
Loss to be written off to P/L	**24,425**	**1,28,907**

Notes:

(a) The Revaluation Surplus of ₹ 2,10,000 would be transferred directly to Retained Earnings.

(b) The allocation of disposal proceeds of ₹ 6,00,000 for the plant as whole is apportioned based on carrying amount of motors and plant (excluding motors)

Alternatively, it may be apportioned as 1/6 towards motors and 5/6 plant (excluding motors) based on the reasoning that the initially, motors amounted to 1/6 of the entire plant. This approach may not be preferable because there has been a revaluation of the plant (excluding motors) and a disposal and subsequent acquisition of the Motor, which is not in the initial proportion of 5/6 and 1/6 respectively.

Question 27 (Q.AS10.SM.11)

Bharat Infrastructure Ltd. acquired a heavy machinery at a cost of ₹ 1,000 lakhs, the breakdown of its components is not provided. The estimated useful life of the machinery is 10 years. At the end of Year 6, the turbine, which is a major component of the machinery, needed replacement, as further usage and maintenance was uneconomical. The remainder of the machine is in good condition and is expected to last for the remaining 4 years. The cost of the new turbine is ₹ 450 lakhs. Give the accounting treatment for the new turbine, assuming SLM Depreciation and a discount rate of 8%.

Solution

As per AS 10, Property, Plant and Equipment, the derecognition of the carrying amount of components of an item of Property, Plant and Equipment occurs regardless of whether the cost of the previous part / inspection was identified in the transaction in which the item was acquired or constructed. If it is not practicable for an enterprise to determine the carrying amount of the replaced part/ inspection, it may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/ existing inspection component was when the item was acquired or constructed.

In the given case, the new turbine will produce economic benefits to Bharat Infrastructure Ltd. and the cost is measurable. Since the recognition criteria is fulfilled, the same should be recognised as a separate item of Property, Plant and Equipment. However, since the initial breakup of the components is not available, the cost of the replacement of ₹ 450 lakhs can be used as an indication based on the guidance given above, discounted at 8% for the 6-year period lapsed.

Thus, estimate of cost 6 years back = ₹ 450 lakhs ÷ 1.08^6 = ₹ 283.58 lakhs Current carrying amount of turbine (to be de-recognised) = Estimated cost ₹ 283.58 lakhs (–) SLM depreciation at 10% (useful life 10 years) for 6 years ₹ 170.15 lakhs= ₹ 113.43 lakhs.

Hence revised carrying amount of the machinery will be as under:

Particulars	**₹ in lakhs**
Historical Cost [₹ 1,000 lakhs (–) SLM Depreciation at 10% (10 year life) for 6 years]	400.00
Add: Cost of new turbine	450.00
Less: Derecognition of current carrying amount of old turbine	(113.43)
New Carrying Amount of Machinery	**736.57**

Question 28 (Q.AS10.RMP.13: (EXAM May23))

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1stApril, 2022 is ₹ 56,30,000. On scrutiny, it was found that a purchase of Machinery worth ₹ 21,12,000 was included in the purchase of goods on 1st June, 2022. On 30thJune, 2022 the company disposed a Machine having book value of ₹ 9,60,000 (as on 1stApril, 2022) for ₹ 8,25,000 in part exchange of a new machine costing ₹ 15,65,000.

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

You are required to compute:

- Depreciation to be charged to Profit & Loss Account;
- Book value of Plant & Machinery as on 31stMarch, 2023; and
- Profit/Loss on exchange of Plant & Machinery.

Solution:

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

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

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

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

Note: The computation of depreciation and book value of plant and machinery can be presented in the following alternative manner

Particulars	Book value or Cost or Acquisition	Period	Deprecation	Book value as on 31.03.2023
Opening Value	46,70,000 (56,30,000-9,60,000)	01.04.2022 To 31.03.2023	4,67,000 (46,70,000×10%)	42,03,00
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 x 10% x 3/12)	19,36,000
Purchases	21,12,000	01.06.2022 To 31.03.2023	1.17.375 (15,65,000 × 10%9/912	14,47,625
Total			**7,84,375**	**75,86,625**

(iii)Profit/Loss on Exchange of Machinery

Particulars	Amount in ₹
Balance as per books on 01.04.2022	9,60,000
Less: Depreciation for 3 months (₹ 9,60,000 ×10/100× 3/12)	(24,000)
W.D.V. as on 30.06.2022	9.36,000
Less: Exchange Value	(8,25,000)
Loss on exchange on Machinery	**1,11,000**

Question 29 (Q.AS10.RMP.20)

Star Limited purchansed machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

	₹
Cost of preparation of site for installation	21,200
Total Labour charges (200 out of the total of 500 men hours wored, were spent on installation of the machinery)	56,000
Spare parts and tools consumed in installation	5,000
Total salary of supervisor (Time spent for installation was 25% of the total time worked)	26,000
Total technical expense (1/10 relates to the plant installation)	34,000
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.20X1 but was used from 01.02.20X1. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

SOLUTION:

Calculation of cost of Plant

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

Note: Further Expenses of ₹ 8,900 from 15.1.20X1 to 1.2.20X1 to be charged to profit and loss A/c plant was ready for production on 15.1.20X1

8. AS - 11
"EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES"

Question 30 (Q.AS11.RMP.101: (EXAM May 21))

(a) Classify the following items into Monetary and Non-monetary:

(i) Share capital;
(ii) Trade Payables;
(iii) Cash balance;
(iv) Property, plant and equipment
(v) Inventories
(vi) Investment in Equity shares

(b) Trade payables of CAT Ltd. include amount payable to JBB Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US $1 = Rs. 80.00. The exchange rate on balance sheet date (31.03.2020) was US $1 = Rs. 85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

SOLUTION

(a) Share capital - Non-monetary; Trade Payables - Monetary
Cash balance – Monetary; Property, plant and equipment – Non monetary
Inventory – Non monetary, Investment in Equity Shares – Non Monetary

(b) Amount of Exchange difference and its Accounting Treatment

	Foreign Currency Rate	Rs.
Trade payables		
Initial recognition US $ 12,500 (Rs. 10,00,000/80)	1 US $ = Rs. 80	10,00,000
Rate on Balance sheet date	1 US $ = Rs. 85	
Exchange Difference loss US $ 12,500 x Rs. (85-80)		62,500
Treatment:		
Debit Profit and Loss A/c by Rs. 62,500 and Credit Trade Payables		

Thus, Exchange Difference on trade payables amounting Rs. 62,500 is required to be transferred to Profit and Loss.

Question 31 (Q.AS11.RMP.107: (MTP May18, Nov21))

Om Ltd. purchased an item of property, plant and equipment for US $ 50 lakh on 01.04.2019 and the same was fully financed by the foreign currency loan [US $] repayable in five equal installments annually. (Exchange rate at the time of purchase was 1 US $ = Rs. 60]. As on 31.03.2020 the first installment was paid when 1 US $ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold. Om Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.

SOLUTION

Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of Rs. 20 lakhs on 31.03.2020 on payment of US $ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

Foreign currency loan (in Rs.) = (50 lakh $ x Rs. 60) = Rs. 3,000 lakhs

Exchange loss on outstanding loan on 31.03.2020 = Rs. 40 lakh US $ x (62.00-60.00) = Rs. 80 lakhs.

So, Rs. 80 lakhs should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to Rs. 20 lakhs on account of exchange loss on payment of installment. The total cost of an item of property, plant and equipment to be increased by Rs. 100 lakh. Total depreciation to be provided for the year 2019-2020 = 20% of (Rs. 3,000 Iakh + 100 lakh) = Rs. 620 lakhs.

Question 32 (Q.AS11.RMP.111: (RTP May'25))

Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2023, it borrowed US $1 million from International Funding Agency, USA when exchange rate was 1 $ = ₹ 63. The funds were used for acquiring machineries, on the same date, to be used in three different plants. The useful life of the machineries is 10 years and their residual value is ` 30,00,000.

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2024 is 1 US $ = ` 62. Assume that on 31st March, 2024, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2023.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2024. If yes, then calculate the depreciation amount on machineries as on 31st March, 2024.

Solution

As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount ₹

Cost of the asset in $		1 million
Exchange rate on 1st April, 2023		₹ 63 = 1$
Cost of the asset in ₹	(1 million x ₹ 63)	63 million
Less: Exchange differences as on 31st March, 2024 (63-62) x $ 1 million	(Gain)	(1 million)
		62 million
Less: Depreciation for 2023-2024	(62 million - 3 million)/ 10 years	(5.90 million)
		56.10 million

Question 33 A (Q.AS11.SM.301)

Mr. A bought a forward contract for three months of US$ 1,00,000 on 1st December at 1 US$ = Rs 47.10 when exchange rate was US$ 1 = Rs 47.02. On 31st December when he closed his books exchange rate was US$ 1 = Rs 47.15. On 31st January, he decided to sell the contract at Rs 47.18 per dollar. Show how the profits from contract will be recognised in the books.

Question 33 B (Q.AS11.RMP.302 (RTP May19, MTP March20))

Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 20X1, payable after three months. Company entered into a forward contract for three months @ ₹49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

SOLUTION A

Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale Rate	Rs 47.18
Less: Contract Rate	(Rs 47.10)
Premium on Contract	Rs 0.08
Contract Amount	US$ 1,00,000
Total Profit (1,00,000 x 0.08)	**Rs 8,000**

SOLUTION B

Forward Rate	₹49.15
Less: Spot Rate	(₹48.85)
Premium on Contract	₹0.30
Contract Amount	US$ 1,00,000
Total Loss (1,00,000 x 0.30)	**₹30,000**

Contract period 3 months (2 months falling in the year ended 31st March, 20X1)

Loss to be recognised (30,000/3) x 2 = ₹20,000 in the year ended 31st March, 20X1. Rest ₹10,000 will be recognised in the following year.

In recording a forward exchange contract intended for trading or speculation purposes, the premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.

9. AS – 12
ACCOUNTING FOR GOVERNMENT GRANTS

Question 34 (Q.AS12.SM.07 (Refund))

A Ltd. purchased machinery for Rs 40 lakhs. (Useful life 4 years and residual value Rs 8 lakhs) Government grant received is Rs 16 lakhs.

Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:

(1) the grant is credited to Fixed Assets A/c.

(2) the grant is credited to Deferred Grant A/c.

SOLUTION

IN THE BOOKS OF A LTD.

Journal Entries (at the time of refund of grant)

(1) If the grant is credited to Fixed Assets Account:

		Rs	Rs
I.	Fixed Assets A/c Dr. To Bank A/c (Being grant refunded) The amount of refund should be Rs 16 Lakhs	 16 lakhs	16 lakhs

The balance of fixed assets after two years depreciation will be Rs 16 lakhs (W.N.1) and after refund of grant it will become (Rs 16 lakhs + Rs 16 lakhs) = Rs 32 lakhs on which depreciation will be charged for remaining two years. Depreciation = (32-8)/2 = Rs 12 lakhs p.a. will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account:

As per para 14 of AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (Rs 16 lakhs /4 years) = Rs 4 lakhs p.a. x 2 years = Rs 8 lakhs were credited to Profit and Loss Account and Rs 8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed:

		Rs	Rs
I.	Deferred Grant A/c Dr. Profit & Loss A/c Dr. To Bank A/c (Being Government grant refunded)	8 lakhs 8 lakhs	 16 lakhs

Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at Rs 24 lakhs (W.N.2) and depreciation will continue to be charged at Rs 8 lakhs per annum for the remaining two years.

Working Notes:

i. **Balance of Fixed Assets after two years but before refund (under first alternative)**
Fixed assets initially recorded in the books = Rs 40 lakhs – Rs 16 lakhs = Rs 24 lakhs
Depreciation p.a. = (Rs 24 lakhs – Rs 8 lakhs)/4 years = Rs 4 lakhs per year
Value of fixed assets after two years but before refund of grant = Rs 24 lakhs – (Rs 4 lakhs x 2 years) = Rs 16 lakhs

ii. **Balance of Fixed Assets after two years but before refund (under second alternative)**
Fixed assets initially recorded in the books = Rs 40 lakhs
Depreciation p.a. = (Rs 40 lakhs – Rs 8 lakhs)/4 years = Rs 8 lakhs per year
Book value of fixed assets after two years = Rs 40 lakhs – (Rs 8 lakhs x 2 years)

= Rs 24 lakhs

Note: It is assumed that the question requires the value of fixed assets is to be given after refund of government grant.

Question 35 (Q.AS12.RMP.08: (RTP May'18, Nov'21))

D Ltd. acquired a machine on 01-04-2012 for Rs. 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	Rs
Machine (Original Cost) Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	20,00,000 12,00,000
	8,00,000
Less: Grant received Balance	(16,00,000) (8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2015-16?

SOLUTION

From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the Rs. 16,00,000 that has been received, Rs. 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c. The balance Rs. 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of Rs. 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and Rs. 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

Question 36 (Q.AS12.RMP.10: (Exam May'23))

On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for Rs. 60 lakhs, which has an estimated useful life of 10 years with a salvage value of Rs. 10 lakhs. On purchase of the Plant, a grant of Rs. 20 lakhs was received from the government.

You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:

(i) If the grant amount is deducted from the value of Plant.

(ii) If the grant is treated as deferred income.

(iii) If the grant amount is deducted from the value of Plant, but at the end of the year 2022-2023 grant is refunded to the extent of Rs. 4 lakhs, due to non-compliance of certain conditions.

(iv) If the grant is treated as the promoter's contribution.

(Assume depreciation on the basis of Straight-Line Method.)

SOLUTION

Calculation of depreciation as per AS 12 for the financial year 2022-23:

(i) If the grant amount is deducted from the value of Plant, then the amount of deprecation will be Rs. 3,00,000 p.a. (Rs. 60,00,000 - Rs. 10,00,000 - Rs. 20,00,000) / 10 year.

(ii) If the grant is treated as deferred income, then amount of depreciation will be Rs. 5,00,000 p.a. (Rs. 60,00,000 - Rs. 10,00,000) / 10 year.

(iii) If the grant amount is deducted from the value of plant, but at the end of the year 2022-23 grant is refunded to the extent of Rs. 4 lakh then the amount of depreciation will be Rs. 3,00,000 p.a. (Rs. 60,00,000 - Rs. 10,00,000 - Rs. 20,00,000) /10 year for year 2021-22 and for the year 2022-23 Depreciation will be Rs. 3,00,000 calculated as follows, (Rs.60,00,000 - Rs. 10,00,000 - Rs. 20,00,000– Rs. 3,00,000) / 10 years.

Note: It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as Rs. 3,44,444 calculated as follows, (Rs. 60,00,000 - Rs.10,00,000 - Rs. 20,00,000 + 4,00,000– Rs. 3,00,000 / 9 years

(iv) If the grant is treated as promoter's contribution, then the amount of depreciation will be Rs. 5,00,000 p.a. (Rs. 60,00,000 -10,00,000) /10 year.

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

Cost of Plant Less: Salvage Value Less: Grant Add: Grant Refundable	60,00,000 10,00,000 20,00,000 4,00,000
	34,00,000
Less: Depreciation for 2021-22	3,00,000
	31,00,000
Useful Life (years)	9
Depreciation for 2022-23	**3,44,4444**

Question 37 (Q.AS12.RMP.13: (EXAM May'22))

Suraj Limited provides you the following information:

(i) It received a Government Grant @40% towards the acquisition of Machinery worth Rs. 25 crores.

(ii) It received a Capital Subsidy of Rs. 150 lakhs from Government for setting up a plant costing Rs. 300 lakhs in a notifies backward region.

(iii) It received Rs. 50 lakhs from Government for setting up a project for supply of arsenic fire water in a notified area.

(iv) It received Rs. 5 lakhs from a Local Authority for providing Corona Vaccine free of charge to its employees and their families.

(v) It also received a performance award of Rs. 500 Lakhs from government with a condition of major renovation in the power plant within 3 years. Suraj Limited incurred 90% of amount towards capital expenditure and balance for revenue expenditure.

State, how you will treat the above in the books of Suraj Limited.

SOLUTION

(i) As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of Rs. 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting Rs. 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(ii) In the given case, the grant amounting Rs. 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of Rs. 150 lakhs should be credited to capital reserve and the plant will be shown at Rs. 300 lakhs.

(iii) Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.
Alternatively, if it is assumed that the project consists of capital asset only, then the amount of Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income

which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(iv) Rs. 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, Rs. 5 lakhs may be deducted in reporting the related expense i.e., employee benefit expenses.

(v) Rs. 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

Question 38 (Q.AS12.RMP.17: (RTP Sep'24))

Energy Ltd. has acquired a generator on 1.4.2023 for ₹ 100 lakh. On 2.4.2023, it applied to Indian Renewal Energy Development Authority (IREDA) for a subsidy. The subsidy was granted in June, 2024 after the accounts for 2023-2024 were finalized. The company has not accounted for the subsidy for the year ended 31.3.2024.

State

(i) Is this a prior period item?

(ii) How should the subsidy be accounted in the accounting year 2024-2025?

SOLUTION

(i) Whether a subsidy applied is to be classified as prior period item as per AS 5, depends upon whether the company has committed an error in 2023-2024 by not recognising the subsidy?

The answer is in para 13 of AS 12 "Accounting for Government Grants" which permits recognition of grant only when there is reasonable assurance that –

(i) the enterprise will comply with the conditions attached to them and

(ii) the subsidy will be received.

Mere making of an application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Since, the subsidy was granted in June, 2024 after approval of accounts, non-recognition of grant in 2023-2024 will not be considered as an error. Hence, this is not a prior period item. Therefore, the company was right in not recognizing the grant.

Further, AS 4 requires adjustment of events occurring after the balance sheet date only upto the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the accounts in the year 2023-2024.

(iii) The subsidy should be deducted from the cost of the generator. The revised unamortised amount of generator should be written off over the remaining useful life.

Alternatively, the same may be treated as 'deferred income' and allocated over the remaining useful life in the proportion in which depreciation is charged.

10. AS – 13
ACCOUNTING FOR INVESTMENT

Question 39 (Q.INT.RMP.205: (EXAM May'22 & Sep'24))

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of Rs. 10 each. Ms. Jayshree has purchased the above shares at Rs. 15 per share and paid a brokerage of 2% and stamp duty of 1%.

On 15th May, 2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at Rs. 18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued bonus equity shares in the ratio of 1:2 held by the shareholders.

On 23rd October, 2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2-equity share held at Rs. 20 per share. Shareholders can exercise their rights in full or part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of Rs. 10 per share and subscribed the rest on November 2021.

Ms. Jayshree also sold 10,000 shares at Rs. 25 per share on 1st November, 2021.

The shares of Rama Limited were quoted at Rs. 11 per share on 31st March, 2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st march, 2022.

SOLUTION

In the books of Ms. Jayshree

Investment Account (Equity shares in Rama Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.21	To Balance b/d	5,000	77,250	1.11.21	By Bank A/c	10,000	2,50,000
15.5.21	To Bank A/c	5,000	90,000				
26.8.21	To Bonus issue (W.N.1)	5,000	---	31.3.22	By Balance c/d	10,625	1,16,875
1.11.21	To Bank A/c (right shares) (W.N.4)	5,625	1,12,500	31.3.22	By Profit & Loss A/c (loss on valuation)		27,239
1.11.21	To Profit & Loss A/c		1,14,364				
		27,500	**4,51,886**			**27,500**	**4,51,886**

Working Notes:

(1) Profit on sale of shares (average cost basis) on 1.11.21 10,000 shares @ Rs. 25 per share = 2,50,000

Cost of shares sold = [(77,250 + 90,000 + 1,12,500)/20,625 x 10,000] = Rs. 1,35,634

Profit on sale of shares = Rs. 1,14,364

(1) Value of shares on 31.3.22 [(77,250 + 90,000 + 1,12,500)/20,625 x 10,625] = Rs. 1,44,114 or Rs. 1,16,875 (10,625 shares at Rs. 11)

Shares will be valued at Rs., 1,16,875 as market value is less than cost.

Note: Average cost basis has been considered for valuation of shares at the year end and for calculation of cost of shares sold in the given answer.

Question 40 (Q.AS13.RMP.305: (MTP May18, May19 & Nov22))

Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2015 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2015, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2015, 800 debentures are sold cum-interest for Rs. 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

SOLUTION

Investment Account of Gopal for the year ended31.3.2016

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

(Interest payable on 30th June and 31stDecember)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By P & L A/c	-	-	11,400
231.12.15	To P & L A/c			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000
31.03.16	To P & L A/c (Bal. fig.)		37,250		31.12.15	By Bank A/c	-	13,500	-
					31.12.15	By Bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	**54,750**	**4,08,800**			**3,80,000**	**54,750**	**4,08,800**

Working Notes:

(i) Accrued Interest as on 1stApril, 2015 = Rs. 2,00,000x $\frac{15}{100} \times \frac{3}{12} = Rs\ 7{,}500$

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12} = Rs\ 5000$

(iii) Cost of Investment for purchase on 1stMay = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000$\times \frac{15}{100} \times \frac{6}{12} = Rs\ 22500$

(v) Accrued Interest on debentures sold on1.11.2015

= Rs. 120000$\times \frac{15}{100} \times \frac{4}{12} = Rs\ 6000$

(vi) Accrued Interest = Rs. 80,000x $\frac{15}{100} \times \frac{5}{12} = Rs\ 5000$

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80000 $\times \frac{15}{100} \times \frac{6}{12} = Rs\ 6000$

(viii) Sale Price of Investment on 31stDec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on Sale of Debenture on1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture $\frac{210000}{200000} \times 12000$	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000x

(xi) Accrued Interest = Rs. 1,80,000x

(xii) Cost of investment as on 31stMarch = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31stDecember= Rs. 1,04,000 – (Rs. 2,10,000x800/2,000) =Rs. 20,000

Question 41 (Q.INT.RMP.306: (EXAM Nov19))

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of Rs. 100 each) of Exe Ltd. held as current assets:

1.4.2018	opening balance - 12,500 debentures, cost Rs. 12,25,000
1.6.2018	purchased 9,000 debentures@ Rs. 98 each ex-interest
1.11.2018	purchased 12,000 debentures @ Rs. 115 each cum interest

31.1.2019	sold 13,500 debentures@ Rs. 110 each cum-interest
31.3.2019	Market value of debentures @ Rs. 115 each

Due dates of interest are 30th June and 31st December.
Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

SOLUTION

Investment Account of Mr. Harsh for the year ending on31-3-2019
(Scrip: 10% Debentures of Exe Limited)
(Interest Payable on 30thJune and 31stDecember)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
		Rs	Rs	Rs			Rs	Rs	Rs
1.4.18	To Balance b/d	12,50,000	31,250	12,25,000	30.6.18	By Bank 21,500 x 100 x 10% x 1/2	-	1,07,500	-
1.6.18	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.19	By Bank 33,500 x 100 x 10% x 1/2		1,67,500	
1.11.18	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.19	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.19	To P & L A/c (W.N.3)			1,34,920	31.3.19	By Balance c/d (W.N.4)	20,00,000	50,000 -	21,45,640
31.3.19	To P & L A/c (Bal. fig.)		2,27,500						
		33,50,000	**3,36,250**	**36,04,540**			**33,50,000**	**3,36,250**	**36,04,540**

Working Notes:

1. **Purchase of debentures on1.6.18**
   Interest element = 9,000 x 100 x 10% x 5/12 = Rs. 37,500
   Investment element = (9,000 x 98) + [1% (9,000 x 98)] = Rs. 8,90,820

2. **Purchase of debentures on1.11.2018**
   Interest element = 12,000 x 100 x 10% x 4/12 = Rs. 40,000
   Investment element = 12,000 X 115 X 101% less 40,000 = Rs. 13,53,800

3. **Profit on sale of debentures as on31.1.19**

	Rs
Sales price of debentures (13,500 x Rs. 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000 / 9,00,000)]	(13,23,980)
Profit on sale	**1,34,920**

4. Valuation of closing balance as on31.3.2019:

Market value of 20,000 Debentures at Rs. 115 = Rs. 23,00,000

Cost of

8,000 Debentures = 8,90,820/ 9,000 X8,000=7,91,840

12,000Debentures = 13,53,800

Total =21,45,640

Value at the end is Rs. 21,45,640, i.e., which is less than market value of Rs. 23,00,000.

Question 42 (Q.AS13.RMP.402: (EXAM July21))

Mr. Z has made following transactions during the financial year 2020-21:

Investment in 8% Corporate Bonds having face value Rs. 100/-

Date	Particulars
01-06-2020	Purchased 36,000 Bonds at Rs. 86 cum-interest. Interest is payable on 30th September and 31st March every year
15-02-2021	Sold 24,000 Bonds at Rs. 92 ex-interest

Interest on the bonds is received on 30th September and 31st March. Investment 2:

Equity Shares of G Ltd having face value Rs. 10

Date	Particulars
01-04-2020	Opening balance 8,000 equity shares at a book value of Rs. 190 per share
01-05-2020	Purchased 7,000 equity shares@ Rs. 230 on cum right basis; Brokerage of 1% was paid in addition.
15-06-2020	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2020	The company made a rights issue of 1 share for every 7 shares held at Rs. 230 per share. The entire money was payable by 31.08.2020
25-08-2020	Rights to the extent of 30% of his entitlements was sold @ Rs. 75 per share. The remaining rights were subscribed.
16-09-2020	Dividend @ Rs. 6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01-12-2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25-01-2021	Received interim dividend @ Rs. 3 per share for the year 2020-21.
31-03-2021	The shares were quoted in the stock exchange @ Rs. 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ Rs. 180.

You are required to:

(i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.

(ii) Profit and loss Account for the year 2020-21, based on the above information.

Suggest values at which investment in equity shares should be reclassified in accordance with AS 13

SOLUTION

(i) **In the books of Mr. Z**

Investment in 8% Corporate Bonds Account

For the period 01 April 2020 to 31 March 2021

Date	Particulars	No's	Interest (Rs.)	Amount (Rs.)	Date	Particulars	No's	Interest (Rs.)	Amount (Rs.)
1/6/20	To Bank A/c (WN1)	36,000		30,48,000	30/9/20	By Bank A/c (Interest 36,000 x 100 x 8% x 6/12)		1,44,000	

15/2/21	To P & L A/c (WN 3)		48,000	1,76,000	15/2/21	By Bank A/c (WN2)	24,000	72,000	22,08,000
31/3/21	To P & L A/c		2,16,000		31/3/21	By Bank A/c (Interest 12,000 x 100 x 8% x 6/12)		48,000	
						By Balance c/d (WN 4)	12,000		10,16,000
	Total	**36,000**	**2,64,000**	**32,24,000**		**Total**	**36,000**	**2,64,000**	**32,24,000**

Note: For computing the interest on the bonds sold on 15 Feb 2021, if number of days (138 days) is taken instead of months, the interest received on 15.02.2021 should be Rs. 72,592 and the total interest transferred to Profit & Loss Account should be Rs. 2,16,592.

Investment in Equity Shares of Z Ltd
For the period 1st April 2020 to 31 March 2021

Date	Particulars	No's	Dividend (Rs.)	Amount (Rs.)	Date	Particulars	No's	Dividend (Rs.)	Amount (Rs.)
01/4/20	To balance b/d	8,000		15,20,000	16/9/20	By Bank A/c (WN 7)		48,000	42,000
01/5/20	To Bank A/c (WN 5)	7,000		16,26,100	1/12/20	By Bank A/c (WN 8)	7000		18,01,800
15/6/20	To Bonus Shares	6,000			25/1/21	By Bank A/c (WN 10)		48,300	
25/8/20	To Bank A/c (Right Shares) (WN 6)	2,100		4,83,000	31/3/21	By Balance c/d (WN 11)	16,100		25,00,100
01/12/20	To P & L A/c (Sale of shares) (WN 9)			7,14,800					
31/3/21	To P & L A/c		96,300						
	Total	**23,100**	**96,300**	**43,43,900**		**Total**	**23,100**	**96,300**	**43,43,900**

Working Notes

1. Computation of the Interest element in the bonds purchased on 01 June 2020

No of Bonds purchased	36,000
Face value per bond	Rs. 100
Face value of the bonds purchased	Rs. 36,00,000
Interest Rate	8%
Interest Amount	36,00,000 x 8% x 2/12
	Rs. 48,000
Cum-interest per bond	Rs. 86
Value of bond excluding interest	36,000 x Rs. 86 – Rs. 48,000

	Rs. 30,48,000

2. Computation of the Interest element in the bonds sold on 15 Feb 2021

No of Bonds sold	24,000
Face value per bond	Rs. 100
Face value of the bonds sold	Rs. 24,00,000
Interest Rate	8%
Interest Amount	Rs. 24,00,000 x 8% x 4.5/12
	= Rs. 72,000

3. Computation of Profit on Sale of Bonds on 15 Feb 2021

No of Bonds sold	24,000
Face value per bond	Rs. 100
Ex- interest Rate per bond	Rs. 92
Sales proceeds	Rs. 22,08,000
Average Cost of Bonds	(30,48,000/36,000) x 24,000
	Rs. 20,32,000
Profit on sale of bonds	Sale Proceeds – Average Cost
	Rs. 22,08,000 – Rs. 20,32,000
	Rs. 1,76,000

4. Valuation of Bonds as on 31 March 2021

No of Bonds held as on 31 Mar 2021	12,000
Average Cost of Bonds	(Rs. 30,48,000/36,000) x 12,000
	Rs. 10,16,000

5. Computation of the cost of the equity shares purchased on 01 May 2020

No of shares purchased	7,000
Cum right price per share	Rs. 230
Cost of purchase	Rs. 16,10,000
Brokerage @1%	Rs. 16,100
Cost including brokerage	Rs. 16,26,100

6. Right Shares

No of Right Shares Issued	(8,000+7,000+6,000)/7 = 3,000 shares
No of right shares sold	3,000 shares x 30% = 900 shares
Proceeds from sale of right shares to be credited to statement of profit & loss	900 shares x Rs. 75 = Rs. 67,500
No of right shares subscribed	3,000-900 = 2,100 shares
Amount of right shares subscribed	2,100 x 230 = Rs. 4,83,000

7. Computation of Dividend Received on 16 Sept 2020

No of shares held during the period of dividend	8,000 shares
Dividend per share	Rs. 6
Dividend Amount	8,000 x 6 = Rs. 48,000
No of shares received after the period of dividend (excluding bonus & right shares)	7,000 shares
Dividend per share	Rs. 6

Dividend Amount	7,000 x Rs. 6 = Rs. 42,000

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus Rs. 42,000 shall be treated as capital receipt

8. Sale Proceeds for the shares sold on 1st Dec. 2020

No of shares sold	7,000 Shares
Sale price per share	Rs. 260
Proceeds from sale of share	7,000 x 260 = Rs. 18,20,000
Less: Brokerage @ 1%	Rs. 18,200
Net Sale Proceeds	Rs. 18,01,800

9. Profit on sale of shares on 1st Dec. 2020

Sales Proceeds	Rs. 18,01,800
Average Cost	(15,20,000+16,26,100+4,83,000-42,000)/23,100x7,000
	= Rs. 10,87,000
Profit on sale of shares	= Sales Proceeds – Average Cost
	= Rs. 18,01,800 - Rs. 10,87,000 = Rs. 7,14,800

10. Computation of Amount of Interim Dividend

No of shares held	8,000+7,000+6,000+2,100-7,000
	= 16,100
Dividend per share	Rs. 3 per share
Dividend Received	16,100 shares x Rs. 3 per share
	= Rs. 48,300

11. Valuation of Shares as on 31 March 2021

Cost of Shares	(15,20,000 + 16,26,100 + 4,83,000 – 42,000) / 23,100 x 16,100
	= 25,00,100
Market Value of Shares	= Rs. 260 x 16,100 = Rs. 41,86,000
Closing stock of equity shares has been value at Rs. 25,00,100 i.e., cost being lower than its market value.	

(ii) Profit & Loss Account (Extract)
For the period 01 April 2020 to 31 March 2021

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance c/d	12,70,600	By Investment in 8% Corporate Bonds Account (Profit on sale of bonds)	1,76,000
		By Investment in 8% Corporate Bonds Account (Interest on bonds)	2,16,000
		By Sale of Right Shares	67,500
		By Investment in Equity Shares of G Ltd (Profit on sale of shares)	7,14,800
		By Investment in Equity Shares of G Ltd (Dividend	96,300

		Income)	

(iii) As per AS 13, when investments are classified from Current Investments to Long term Investments, transfer is made at Cost and Fair value, whichever is less (as on the date of transfer). So, in the given case valuation shall be done as follows:

Date of reclassification/transfer – 15 May 2021

Per Unit Cost of 16,100 shares held – Rs. 25,00,100/16,100 shares – Rs. 155.29 Market Price/Fair Value per share – Rs. 180

As the cost per unit is lower than its fair value, the shares are to be transferred at its cost i.e., at Rs. 155.29 per share on 15 May 2021

Note:

1. In the eight last line of the question, investment in equity shares of G Ltd. was wrongly printed as Z Ltd. in the question paper. In the above solution, it has been considered as investment in G Ltd. If considered as Investment in equity shares in Z Ltd. (some other investment and not investment in G Ltd.), then the cost of the investment for shares in Z Ltd. will not be available.
2. The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, Rs. 22,500 (67,500X 7/21) will be applied to reduce the carrying amount of investment and Rs. 45,000 will be credited to profit and loss account.

Question 43 (Q.AS13.RMP.403: (RTP Nov19))

A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of Rs. 100 each of P Ltd. on 1st May 2018 @ Rs. 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ Rs. 103 each. On 31st December, 2018 the company received 10,000 equity shares of Rs. 10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were Rs. 106 and Rs. 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis.

SOLUTION

Books of A Pvt. Ltd.
Investment in 13.5% Convertible Debentures in P Ltd. Account
(Interest payable 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept. 30	By Bank (6 months Int)		50,625	
Aug. 1	To Bank	2,50,000	11,250	2,45,000	Oct. 1	By Bank	2,00,000		2,06,000
Oct. 1	To P&L A/c			2,167					
Dec. 31	To P&L A/c		52,313		Dec. 31	By Equity share	1,10,000		1,12,108
					Dec. 31	By Bank (See note)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	**69,188**	**7,66,542**			**7,50,000**	**69,188**	**7,66,542**

Note 1: Rs. 3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
2018				2018			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	**1,12,108**			**1,00,000**	**1,12,108**

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on Rs. 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs. 5,625
2. Interest received on 30th Sept. 2018
   On Rs. 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750
   On Rs. 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875
   Total **Rs. 50,625**
3. Interest paid on Rs. 2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:
   2,50,000 x 13.5% x 4/12 = Rs. 11,250
4. Loss on Sale of Debentures
   Cost of acquisition
   (Rs. 5,19,375 + Rs. 2,45,000) x Rs. 2,00,000/Rs. 7,50,000 = 2,03,833
   Less: Sale Price (2,000 x 103) = 2,06,000
   Profit on sale **= Rs. 2,167**
5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018
   1,10,000 x 13.5% x 3/12 = Rs. 3,713
6. Cost of Debentures converted to Equity Shares
   (Rs. 5,19,375 + Rs. 2,45,000) x 1,10,000/7,50,000 = Rs. 1,12,108
7. Cost of Balance Debentures
   (Rs. 5,19,375 + Rs. 2,45,000) x Rs. 4,40,000/Rs. 7,50,000 = Rs. 4,48,434
8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest) Rs. 4,40,000 x 13.5% x 3/12 = Rs. 14,850

11. AS - 15
EMPLOYEE BENEFITS

Question 44 (Q.AS15.SM.101 (Defined Benefit Obligation))

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is ₹14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.
The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment.
What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.
(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Solution

Calculation of Defined Benefit Obligation (DBO)

Expected last drawn salary	₹ 14,90,210 x 110% x 110% x 110% x 110% x 110%	**₹24,00,000**
Defined Benefit Obligation (DBO)	₹ 24,00,000 x 25% x 5	**₹30,00,000**

Amount of ₹ 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

Calculation of Current Service Cost

Year	**Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]**	**Discounting @ 8% PV factor**	**Current service cost (Present Value)**
a	**b**	**c**	**d = b× c**
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

	Opening balance	**Interest cost**	**Current service cost**	**Closing balance**
a	b	C =b×8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680,
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22141
5	22,22,141	1,77,859*	6,00,000	30,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly

Assume in **Q. 101** at Beginning of 3rd year. There is a change in Actuarial Assumptions & due to such Change the Revised Estimated DBO Liability at Beginning of 3rd year is Rs. 10,10,000/-

Solution:

Carrying Amt of DBO Payable at 2nd year. end/3rd Year Beginning		9,52,680
Revised Balance of DBO Payable		10,10,000
Increase in DBO Liability (Actuarial Loss)		57,320
Actuarial Loss (P&L) Dr	57,230	
To DBO Payable A/c	57,230	

Further Current Service Cost and Interest Cost from 3rd Year onwards will also be Revised based on New Revised Liability.

Question 45 (Q.AS15.SM.104 (Plan Assets and Return on Plan Assets))

As on 1st April, 20X1 the fair value of plan assets was ₹1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹19,000 and received inward contributions of ₹49,000. On 31st March, 20X2 the fair value of plan assets was ₹1,50,000 and present value of the defined benefit obligation was ₹1,47,920. Actuarial losses on the obligations for the year 20X1- 20X2 were ₹600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
Expected Rate of Return	**10.25**

You are required to find the expected and actual returns on plan assets.

Solution

Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 1,00,000 held for 12 months at 10.25%		10,250
Return on ₹ 30,000 (49,000-19,000) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		1,500
Expected return on plan assets for 20X1-20X2		**11,750**
Fair value of plan assets as on 31 March, 20X2		1,50,000
Less: Fair value of plan assets as on 1 April,20X1	1,00,000	
Contributions received	49,000	(1,49,000)
		1,000
Add: Benefits paid		19,000
Actual return on plan assets		**20,000**

Alternatively, the above question may be solved without giving compound effect to rate of return.

Question 46 (Q.AS15.OM.108: (CA FINAL))

Balance of Present Value of Defined Benefit Obligations	15,00,000
Balance of Plan Assets	10,00,000

Actuary Report Specifies:

Current Service Costs	3,00,000
Interest Cost	20,000
Contributions to Plan Assets at the Mid of Year	1,50,000
Benefit Paid at the mid of year	2,40,000
Expected Return	12% p.a.

Closing Value of Present Value of Defined Benefit Obligations	17,00,000
Closing Value of Plan Assets at Fair Value	10,20,000

Journalise, Prepare ledgers and Extracts of Balance sheet and Profit and Loss account along with disclosures.

Solution:

DOB Payable a/c			
To Bank (Benefits)	2,40,000	By Opening Balance	15,00,000
		By Current Service Cost	30,00,000
		By Interest Cost	20,000
By Closing Balance	17,00,000	By Actuarial Loss (b/f)	1,20,000
Plan Asset			
To Opening Balance	10,00,000	By Bank A/c	2,40,000
To Bank	1,50,000	By Acturrial Loss B/F	
To Expected Return	1,14,753		
(a)1,20,000			
(b)5,247		By Closing Balance	10,20,000

Question 47 (Q.AS15.RMP.109: (Sep'24 EXAMS))

Pendora Ltd. Has given the following details in respect of employee benefit pension plan:

Particulars	Amount ₹
The fair value of plan assets as on 01-04-2023	5,00,000
The benefits paid out on 30-11-2023	63,000
Inward contributions received on 30-09-2023	1,42,000
The fair value of plan assets as on 31-03-2024	7,50,000

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices:

Particulars	%
Interest and dividend income (after tax) payable by fund	10.50
Realized gains on plan assets (after tax)	2.00
Fund administrative cost	-2.00
Expected rate of annual return (interest in compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.

Solution:

Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		**52,500**
Return on ₹ 1,42,000 for 6 months at 10.50%		**7,455**
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		**(2,205)**
Expected return on plan assets for 2023-2024		**57,750**
Fair value of plan assets as on 31^{st} March 2024		**7,50,000**
Less: Fair value of plan assets as on 1 April,2023	**5,00,000**	
Contributions received on 30.9.2023	**1,42,000**	(6,42,000)
		1,08,000
Add: Benefits paid on 30^{th} Nov 2023		**63,000**
Actual return on plan assets		**1,71,000**

12. AS – 16
BORROWING COSTS

Question 48 (Q.AS16.SM.203)

X Ltd. began Construction of a new building on 1st January, 2007. It obtained Rs. 1 lakh special loan to finance the construction of the building on 1st January, 2007 at an interest rate of 10%. The company's outstanding two non-specific loans were:

Amount	Rate
5,00,000	11%
9,00,000	13%

The expenditure that were made on the building project were as follows:

Janaury 2007	Rs. 2,00,000
April, 2007	Rs. 2,50,000
July, 2007	Rs. 4,50,000
December, 2007	Rs. 1,20,000

Building was completed by 31st December, 2007. Following the principles prescribed in AS – 16 Borrowing Cost. Calculate the amount of interest to be capitalized and pass one Journal Entry for capitalization of Cost and borrowing cost in respect of the building.

SOLUTION:

Calculation of Capitalisation Rate:

(500000 x 11% + 900000 x 13%) / 1400000 = 12.29%

This rate is to be applied to each expenditure by considering time factor like:

January 2007 – 200000 x 12.29% x 12/12

April 2007 – 250000 x 12.29% = 9/12 and so on

1. WIP A/c Dr. 1020000
   To Bank A/c 10.20

2. Building A/c Dr. 1020000
   To WIP a/c 10.20

3. Interest a/c Dr 182000
   To Loans a/c 182000

4. Building A/c Dr. 74216
   To Interest a/c 74216

5. Profit and loss a/c Dr. (182000-74216) = 107784
   To Interest a/c 107784

Question 49 (Q.AS16.RMP.206 (Exam May23))

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

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

(i) 8% Debentures ₹ 15,00,000

(ii) 15% Term Loan ₹ 30,00,000

(iii) 10% Other Loans ₹ 18,00,000

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

(i) Building ₹ 70,00,000

(ii) Furniture ₹ 22,00,000

(iii) Plant & Machinery ₹ 90,00,000

(iv) Factory Shed ₹ 43,00,000

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

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

SOLUTION

Interest to be Capitalized (on qualifying asset)

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

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

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

Working note:

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

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

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

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

2. Weighted Average interest rate for non-specific borrowings

Particulars	Amount of loan (a)	Rate of interest (b)	Amount of interest (c) = (a) x (b)
Debentures	15,00,000	8%	1,20,000
Term loan	30,00,000	15%	4,50,000

Other loans	18,00,000	10%	1,80,000
	63,00,000		7,50,000
	# Weighted Average Rate of Interest = 7,50,000 / 63,00,000 x 100 = 11.9048%		

Question 50 (Q.AS16.RMP.207: (MTP Nov21))

ABC Limited has started construction of an asset on 1st December, 2020, which continues till 31st March, 2021 (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 lakhs in December 2020 and Rs. 4 lakhs in each of the months of January to March 2021. At the beginning of the year, the entity had taken Inter Corporate Deposits of Rs. 20 lakhs at 9% rate of interest and had an overdraft of Rs. 4 lakhs, which increased to Rs. 8 lakhs on 1st March, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 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 'Borrowing Costs'.

SOLUTION

Calculation of capitalization rate on borrowings other than specific borrowings

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

Weighted average cost of borrowings
= {20,00,000 x (12/12)} + {4,00,000 x (11/12)} + {8,00,000 x (1/12)} = 24,33,334
Capitalisation rate = [(Weighted average amount of interest / Weighted average of general borrowings) x 100]
= [(2,26,000 / 24,33,334) x 100] = 9.29% p.a.

Question 51 (Q.AS16.RMP.208: (RTP Sep'24))

Loyal Ltd. has undertaken a project for expansion of capacity as per the following details:

	Plan (₹)	Actual (₹)
October, 2023	5,00,000	4,00,000
November, 2023	6,50,000	7,95,000
December, 2023	20,00,000	-
January, 2024	2,00,000	50,000
February, 2024	9,00,000	2,00,000
March, 2024	10,00,000	12,00,000

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had ₹ 20 lakh overdraft up to 31st December, surplus cash in January and again overdraft of ₹ 14 lakh from 1.2.2024 and ₹ 30 lakh from 1.3.2024. The company had a strike during December and hence could not continue the work during said period. However, the substantial administrative work related to the project was continued. Onsite work was again commenced on 1st January and all the work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month. Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure.

SOLUTION

Month	Actual Expenditure (₹)	Interest on outstanding amount @ 15% p.a.	Interest capitalized (₹)	Outstanding amount	Cumulativ e amount (₹)
	1		2	3	
October, 2023	4,00,000	4,00,000*15% *1/12	5,000	4,05,000	4,05,000
November, 2023	7,95,000	(4,05,000 +7,95,000)	15,000	(4,05,000 + 7,95,000 + 15,000)	12,15,000
December, 2023	-	*15%*1/12 (12,15,000) *15%*1/12	15,188	12,15,000 + 15,188	12,30,188
January, 2024	50,000		-	12,30,188 + 50,000	12,80,188
February, 2024	2,00,000	14,00,000 *15%*1/12	17,500	12,80,188 + 2,00,000 + 17,500	14,97,688
March, 2024	12,00,000	(14,97,688 + 12,00,000)*15 %*1/12	33,721	14,97,688 + 12,00,000 + 33,721	27,31,409
	26,45,000		**86,409**		

Note:

1. As per para 18 of AS 16, 'Borrowing Cost', capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Therefore, the interest for that period i.e. for the month of December has also been capitalized.
2. During January, the company did not incur any interest as there was surplus cash in January. Therefore, no amount should be capitalized during January as per para 14(b) of AS 16.
3. During February, actual overdraft (borrowings) was ₹ 14 lakh only. Hence, interest of ₹ 17,500 on ₹14,00,000 has been calculated even though actual expenditure on project exceed ₹ 14 lakh.

13. AS - 17
SEGMENT REPORTING

Question 52 (Q.AS17.SM.101)

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenues	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

SOLUTION:

Provision as per AS 17

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

(A) 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

(B) 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

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

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

Conclusion:

On the basis of turnover criteria segments M and N are reportable segments.

On the basis of the result criteria, segments M, N and R are reportable segments (since their results in absolute amount is 10% or more of Rs. 200 lakhs).

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

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. Hence, the opinion of chief accountant is wrong.

Question 53 (Q.AS17.SM.303)

Prepare a segmental report for publication in Diversifiers Ltd. from the following details of the company's three divisions and the head office:

	Rs. ('000)
Forging Shop Division	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
Bright Bar Division	
Sales to Fitting Division	45
Export Sales to Rwanda	300
	345
Fitting Division	
Export Sales to Maldives	270

Particulars	Head Office Rs.('000)	Forging Shop Division Rs. ('000)	Bright Bar Division Rs. ('000)	Fitting Division Rs. ('000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

SOLUTION:

Diversifiers Ltd. Segmental Report

(Rs. '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment Revenue Sales:					
Domestic	90	-	-	-	90
Export	6,135	300	270	-	6,705
External Sales	6,225	300	270	-	6,795
Inter-Segment Sales	4,575	45	-	4,620	-
Total Revenue	10,800	345	270	4,620	6,795
Segment Result (Given)	240	30	(12)		258
Head Office Expenses					(144)
Operating Profit					114
Interest Expense					(16)
Profit Before Tax					98
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	-	540
Net Current Assets	180	60	135	-	375
Segment assets	480	120	315	-	915
Unallocated Corporate Assets (75 + 72)	-	-	-	-	147
Total assets					1,062
Segment liabilities	30	15	180	-	225
Unallocated corporate liabilities					57
Total liabilities					282

Sales Revenue by Geographical Market

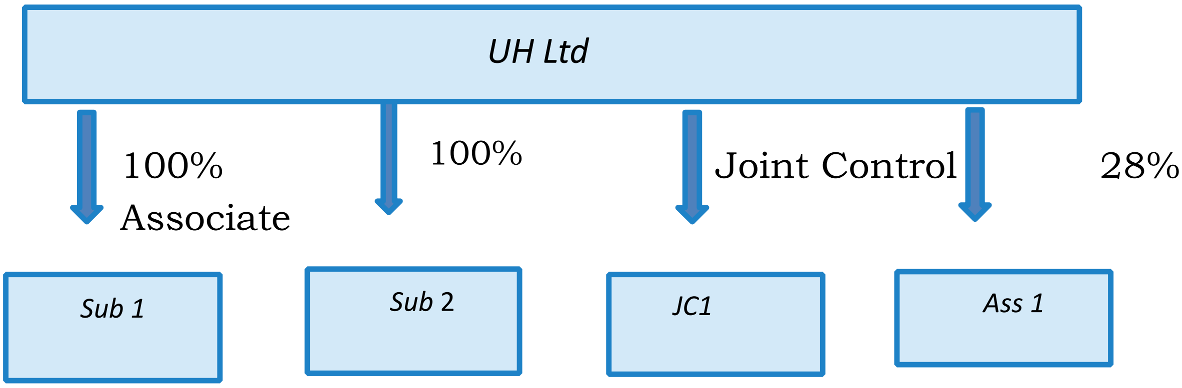
	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	(Rs. '000) Consolidated Total
External sales	90	6,135	300	270	6,795

14. AS - 18
RELATED PARTY DISCLOSURES

Question 54 (Q.AS18.SM.108)

Consider the following organization structure related to UH Ltd. (the ultimate parent company of a Group), wherein UH Ltd. has made the following investments:

- Investment in two of the wholly owned subsidiaries, viz. Sub 1 and Sub 2
- Investment in JC 1, in which UH Ltd. has a joint control
- 20% investment in Ass 1 (and hence, Ass 1 is an associate of UH Ltd.)



Given the above structure: Identify related party relationships for each of the above entities under AS-18

Solution:

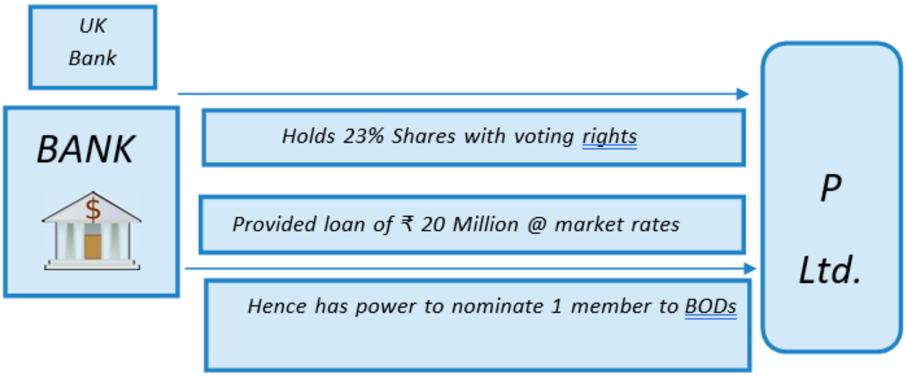
The following table identifies the related party relationships for each of the entities in the Group:

Reporting enterprise	Related Party as per AS-18
UH Ltd.	All the four entities (viz. Sub 1, Sub 2, JC 1 and Ass 1)
Sub 1	Only two of the entities in the Group (viz. UH Ltd. and Sub 2)
Sub 2	Only two of the entities in the Group (viz. UH Ltd. and Sub 1)
JC 1	Only UH Ltd.
Ass 1	Only UH Ltd.

Question 55 (Q.AS18.SM.111)

Consider a scenario wherein:

- UK Bank holds 23% equity shares with voting rights in P Ltd.
- The bank has provided a loan of Rs. 20 million to P Ltd. at market interest rate
- As per the terms and conditions of the loan agreement, the bank has appointed one person as its nominee to the board of directors of P Ltd. and any major transaction to be entered into by P Ltd. will require the consent of the Bank



Determine: Whether under AS-18 - UK Bank is a related party to P Ltd. (the reporting enterprise)?

Solution

In the instant case, the UK Bank holds 23% shares with voting rights in P Ltd. and hence **is deemed to exercise significant influence** over P Ltd.

The bank is also a provider of finance to P Ltd. (the reporting enterprise) and as per AS-18, parties **like providers of finance are deemed not to be considered** as a related party in the course of normal dealings with an enterprise by virtue **only of those dealings.**

However, **this exemption will not be available** to UK Bank in this case – since it exercises significant influence over P Ltd. (by virtue of holding 23% shares with voting rights in P Ltd.)

Accordingly, for P Ltd. (the reporting enterprise), the UK Bank is a related party and it will be required to disclose the transactions with UK Bank in its financial statements.

Question 56 (Q.AS18.RMP.201: (RTP – May'24, Nov'22, Nov'19, May'19 & May'25 and Exam July'21))

SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited"?

SOLUTION:

Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual".

In the above case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, **even though there is an agreement giving him the power to manage the company.** Further, the fact that **Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.**

Question 57 (Q.AS18.RMP.207: (RTP Jan'25))

Will transactions with related parties, for services provided/received free of cost, be required to be disclosed?

A Limited has a corporate communications department, which centralises the public relations function for the whole group of A Limited and its subsidiaries. No charges are, however, levied by A Limited on its subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute related party transactions requiring disclosure under AS 18 in the standalone financial statements of A Limited?

SOLUTION:

These transactions would require disclosure under AS 18 in the standalone financial statements of A Limited. As per paragraph 10 of AS 18, a related party transaction is "a transfer of resources or obligations between related parties, regardless of whether or not a price is charged". In the given situation, there is a transfer of resources from A Limited to its subsidiaries, though no price is charged for the same. Hence, it will constitute as related party transaction and will require disclosure in the financial statements of A Ltd.

15. AS - 19
LEASES

Question 58 (Q.AS19.SM.101: (MTP Nov21))

S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:
Lease term = 4 years
Fair value at inception of lease = Rs.20,00,000
Lease rent = Rs.6,25,000 p.a. at the end of year
Guaranteed residual value = Rs.1,25,000
Expected residual value = Rs.3,75,000 (estimated by lessor)
Implicit interest rate = 15%
Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.
Calculate the value of the lease liability as per AS-19.

SOLUTION

According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the lower of the fair value of the leased asset at the inception of the finance lease & the present value of the minimum lease payments from the standpoint of the lessee.
In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	MLP	Internal Rate of Return	Present Value
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	6,25,000 + 1,25,000 GRV	0.5718	4,28,850
Total	**26,25,000**		**18,55,850**

Present value of minimum lease payments Rs.18,55,850 is less than fair value at the inception of lease i.e. Rs.20,00,000, therefore, the lease liability should be recognised at Rs.18,55,850 as per AS19.

Question 59 (Q.AS19.RMP.201 (RTP – May'19; May'20 & Exams Jan'25) (Annual Lease Payment is Missing))

Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is Rs. 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is Rs. 50,000. IRR of investment is 10% and present value of annuity factor of Rs 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of Rs. 1 due at the end of 3rd year at 10% IRR is 0.7513.
You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

SOLUTION

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year
= Rs. 50,000 x 0.7513
= Rs. 37,565
Present value of lease payments = Rs. 5,00,000 – Rs. 37,565
= Rs 4,62,435
The percentage of present value of lease payments to fair value of the equipment is
(Rs. 4,62,435/ Rs 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = Rs. 4,62,435/ 2.4868 =Rs. 1,85,956 (approx.)
Gross investment in the lease = Total minimum lease payments + unguaranteed residual value
= (Rs. 1,85,956 × 3) + Rs. 50,000
= Rs. 5,57,868 + Rs. 50,000 = Rs. 6,07,868
Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value
= Rs. 6,07,868 – Rs. 5,00,000 = Rs. 1,07,868

Question 60 (Q.AS19.RMP.204: (MTP Nov'22))

Sun Limited leased a machine to Moon Limited on the following terms:

	(Amount in Rs.)
Fair value at inception of lease	50,00,000
Lease Term	4 Years
Lease Rental per annum	16,00,000
Guaranteed residual value	3,00,000
Expected residual value	4,50,000
Implicit Interest rate	15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Calculate the value of Lease Liability and ascertain Unearned Finance Income as per AS-19.

SOLUTION

According to AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment Rs.	Internal rate of return (Discount rate @15%)	Present value Rs.
1	16,00,000	0.8696	13,91,360
2	16,00,000	0.7561	12,09,760
3	16,00,000	0.6575	10,52,000
4	19,00,000*	0.5718	10,86,420
Total	67,00,000		47,39,540

Present value of minimum lease payments i.e., Rs. 47,39,540 is less than fair value at the inception of lease i.e., Rs. 50,00,000, therefore, the value of lease is Rs. 47,39,540 and lease liability should be recognized in the books at Rs. 47,39,540 as per AS 19.

Calculation of Unearned Finance Income

As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(i) Gross investment in the lease is the aggregate of (i) minimum lease payments from the stand point of

the lessor and (ii) any unguaranteed residual value accruing to the lessor.
Gross investment = Minimum lease payments + Unguaranteed residual value
= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)
= [(Rs. 16,00,000 x 4 years) + Rs. 3,00,000] + Rs. 1,50,000 = Rs. 68,50,000

(ii) Present value of minimum lease payment from Lessor's view point
Lease liability Rs. 47,39,540 + present value of (URV) unguaranteed residual value (Rs. 1,50,000 x 0.5718) = Rs. 48,25,310
Unearned Finance Income = (a) – (b) = Rs. 68,50,000 – Rs. 48,25,310= Rs. 20,24,690

*Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e 16,00,000 + 3,00,000 =19,00,000.

Question 61 (Q.AS19.SM.302: (MTP May21))

A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.
Compute the following:

(i) Annual Lease Rent
(ii) Lease Rent income to be recognized in each operating year and
(iii) Depreciation for 3 years of lease.

SOLUTION:

(i) Annual lease rent

Total lease rent

$=130\%$ of Rs. $1,50,000 \times \frac{\textit{output during lease period}}{\textit{total output}}$

=130% of Rs. 1,50,000 x (40,000+50,000+60,000) / (40,000+50,000+ 60,000+80,000+70,000)
=1,95,000 x 1,50,000 units / 3,00,000 units=Rs. 97,500

Annual lease rent = Rs. 97,500 / 3 = Rs. 32,500

(ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognised as income in proportion of output during lease period, i.e. in the proportion of 40:50:60.

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

Year 1 Rs. 26,000,
Year 2 Rs. 32,500 and
Year 3 Rs. 39,000.

(iii) Depreciation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs. 1,50,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 40:50:60:80:70
Depreciation for year 1 is Rs. 20,000, year 2 = 25,000 and year 3 = 30,000.

Question 62 (Q.AS19.SM.401)

A Ltd. sold machinery having WDV of Rs. 40 Lacs to B Ltd. for Rs. 50 Lacs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease.
Comment if-

(a) Fair Market Value is Rs. 50 Lacs.
(b) Fair Market Value is Rs. 60 Lacs.
(c) Fair value is Rs. 45 Lacs and the sale price is Rs. 38 Lacs.
(d) Fair value is Rs. 40 Lacs and the sale price is Rs. 50 Lacs.
(e) Fair value is Rs. 46 Lacs and the sale price is Rs. 50 Lacs.
(f) Fair value is Rs. 35 Lacs and the sale price is Rs. 39 Lacs.

SOLUTION

Following will be the treatment in the given cases:

a. When sales price of 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of 10 lakhs (i.e. 50 – 40) in its books.
b. When fair value is 60 lakhs then also profit of 10 lakhs should be immediately recognised by A Ltd.

c. When fair value of leased machinery is 45 lakhs & sales price is 38 lakhs, then loss of 2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.
d. When fair value is 40 lakhs & sales price is 50 lakhs then, profit of 10 lakhs is to be deferred and amortised over the lease period.
e. When fair value is 46lakhs & sales price is 50lakhs, profit of 6lakhs (46-40) to be immediately recognised in its books & balance profit of 4lakhs (50-46) is to be amortised/deferred over lease period.

When fair value is 35 lakhs & sales price is 39 lakhs, then the loss of 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of 4 lakhs (39-35) should be amortised/deferred over lease period.

16. AS - 20
EARNINGS PER SHARE

Question 63 (Q.AS20.RMP.101: (RTP May 2021))

In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date, weight is to be considered:

(i) Equity Shares issued in exchange of cash,
(ii) Equity Shares issued as a result of conversion of a debt instrument,
(iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,
(iv) Equity Shares issued for rendering of services to the enterprise,
(v) Equity Shares issued in lieu of interest and/or principal of another financial instrument,
(vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

ANSWER:

The following dates should be considered for consideration of weights for the purpose of calculation of weighted average number of shares in the given situations:

(i) Date of Cash receivable
(ii) Date of conversion
(iii) Date on which settlement becomes effective
(iv) When the services are rendered
(v) Date when interest ceases to accrue.
(vi) Date when Asset is Recorded.

Question 64 (Q.AS20.SM.203: (Also in RTP May 22))

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

	Rs.
10,00,000 Equity Shares having face value of Rs. 1 each	10,00,000
10,00,000 8% Preference Shares having face value of Rs. 10 each	1,00,00,000

During the year 2021-2022, the company had profit after tax of Rs. 90,00,000
On 1st January,2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December,2021.
On 1st January,2022, NAT issued 2,00,000 equity shares of Rs. 1 each at their full market price of Rs. 7.60 per share.
NAT's shares were trading at Rs. 8.05 per share on 31st March,2022.
Further it has been provided that the basic earnings per share for the year ended 31st March,2021 was previously reported at Rs. 62.30.
You are required to:

(i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March,2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.
(ii) Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share?

SOLUTION

(i) Calculation of Basic Earnings per share for the year ended 31stMarch, 2022 including the comparative figure:

(a) Earnings for the year ended 31st March, 2021 = EPS x Number of shares outstanding during 2020-2021
= Rs. 62.30 x 10,00,000 equity shares
= Rs. 6,23,00,000

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

Adjusted Basic EPS = Earnings for the year 2020-2021 / Total outstanding shares +Bonus issue

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

= Rs. 6,23,00,000 / 15,00,000

= Rs. 41.53 per share

(c) Basic EPS for the year 2021-2022

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

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

= Rs. 82,00,000 / 15,50,000 shares

= Rs. 5.29 per share

(ii) In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2021, the earliest period reported.

However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e., the time- weighting factor is considered based on the specific shares outstanding as a proportion of the total number of days in the period

Question 65 (Q.AS20.SM.405: (Jan'25 Exam))

XYZ Limited has provided you the following information as on 31st March, 2024:

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

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

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

SOLUTION

Computation of Basic Earnings per Share

	Earnings ₹	**No. of Shares**	**EPS ₹**
Earnings per share for the year 2023- 2024	31,20,000	6,50,000 (W.N 2)	4.80

Computation of Dilutive Earnings per Share			
	Earnings ₹	**Shares**	**EPS ₹**
Net profit for the year	31,20,000		

Weighted average number of shares (W.N. 2) outstanding during year on 31.3.2024 (i)		6,50,000	
Number of shares under option		80,000	
Number of shares that would have been issued at fair value: (80,000 x 20.00)/25.00		(64,000)	
No. of incremental shares issued for no consideration (ii)		16,000	
Diluted earnings per share after options	31,20,000	6,66,000 (i +ii)	4.68
12% Convertible Debentures (W.N. 3)	2,52,000	1,20,000	-
Diluted earnings	33,72,000	7,86,000	4.29

Working notes:

1. Computation of shares issued on bonus

No. of shares outstanding as on 31st March 2024	8,00,000
Less: Shares issued on 1st Jan 2024	(2,00,000)
Outstanding shares as on 31st December 2023	6,00,000
Bonus shares (6,00,000 x 1/(1+5))	1,00,000
Outstanding shares before bonus issue as on 1st April 2023 (6,00,000x5/6)	5,00,000

2. Weighted Average number of Equity shares

	Shares	**Months**	**Weighted average**
Opening balance as on 1.4.2023	5,00,000(W.N.1)	12/12	5,00,000
Bonus	1,00,000	12/12	1,00,000
Further issue of shares on 1.1.2024	2,00,000	3/12	50,000
			6,50,000

3. 12% Convertible Debentures

Increase in net profit {₹ 30,00,000 x 0.12 x (1 - 0.30)}	₹ 2,52,000
No. of incremental shares {30,000 x 4}	1,20,000

Question 66 (Q.AS20.SM.502: (RTP Jan'25))

XYZ Limited has a wholly owned subsidiary BC Limited. The Group prepares consolidated Financial Statements for the year ended 31st March, 2024. XYZ Limited (in its separate financial statements) has incurred a loss of ₹ 2 crore during the year, while the consolidated profit for the group during the year is ₹ 40 lakh.

XYZ Limited has 5,00,000 shares outstanding as at 31st March, 2024. Further, it has granted options to issue equity shares as at that date. In respect of such options, 1,00,000 shares are considered to be the shares issued for no consideration. There are no changes in income or expenses that are expected from the issue of equity shares on exercise of these options.

Calculate Basic and Diluted EPS for XYZ Limited for separate financial statements and for the Group.

SOLUTION

Computation of earnings per share

Particulars	Consolidated financial statements	Standalone financial statements of XYZ Limited
Basic earnings/(loss) per share	₹ 8 [40,00,000/5,00,000]	(₹ 40) [2,00,00,000/ 5,00,000]
Diluted earnings/ (loss) per share	₹ 6.66	[40,00,000/ 6,00,000]

As per paragraph 39 of AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations. In the above case, if the exercise of options was considered for separate financial statements of XYZ Limited, the diluted loss per share would have reduced to ₹ 33.33 [2,00,00,000/6,00,000]. As this is antidilutive, the options would not be treated as potentially dilutive equity shares. Accordingly, in the separate financial statements of XYZ Limited, the Diluted EPS would be same as Basic EPS.

Question 67 (EXAMPLE 7 (Bonus))

Previous Year EAESH = 12,00,000
Current Year EAESH = 15,00,000
Current Year Outstanding no. in Beginning = 2,00,000 no.
Current Year Bonus issue in 1/7 = 50,000 no.
Current Year Public Issue in 1/9 = 30,000 no.
Current Year Buy Back in 1/11 = 10,000 no.
Calculate EPS of Current Year & Restated Eps of Previous year.

SOLUTION

Working Note 1: Calculation of weighted Average Outstanding no.

1/4	2,00,000 x 12/12	2,00,000
+ 1/7 Bonus	50,000 x 12/12	50,000
+ 1/9 Public issue	30,000 x 7/12	17,500
- 1/11 Buy Back	(10,000 x 5/12)	(4,167)
		2,63,333

Current Year Eps = 15,00,000/2,63,333 = 5.696/-
Restated Eps of Previous Year = 12,00,000/2,00,000+50,000 = 4.8/-

Question 68 (EXAMPLE 11 - Partly Paid Shares)

As on 1/4/23	Opening Outstanding Equity Shares 50,000 of 10/- each, 6/- Paid-up.
On 1/9/23	Public Issue of 30,000 shares made at 10/- each, 7/- Paid up
On 1/10/23	Amount Called @4/- on Opening but Shareholders holding 48,000 Shares have paid.
On 1/12/23	Amount Called @3/- on public issue, all Share Holders have paid.

Note: Partly paid shares are also entitled for Dividend
Calculate Weighted Average Outstanding Equity Shares.

Solution:

Calculation of Weighted Average Outstanding Share Capital (in ₹)

Date	Particulars	Working	Weighted Avg. Amount
1/4/23	Opening Balance	50,000 x 6 x 12/12	3,00,000
1/9/23	Public issue	30,000 x 7 x 6/12	1,22,500
1/10/23	Called @4/-	4,80,000 x 4 x 6/12	96,000
1/12/23	Called @3/-	30,000 x 3 x 4/12	30,000

Weighted Average Outstanding Share Capital	5,48,500
Weighted Avg Outstanding No. of Shares (5,48,500/10)	**54,850 No.**

Question 69 (EXAMPLE 13 (Right Issue))

EAESH = 21,00,000

As on 1/4	Outstanding Shares are 1,50,000 No.
On 1/7	Public Issue of 30,000 No.
On 1/10	Right issue @90/- at ratio of 1:2
On 1/1	Public issue of 50,000 No.

Cum-Right Price = 100/-

Solution:

Step 1:

Ex-Right Price = (1,50,000+30,000) x 100 + (90,000 x 90) / 2,70,000 = 96.67/-

Step 2:

Right Factor = Cum-Right Price / Ex-Right Price = 100/96.67

Step 3:

Weighted Average: - Apply Right Factor only on No. of Shares Outstanding before Right Issue

Date	Working	Weighted Avg. Amount
1/4	1,50,000 x 3/12 x 100/96.67	38,792
1/7	1,80,000 x 3/12 x 100/96.67	46,550
1/10	2,70,000 x 3/12	67,500
1/1	3,20,000 x 3/12	80,000
		2,32,842

BEPS = 21,00,000/2,32,842 = 9.02/- per Share.

17. AS - 22
ACCOUNTING FOR TAXES ON INCOME

Question 70 (Q.AS22.RMP.203: (Exam July21))

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

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

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

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

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

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

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

Tax Rate to be taken at 40%.

You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.

SOLUTION

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

Transactions	**Analysis**	**Nature of difference**	**Effect**	**Amount (Rs.)**
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	28 lakhs · 40% = Rs. 11.20 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	14 lakhs · 40% = 5.6 lakhs
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	7 lakhs · 40% = Rs. 2.8 lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	70 lakhs · 40% = 28 lakhs

Question 71 (Q.AS22.OM.207: (CA Final))

Ram Ltd. started its operations in 20X1-20X2 and gave you the following details:

Financial Year	**Accounting Income**	**Permanent Difference**	**Timing Difference**	**Tax Rate**	**Remarks**
20X1-20X2	80,000	+10,000	+9000	30%	Reversible in 20X4-20X5
20X2-20X3	90,000	+2,000	+6000	35%	Reversible in 20X3-20X4
20X3-20X4	1,10,000	+6,000	-2000	40%	Reversible in 20X4-20X5
20X4-20X5	40,000	+12,000	Nil	50%	Nil

Tax rate for the next year are known in current year itself. Plus represents disallowance of expense in Income Tax.

Prepare necessary parts of Profit and Loss account, Balance Sheet in accordance with AS-22.

SOLUTION

WN – 1: **Deferred Taxes**

	20X1-X2	20X2-X3	20X3-X4	20X4-X5
Opening Time Difference	-	9000 (A)	15000 (A)	7000 (A)
Timing Difference arise during the years	9000 (A)	6000 (A)	2000 (L)	-
Closing Timing Difference	-	-	6000 R)	- 9000 (A-R) + 2000 (L-R)
	9000 (A)	15000 (A)	7000 (A)	Nil
Deferred Tax Rate	35%	40%	50%	-
Deferred Tax Amount (B/S Value)	3150 (Asset)	6000 (Asset)	3500 (Asset)	0
Deferred Tax Amount (P&L Value)	3150 Income	2850 Incomes	2500 Exp. (Asset Reversal)	3500 Exp. (Asset Reversal)
Journal entry	DTA Dr. 3150 To P&L 3150	DTA Dr. 2850 To P&L 2850	P&L Dr. 2500 To DTA 2500	P&L Dr. 3500 To DTA 3500

WN – 2: - **Calculation of Taxable Income & Tax thereon**

	20X1-X2	20X2-X3	20X3-X4	20X4-X5
A/C Income	80,000	90,000	1,10,000	40,000
(+) Disallowed: -				
Permanent Differences	1,00,000	2,000	6,000	12,000
Timing Differences	9,000	6,000	0	2,000
(-) Allowances: -				
Timing Differences	-	-	(6,000)	(9,000)
Timing Differences	-	-	(2,000)	
Taxable Income	99000	98000	108000	45000
Tax Rates Current %	30%	35%	40%	50%
Current Tax Exp.	29700	34300	43200	22500

Question 72 (Q.AS22.SM.208: (RTP Jan'25))

ABC Ltd. prepares its accounts annually on 31st March. On 1st April, 2022, it purchases a machine at a cost of ₹ 1,50,000. The machine has a useful life of three years and an expected scrap value of zero. Although it is eligible for a 100% first year depreciation allowance for tax purposes, the straight line method is considered appropriate for accounting purposes. ABC Ltd. has profits before depreciation and taxes of ₹ 2,00,000 each year and corporate tax rate is 40 percent each year.

The purchase of machine at a cost of ₹ 1,50,000 in 2022 gives rise to a tax saving of ₹ 60,000. The corporate tax rate has been assumed to be same in each of the three years. Calculate deferred tax and pass necessary journal entries.

What will be the amount of deferred tax, if the substantively enacted tax rates for 2022, 2023 and 2024 are 40%, 35% and 38% respectively.

SOLUTION

If the cost of machine is spread over three years of its life for accounting purposes, the amount of the tax saving should also be spread over the same period as shown below:

Statement of Profit and Loss
(for the three years ending 31st March, 2022, 2023, 2024)

		(₹ in thousand)		
		2022	2023	2024

	Profit before depreciation and taxes	200	200	200
Less:	Depreciation for accounting purposes	50	50	50
	Profit before taxes	150	150	150
Less:	Tax expense			
	Current tax:			
	0.40 x (200 -150)	20		
	0.40 x 200		80	80
	Deferred tax:			
	Tax effect of timing differences originating during the year leading to DTL			
	0.40 (150-50)	40		
	Tax effect of timing differences reversing during the year			
	0.40 (0-50)	-	(20)	(20)
	Tax expense	60	60	60
	Profit after tax	90	90	90
	Net timing differences	100	50	0
	Deferred tax liability balance	40	20	0

In 2022, the amount of depreciation allowed for tax purposes exceeds the amount of depreciation charged for accounting purpose by ₹ 1,00,000 and, therefore, taxable income is lower than the accounting income. This gives rise to a deferred tax liability of ₹ 40,000. In 2023 and 2024 accounting income is lower than taxable income because the amount of depreciation charged for accounting purposes exceeds the amount of depreciation allowed for tax purposes by ₹ 50,000 each year. Accordingly, deferred tax liability is reduced by ₹ 20,000 each in both the years. As may be seen, tax expense in based on the accounting income of each period.
In 2022, the profit and loss account is debited and deferred tax liability account is credited with the amount of tax on the originating timing difference of ₹ 1,00,000 while in each of the following two years, deferred tax liability account is debited and profit and loss account is credited with the amount of tax on the reversing timing difference of ₹ 50,000.
The following Journal entries will be passed:

Year 2022			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2022 provided for)	Dr.	20,000	20,000
Profit and Loss A/c To Deferred tax liability A/c (Being the deferred tax liability created for originating timing difference of ₹ 1,00,000)	Dr.	40,000	40,000
Year 2023			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2023 provided for)	Dr.	80,000	80,000
Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	20,000
Year 2024			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2024 provided for)	Dr.	80,000	80,000

Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	 20,000

Presentation:

In the year 2022, the balance of deferred tax account i.e. ₹ 40,000 would be shown separately from the current tax payable for the year in terms of paragraph 30 of AS 22. In the year 2023, the balance of deferred tax liability account would be ₹ 20,000 and be shown separately from the current tax payable for the year as in year 2022. In year 2024, the balance of deferred tax liability account would be nil.

If the rate of tax changes, it would be necessary for the enterprises to adjust the amount of deferred tax liability carried forward by applying the tax rate that has been enacted or substantively enacted by the balance sheet date on accumulated timing differences at the end of the accounting year

The amount of deferred tax liability would be computed as follows:

The deferred tax liability carried forward each year would appear in the balance sheet as under:

31st March, 2022 = 0.40 (1,00,000) = ₹ 40,000
31st March, 2023 = 0.35 (50,000) = ₹ 17,500
31st March, 20224 = 0.38 (Zero) = ₹ Zero

Accordingly, the amount debited (credited) to the profit and loss account (with corresponding credit or debit to deferred tax liability) for each year would be as under:

31st March, 2022 Debit = ₹ 40,000
31st March, 2023 (Credit) = ₹ (22,500)
31st March, 2024 (Credit) = ₹ (17,500)

Question 73 (Example 2)

Following information is of X Ltd.

Sale	20,00,000
Cost of goods sold	11,00,000
Income from other sources (Bank Interest)	1,00,000
Salary	1,00,000
Provision for Legal Damages	40,000
Interest to Bank (Not yet paid)	30,000
Service Tax (Not yet Paid)	50,000

X Ltd purchased during the year one Machine for Scientific Research for Rs. 120000 whose life is 3 years and is 100% tax deductible during the year

X Ltd also made contribution for Scientific Research activity of Rs. 10000 on which 100% deduction is allowed in the same year. Effective Rate of Tax 32.33%.

Prepare Profit and Loss Account.

Solve Here:

Calculation of Deferred Tax

S.No.	Particulars	Timing Difference	Nature	DT Amount
1	Provision for Legal Demages	40,000	DTA	12,932
2	Interest Payable	30,000	DTA	9,699
3	Service Tax Payable	50,000	DTA	16,165
4	Capital Expenditure on Scientific Research	80,000	DTL	25,864
	Net DTA DTA A/c Dr. To P&L A/c			12,932

18. AS – 23
ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

Question 74 (Q.AS23.SM.05 (Loss Making Associate Entity))

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X1-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars	₹
Equity Shares	10,00,000
Reserves & Surplus	2,00,000
Net Assets	12,00,000
40% share of Net Assets	4,80,000
Less: Cost of Investment	(10,00,000)
Goodwill	5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 20X1: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X2:

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 20X1	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X2: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X3:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 20X2	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X3: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above (₹ 4,00,000 + ₹ 5,00,000)	(4,20,000)	

Add: Goodwill		1,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X4:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment Less: Loss for the year (5,00,000 x 40% = 2,00,000, restricted to Carrying amount of Investment in B Ltd.) -refer note below Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X4: ASSETS

Investment in Associate as per AS 23	₹
Investment in B Ltd.	-

Question 75 (Q.AS23.SM.06)

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-20X2;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;

(iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

SOLUTION

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

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

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

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

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

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

Question 76 (Q.AS23.SM.07)

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

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000

	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
II. Current Assets	3,00,000
	10,00,000

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

1) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
2) B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.
3) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. Calculate:

(i) Goodwill if any on acquisition of B Ltd.'s shares.
(ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
(iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

SOLUTION

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

(i) Calculation of Goodwill **(₹ in lakhs)**

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

(ii) A Ltd.

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

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

Consolidated Balance Sheet as on 31.3.20X2 (An extract)

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

Working Notes:

1. Pre-acquisition dividend received from B Ltd. amounting to ₹ 0.50 lakhs will be reduced from investment value in the books of A Ltd.
2. B Ltd. made a profit of ₹ 7 lakhs for the year ended 31st March, 20X2. A Ltd.'s share in the profits of ₹ 7 lakhs is ₹ 1.75 lakhs.
3. Investment in B Ltd. will be increased by ₹ 1.75 lakhs and consolidated profit and loss account of A Ltd. will be credited with ₹ 1.75 lakhs in the consolidated financial statement of A Ltd.

4. Dividend declared on 30th April, 20X2 will not be recognized in the consolidated financial statement of A Ltd.

Question 77 (Q.AS23.RMP.10: (Exam Sep'24))

On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. For ₹ 14,80,000.
On 31st March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. For ₹ 3,80,000.
The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31st March, 2024 :

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹ 100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit & Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information :

- The Profit and Loss account of Cool Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2023.
- The General Reserve balance is brought forward from the previous year.
- On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹ 3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.
- Best Ltd. purchased goods costing ₹ 5,00,000 from Cool Ltd. on 1st June, 2023 at a price of ₹ 6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.
- Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.

You are required to calculate :

(1) Trade Payable (Consolidated)
(2) Current Assets (Consolidated)
(3) Minority Interest
(4) Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares
(5) Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares
(6) Profit & Loss Account (Consolidated)
(7) General Reserve (Consolidated)
(8) Revenue from Operations (Consolidated)
(9) Cost of material purchased/consumed (Consolidated)

SOLUTION

1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	4,90,000

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	
Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		10,75,000

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		4,84,800

4. Goodwill/Capital Reserve on Acquisition of Cool Ltd.:

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits		
(2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	1,20,000	40,000
Capital Reserves		4,27,200

5. Goodwill/Capital Reserve on Acquisition of Good Ltd.

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	87,500

6. Profit and Loss Account (Consolidated)

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd	
{(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58000

7. General Reserve (Consolidated)

Best limited 2,69,000

With reference to para no 15 of AS 21
If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.
And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

Question 78 (Example 7)

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year.
Other information is as follow:
Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000
Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

Calculations for April 01:

Cost of investment	₹ **1,00,000**
10% share in net asset	₹ 85,000
Goodwill	₹ 15,000

Calculations for October 01:

15% share in net asset	₹ **1,50,000**
Cost of investment	₹ 1,45,000
Capital Reserve	₹ 5,000
Total goodwill (15,000 – 5,000)	₹ 10,000

Question 79 (Example 8)

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on 1st October of the same year. Other information is as follow:
Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000
Net asset on 1st April ₹ 8,50,000 and on 1st October ₹ 10,00,000.

Calculations for April 01:

Cost of investment	₹ **1,00,000**

10% share in net asset	₹ 85,000
Goodwill	₹ 15,000

Calculations for October 01:

Cost of investment	**₹ 1,55,000**
15% share in net asset	₹ 1,50,000
Goodwill	₹ 5,000
Total goodwill (15,000 + 5,000)	₹ 20,000

Question 80 (Example 9)

A Ltd. acquired 25% stake of B Ltd. on 1st April and further 5% on 1st October of the same year. Other information is as follow:

Cost of Investment for 25% ₹ 1,50,000 and for 5% ₹ 20,000

Net asset on 1st April ₹ 5,00,000.

Profit for the year ₹ 90,000 earned in the ratio 2:1 respectively.

Calculations for April 01:

Cost of investment	**₹ 1,50,000**
25% share in net asset	₹ 1,25,000
Goodwill	₹ 25,000

Calculations for October 01:

Profits for the first half (90,000/3) x 2	**₹ 60,000**
Additional share of A Ltd.	5%
Pre-acquisition profits i.e. capital reserve (60,000 x 5%)	₹ 3,000
5% share in net asset	₹ 25,000
Cost of investment	₹ 20,000
Capital Reserve	₹ 5,000
Cost of Investment on April 01	₹ 1,50,000
Less: Goodwill	₹ 25,000
Carrying Amount on April 01	₹ 1,25,000
Add: Additional Share in Net Asset on October 01	₹ 25,000
Add: Capital share of Profits for first half	₹ 3,000
Add: Revenue shares of Profits for first half (60,000 x 25%)	₹ 15,000
Add: Revenue shares of Profits for second half (30,000 x 30%)	₹ 9,000
Total Carrying Amount on March 31	**₹ 1,77,000**

19. AS - 24
DISCONTINUING OPERATION

Question 81 (Q.AS22.SM.01: (RTP May18, May23 & MTP April19, Aug18)

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 20X6 to this effect. The company follows the calendar year as its accounting year.
You required advising the company whether it should be treated as discontinuing operation or not as per AS 24?

ANSWER:

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:
- (i) that the enterprise, pursuant to a **single plan**, is:
  - (1) disposing of substantially in its entirety,
  - (2) disposing of piecemeal, or
  - (3) terminating through abandonment; and
- (ii) that represents a separate **major line** of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;
In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:
- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) The enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

Question 82 (Q.AS24.SM.07)

(i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?
(ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

Solution

(i) An enterprise should include prescribed information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15 of AS 24) occurs. For details, please refer Section 6.5 of this Chapter above.

(ii) Examples of activities that do not necessarily satisfy criterion (a) of the definition, but that might do so in combination with other circum- stances, include:

(a) Gradual or evolutionary phasing out of a product line or class of service;

(b) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(c) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(d) Closing of a facility to achieve productivity improvements or other cost savings.

20. AS – 25
INTERIM FINANCIAL REPORTING

Question 83 (Q.AS25.SM.09)

On 30th June, 20X1, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 31st July, 20X1, the company paid ₹ 60,000 for property taxes assessed for the calendar year 20X1. How the above transactions should be included in the determination of net income of Asmitha Ltd. for the six months interim period ended on 30th September, 20X1.

Solution

According to Para 10 of AS 25 "Interim Financial Reporting", if an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. As at 30th September, 20X1, Asmitha Ltd would report the entire amount of ₹ 2,00,000 as loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to interim periods on accrual basis.

Since ₹ 60,000 Property tax payment relates to entire calendar year 20X1, ₹ 30,000 would be reported as an expense for six months ended on 30th September, 20X1 while out of the remaining ₹ 30,000, ₹ 15,000 for January, 20X1 to March, 20X1 should be shown as payment of the outstanding amount of previous year and another ₹ 15,000 related to quarter October, 20X1 to December, 20X1 would be reported as prepaid expenses.

Question 84 (Q.AS25.SM.11)

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-20X1. On enquiry you observe the following. Give the treatment required under AS 25:

- **(i)** The dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.
- **(ii)** 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
- **(iii)** In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.
- **(iv)** ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- **(v)** Cumulative loss resulting from change in inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.
- **(vi)** Sales of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

Solution

As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year. Therefore, dividend income, extra-ordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only. Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per AS 10, Property, Plant and Equipment, if there is change in the depreciation method, such a change should be accounted for as a change in accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, and applied prospectively. Therefore, no adjustment would be required due to change in the method of depreciation.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the third quarter

	(₹ in lakhs)
Profit before tax (as reported)	4
Add:	
Dividend income ₹ (4-1) lakhs	3
Excess depreciation charged in the 3rd quarter, due to change in the method	-
Extra ordinary gain ₹ (2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (3-2) lakhs	1
	9
Less: Sales promotion expenses (80% of ₹ 15 lakhs)	(12)
Gain on sale of investment (occasional gain should not be deferred)	(5)
Adjusted Profit before tax for the third quarter	**(8)**

Question 85 (Class Example 1)

Fy 24-25

During Q 1 = Bodgeted Annual F.OH = 1500000
Normal Capacity = 50000 units p.a.

During Q 1 = Actual Production = 12000 units

How Much Fixed OH will be absorbed in Q1?

Solution

1) FOH absorbtion Rate $= \frac{1500000}{50000} = \frac{30}{-}$
2) FOH absorbed in Q 1 = 12000 x 30 = 360000/-
   In cost of Invertor

Now Suppose, During Q 2 Annual Budget of FOH is Changed to Rs. 1650000
Normal Capacity also Changed to 60000 units
Actoal production in Q2 = 19000 units

1) Revised FOH Absorption Rate = 1650000
   60000
   = 27.50/-

2) Cumulative FOH to be absorbed :-
   Actual Production till date = 31000
   (x) Revised Rate = 27.50
   852500
   (-) FOH absorbed earlier = (360000)
   FOH Absorbed in Q2 = 492500

Question 86 (Class Example 2)

We are currently preparing Q1 P&L
Q1 Profit is 300000
Estimated Q2 + Q3 + Q4 will be 10,00,000
Profit

Tax Slab	0-3 lakhs.	=	Nil
	3 – 7 lakhs.	=	5%
	7 – 10 lakhs.	=	10%
	10 – 12 lakhs.	=	15%

12-15 lakhs. = 20%
Abore 15 lakhs = 30%
Calculate Tax exp. Of Q. to be presented

Solution

Total Tax = as 1300000 Income 1,00,0000

Effective Tax % = $\frac{100000}{1300000}$ x 100 = 7.69

Q. PBT = 300000
(-) Tax exp @ 7.69% = 23070
276930

Question 87 (Class Example 3)

actual profit = 3,70,000
Q3 + Q4 extimation = 7,00,000
Tax expense Q2 => ?

Solution

Total estimated annual Income = 13,70,000
Total Tax = 1,14,000
Effective Tax Rate = $\frac{114000}{1370000}$ x 100
= 8.32%

Tax till Q2 => 670000 x 8.32% = 55,744
(-) Q1 Tax => (23070)
32674

Question 88 (Class Example 4)

Fy 24-25
C/F Business losses = 200000
(to be set off in cy)

	Income
Q1 (Actual)	300000
Q2 (estimated)	200000
Q3 (estimated)	400000
Q4 (estimated)	600000

Q1 includes
Special Income of 50000 Taxable at 15%
Tax lab : Nil upto 250000
As 10% 250000 – 500000
(Normal Income) 20% 500000 – 800000
30% above 800000
Caluclate Tax exp of Q

Solution

Consider Annual Working

Normal	Special
250 + 200 + 400 + 600	50000
1450000	x 15%
(-) 200000 Loss Setoff	7500 Q1
Net Income = 1250000	
Tax = 220000	

$\% = \frac{220000}{1450000} \times 100$ $= 15.17$	

Q1 => Tax exp.

Normal Tax = 250000 x 15.17% = 37925

Special Tax = 50000 x 15% = 7500

45425

21. AS - 26
INTANGIBLE ASSETS

Question 89 (Q.AS26.RMP.06: (RTP May18 & Nov18, MTP May22))

A company acquired a patent at a cost of Rs 160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at Rs. 16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be Rs. 50 lakhs, Rs. 30 lakhs, Rs. 60 lakhs, Rs. 70 lakhs and Rs. 40 lakhs. Find out the amortization cost of the patent for each of the years.

SOLUTION:

Company amortized Rs 16,00,000 per annum for the first two years. Hence, Amortization for the first two years (Rs 16,00,000 X 2) = Rs 32,00,000.

Remaining carrying cost after two years =Rs 1,60,00,000 – Rs 32,00,000
= Rs 1,28,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost Rs128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows:

Year	Net cash flows Rs	Amortization Ratio	Amortization Amount Rs
I	-	0.1	16,00,000
II	-	0.1	16,00,000
III	50,00,000	0.2	25,60,000
IV	30,00,000	0.12	15,36,000
V	60,00,000	0.24	30,72,000
VI	70,00,000	0.28	35,84,000
VII	40,00,000	0.16	20,48,000
Total	**250,00,000**	**1.000**	**160,00,000**

Question 90 (Q.AS26.RMP.09: (RTP May21))

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

(i) 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.

(ii) 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.

(iii) 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.

SOLUTION:

Naresh Ltd.

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

	Note No.	Rs.
Assets		
(1) Non-current assets		

Intangible assets	1	8,11,200

Notes to Accounts (Extract)

		Rs.	Rs.
1.	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Notes:

		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 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

Note: Amortisation shall commence from the date when Asset is acquired or available for use. Hence, in this question, policy followed by company to charge full year amortization in the year of purchase is not justified.

Question 91 (Q.AS26.SM.14)

What is the criteria for recognition and measurement of Internally generated intangible assets. Describe which kind of cost is considered for capitalisation with respect to provisions of AS 26. Whether the same applies for internally generated goodwill also?

SOLUTION

To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into 2 phases:

- Research Phase &
- Development Phase

Research Phase - The expenses related to Research phase is expensed off in statement of Profit and loss.

Development Phase - Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the conditions given in para 6.15.

<u>Cost of an Internally Generated Intangible Asset</u>

The cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria. Reinstatement of expenditure recognised as an expense in previous annual financial statements or interim financial reports is prohibited.

The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use from the time when the intangible asset first meets the recognition criteria. For details, refer para 6.16.

Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

Question 92 (Q.AS26.RMP.15: (Exam Nov19))

As per provisions of **AS-26**, how would you deal to the following situations:

(1) Rs 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2018-19, a company spent Rs 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.

(3) A company spent Rs 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize Rs 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of Rs 200 crores and an annual advertising budget of Rs 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of Rs 20 crore from the new product.

The company had debited to its Profit & Loss Account the total expenditure of Rs 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

ANSWER:

As per AS 26 “Intangible Assets”, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting Rs 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of Rs 7,00,000 in the Profit and Loss account for the year ended 31stMarch, 2019 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus, the company cannot capitalize the amount of Rs 25,00,000 and it should be recognized as expense

(iv) Expenditure of Rs 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

22. AS – 27
FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

Question 93 (Q.AS27.SM.03 (Jointly Controlled Entity))

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture.

Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

Solution

Consolidated Profit & Loss Account

Particulars	Note No.	(₹)
Revenue from operations	1	13,05,000
Total Revenue (A)		13,05,000
Less: Expenses		
Purchases	2	9,00,000
Other expenses	3	3,06,000
Changes in inventories of finished goods	4	(1,00,000)
Total Expenses (B)		11,06,000
Profit Before Tax (A-B)		1,99,000

Consolidated Balance Sheet

		Note No.	(₹)
I	**Equity and liabilities**		
	1. Shareholders' funds:		
	Share Capital	5	4,01,000
	Reserves and Surplus	6	1,99,000
	2. Non-current liabilities		
	Long term borrowings	7	2,00,000
	3. Current Liabilities	8	1,00,000
			9,00,000
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment	9	6,00,000
	Current Assets		

	Inventories	10	1,00,000
	Other current assets	11	2,00,000
			9,00,000

Notes to Accounts

	Particulars		(₹)
1.	**Revenue from operations**		
	Sales:		
	A Ltd.	7,25,000	
	B Ltd.	5,80,000	13,05,000
2.	**Purchases**		
	A Ltd.	5,00,000	
	B Ltd.	4,00,000	9,00,000
3.	**Other expenses**		
	A Ltd.	1,70,000	
	B Ltd.	1,36,000	3,06,000
4.	**Closing Inventory**		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
5.	**Share Capital**		
	A Ltd.	1,96,490	
	B Ltd.	2,04,510	4,01,000
6.	**Reserves and Surplus**		
	Profit & Loss Account:		
	A Ltd.	99,500	
	B Ltd.	99,500	1,99,000
7.	**Long Term Borrowings**		
	Unsecured Loans:		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000
8.	**Current Liabilities**		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
9.	**Property, Plant and Equipment**		
	A Ltd.	3,00,000	
	B Ltd.	3,00,000	6,00,000
10.	**Inventories**		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
11.	**Other Current Assets**		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000

Question 94 (Q.AS27.OM.06) (Master Question))

Standalone Balance sheets on 31/03/24

Particular	H	S	JV	ASS
ESC 10/- face Value	10,00,000	8,00,000	6,00,000	50,000
R&S	9,00,000	75,000	4,50,000	3,00,000
Liability	11,00,000	6,50,000	5,50,000	4,00,000
	30 Laksh	22 Laksh	16 Laksh	12 Laksh

Investments:				
In S 80%	11,00,000	-	-	-
In JV 50%	5,00,000	-	-	-
In Ass. 30%	1,60,000	-	-	-
Other Assets	12,40,000	22,00,000	16,00,000	12,00,000

1) Date of Acquisition of all Investments is 01/07/23.
2) Opening Balance of R&S on 01/04/23

S Ltd.	4,80,000
JV Ltd.	1,50,000
Associate Ltd.	1,20,000

Prepare Consolidated Balance Sheet for H Ltd.

Solution:

1) Subsidiary Consolidation

Analysis of Profit (AOP)			
Particulars	**Pre**	**Post**	**B/S**
R&S	4,80,000	2,70,000	7,50,000
(+/-) Time Adjustement	67,500	(2,70,000 × 3/12)	
	5,47,500	**2,02,500**	
Share of H Ltd.	4,38,000	1,62,000	
Share of M/I	1,09,500	40,500	

Minority Interest		
ESC	20%	1,60,000
(+) Pre-Acquisition	20%	1,09,500
(+) Post Acquisition	20%	40,500
		3,10,000
Cost of Control (COC)		
Investments in S Ltd.		11,00,000
(-) 80% Net Assets ESC 80% Share of Pre-Acquisition Profit		 (6,40,000) (4,38,000)
Goodwill		**22,000**

2) JV (Proportionate Consolidation Method)

Analysis of Profit (AOP)			
Particulars	**Pre**	**Post**	**B/S**
R&S	1,50,000	3,00,000	4,50,000
(+/-) Time Adjustment	75,000	(3,00,000 × 3/12)	
	2,25,000	2,25,000	
H 50%	**1,12,500**	**1,12,500**	

Cost of Control	
Investment	5,00,000
(-) 50% of Net Assets ESC 50% Share of Pre Acquisition	 3,00,000 1,12,500
Goodwill	**87,500**

3) Associate Consolidation (Equity Method):

Analysis of Profit			
	Pre	**Post**	**B/S**

R&S	1,20,000	1,80,000	3,00,000
(+/-) Time Adjustement	45,000	(1,80,000×3/12)	
	1,65,000	**1,35,000**	

Equity Method	
Investment Cost	1,60,000
(-) 30% N. Assets as on DOA	1,99,500
Equity Share Capital 5,00,000 Share of Pre-Acquisition 1,65,000 6,65,000 × 30%	
Capital Reserve on DOA (Investment to be Increased by 39,500)	39,500
Revised Carrying Amount of Investment	1,99,500
(+) Share in Post-Acquisition Period Profit 1,35,000× 30%	40,500
Closing Investment as on Balance Sheet	2,40,000

Consolidated P&L A/c of H Ltd.

Balance of R&S of H Ltd. as per SFS	9,00,000
(+) Share in Post Acquisition profit	
From S Ltd.	1,62,000
From JV Ltd.	1,12,500
From Associate Ltd.	40,500
Consolidation P&L	1,21,500
Capital Reserve from COC	39,500
Consolidation R&S	**12,54,500**

Consolidated Balance Sheet

Particulars	**Amount**
Equity Share Capital	10,00,000
Consolidation Reserves and Surplus	12,54,500
Minority Interest	3,10,000
Liability H 11,00,000	20,25,000
S 6,50,000	
JV 2,75,000	
	45,89,500
Investment in Associate as per Equity Method	2,40,000
Other Assets H 12,40,000	
I 22,00,000	
JV 8,00,000	
Goodwill S 22,000	1,09,500
JV 87,500	
	45,89,500

23. AS - 28
IMPAIRMENT OF ASSETS

Question 95 (Q.AS28.SM.102)

Ergo Industries Ltd. gives the following estimates of cash flows relating to Property, Plant and Equipment on 31-12-20X1. The discount rate is 15%

Year	Cash Flow (₹ in lakhs)
20×2	4000
20×3	6000
20×4	6000
20×5	8000
20×6	4000

Residual value at the end of 20X6	= ₹ 1000 lakhs
Property, Plant and Equipment purchased on 1-1-20XX	= ₹ 40,000 lakh
Useful life	= 8 years
Net selling price on 31-12-20X1	= ₹20,000 lakhs

Calculate on 31-12-20X1:

(a) Carrying amount at the end of 20X1
(b) Value in use on 31-12-20X1
(c) Recoverable amount on 31-12-20X1
(d) Impairment loss to be recognized for the year ended 31-12-20X1
(e) Revised carrying amount.
(f) Depreciation charge for 20X2.

Note: The year 20XX is the immediate preceding year before the year 20X0.

Solution:

Calculation of Value in Use

Year	Cash flow	Discount as per 15%	Discounted cash flow
20×2	4,000	0.870	3,480
20×3	6,000	0.756	4,536
20×4	6,000	0.658	3,948
20×5	8,000	0.572	4,576
20×6	4,000	0.497	1,988
20×6	1,000 (Residual)	0.497	497
			19,025

a) Calculation of carrying amount:

i. Original cost = ₹ 40,000 lakhs
ii. Depreciation for 3 years = [(40,000-1000)·3/8] = ₹ 14,625 lakhs
iii. Carrying amount on 31-12-20X1 = [40,000-14,625] = ₹ 25,375 lakhs

b) Value in use = ₹ 19,025 lakhs
c) Recoverable amount = higher of value in use and net selling price i.e. ₹ 20,000 lakhs
d) Impairment Loss = ₹ (25,375-20,000) = ₹ 5,375 lakhs
e) Revised carrying amount = ₹ (25,375-5,375) = ₹ 20,000 lakhs
f) Depreciation charge for 20X2 = (20,000-1000)/5 = ₹ 3,800 lakhs

Question 96 (Q.AS28.SM.106)

From the following details of an asset

(i) Find out impairment loss
(ii) Treatment of impairment loss
(iii) Current year depreciation

Particulars of Asset:

Cost of asset	₹ 56 lakhs
Useful life period	10 years
Salvage value	Nil
Current carrying value	₹27.30 lakhs
Useful life remaining	3 years
Recoverable amount	₹12 lakhs
Upward revaluation done in last year	₹14 lakhs

SOLUTION

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	
Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27,30,000
Less: Current recoverable amount	(12,00,000)
Impairment Loss	**15,30,000**
Impairment loss charged to revaluation Reserve	14,00,000
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 ₹ 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 ₹ 4,00,000.

Question 97 (Q.AS28.OM.301 (CA FINAL))

Himalaya Ltd. which is in the business of manufacturing and exporting its product. Sometimes, back at the end of 20X4, the Government put restrictions on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth Rs 5,500 lakhs for Rs 6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on a straight-line basis. When the Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for Rs 3,120 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs 3,420 lakh.

Required:

- Calculation and allocation of impairment loss in 20X4.
- Reversal of impairment loss and its allocation as per AS 28 in 20X6.

Solution

(Assuming goodwill is amortised over 5 years as per AS 14)

(i) Calculation and allocation of impairment loss in 20X4

(Amount in Rs.lakhs)

	Goodwill	**Identifiable assets**	**Total**
Historical cost	500	5,500	6,000
Accumulated depreciation/amortization (4 yrs.)	400	(1,467)	(1,467)
Carrying amount before impairment	100	4,033	4,133
Impairment loss*	(100)	(913)	(1013)

Carrying amount after impairment loss	**0**	**3,120**	**3,120**

***Notes:**

1. As per AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:
   - first, to goodwill allocated to the cash-generating unit (if any); and
   - then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

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

(ii) Carrying amount of the assets at the end of 20X6 (Amount in Rs. lakhs)

End of 20X6	Goodwill	Identifiable assets	Total
Carrying amount in 20X6	0	2,553	2,553
Add: Reversal of impairment loss (W.N.2)	-	747	747
Carrying amount after reversal of impairment loss	**-**	**3,300**	**3,300**

Working Note:

1. **Calculation of depreciation after impairment till 20X6 and reversal of impairment loss in 20X6**

(Amount in Rs lakhs)			
	Goodwill	**Identifiable assets**	**Total**
A. Carrying amount after impairment loss in 20X4	0	3,120	3,120
B. Additional depreciation (i.e. (3,120/11) x 2)refer Note	–	(567)	(567)
C. Carrying amount	0	2,553	2,553
D. Recoverable amount			3,420
E. Excess of recoverable amount over carrying amount (D-C)			**867**

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 20X6. Therefore, depreciation for 2 years is calculated (2005, 2006).

2. **Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 20X6**

(Amount in Rs lakhs)

End of 20X6	Identifiable assets
Historical cost	5,500
Accumulated depreciation	(366.67 x 6 years) = (2,200)
Depreciated historical cost	3,300
Carrying amount (in W.N. 1)	**2,553**
Amount of reversal of impairment loss	**747**

Notes:

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

. its recoverable amount (if determinable); and

. the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

Hence impairment loss reversal is restricted to Rs 747 lakhs only.

Note:

Impairment Loss on Goodwill shall not be reversed except certain conditions.

24. AS - 29
"PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS"

Question 98 (Q.AS29.SM.101: (SIMILAR IN Exam Nov22))

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

particulars	probability	Loss (Rs.)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	50%	-
Lose (Low damages)	40%	12,00,000
Lose (High damages)	10%	20,00,000
Remaining five cases		
Win	50%	-
Lose (Low damages)	30%	10,00,000
Lose (High damages)	20%	21,00,000

Outcome of each case is to be taken separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS – 29.

SOLUTION

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

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

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

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

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

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

Expected loss in next ten cases = 40% of ₹ 12,00,000 + 10% of ₹ 20,00,000
= ₹ 4,80,000 + ₹ 2,00,000
= 6,80,000

Expected loss in remaining five cases = 30% of ₹ 10,00,000 + 20% of ₹ 21,00,000
= ₹ 3,00,000 + ₹ 4,20,000
= ₹ 7,20,000

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

Question 99 (Q.AS29.SM.103: (Similar to Exam Nov'19 & Exam Jan'25))

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount (Rs)
11th Feb, 2017	60,000
25th Dec, 2017	40,000
04th Oct, 2018	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to P & L account for the year ended 31st March, 2019.

ANSWER:

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

As at 31st March, 2018 = Rs 60,000 x .02 + Rs 40,000 x .03
= Rs 1,200 + Rs 1,200 = Rs 2,400

As at 31st March, 2019 = Rs 40,000 x .02 + Rs 1,35,000 x .03
= Rs 800 + Rs 4,050 = Rs 4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2019

	Rs
Balance of provision required as on 31.03.2019	4,850
Less: Opening Balance as on 1.4.2018	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2019 in respect of sales amounting Rs 60,000 made on 11th February, 2017 as the warranty period of 2 years has already expired.

Question 100 (Q.AS29.RMP.201: (RTP May20 and Exam Nov20))

With reference to AS 29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates:

(i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

(ii) During 2018-19 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2019-20, the financial condition of Brew Ltd. deteriorates and on 31st Dec. 2019, it goes into liquidation. (Balance Sheet date 31-3-19).

ANSWER:

(i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig. However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date.

Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, for a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

The obligating event is the giving of the guarantee by Ace Ltd. for certain borrowings of Brew Ltd., which gives rise to an obligation. No outflow of benefits is probable at 31 March 2019.Thus no provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

During 2019-20, the financial condition of Brew Ltd. deteriorates and finally goes into liquidation. The obligating event is the giving of the guarantee, which gives rise to a legal obligation. At 31 March 2020, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Thus, provision is recognized for the best estimate of the obligation.

Question 101 (Q.AS29.RMP.205: (RTP May22, Nov22))

Chaos Limited is in the process of finalizing its accounts for the year ended 31st March, 2020. It seeks your advice in the following cases:

(i) Chaos Limited has filed a court case in 2014-2015 against its competitors. It became evident to its lawyers during the year ended 31st March, 2020 that Chaos Limited may lose the case and would have to pay Rs. 3,00,000 being the cost of litigation. No entries/provisions have been made in the books.

(ii) A new regulation has been passed in 2019-2020 by the healthcare ministry to upgrade facilities. Deadline set by the government is 31.03.2021. The company estimates an expenditure of Rs. 10,00,000 for the said upgrade.

(iii) The company gives one year warranty for its healthcare equipment under the contract of sale that it will make good any manufacturing defect by repair or replacement. As per past experience, it is probable that there will be 1% such cases and estimated cost of repair / replacement is estimated at 10% of such sale value. During the year, the company has made a sale of Rs. 5 crores.

Kindly give your answer for each of above with proper reasoning according to the relevant Accounting Standard. Also state the principles for recognition of provision, as per AS 29.

SOLUTION

Principles for recognition of provisions: As per AS 29, "a provision shall be recognised when:

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

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

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

Accounting treatment under the given scenarios:

(i) On 31st March, 2020, since it is evident to the lawyer that Chaos Limited may lose the case and also a reliable estimate of the outflow can be made as Rs. 3,00,000, there is a present obligation. Hence, provision should be recognised for Rs. 3,00,000 for the amount which may be required to settle the obligation.

(ii) Under new regulation, an entity is required to upgrade its facilities by 31 st March, 2021. However, on 31st March, 2020, i.e. at the end of the reporting period, there is no obligation because there is no obligating event either for the costs of upgrading the facilities or for fines under the regulations. Hence, no provision should be recognized on 31st March, 2020 for upgrading the facilities by 31st March, 2021.

(iii) The obligating event is the sale of health care equipment with a warranty, which gives rise to a legal obligation. Here, an outflow of resources embodying economic benefits in settlement is probable for the warranties as a whole. Hence, a provision is recognized for the best estimate of the costs of making good under the warranty products sold before the end of the reporting period as follows:

Probability of warranty cases for the entity where repair/replacement may be required as per past experience
= 1% of Rs. 5,00,00,000 = Rs. 5,00,000

Estimated cost of repair / replacement = Rs. 5,00,000 x 10% = Rs. 50,000.

Question 102 (Q.AS29.RMP.213: (RTP Sep'24))

A company incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.
2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

(i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29

(ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

ANSWER:

(i) Para 14 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

(ii) "Provision" is the amount retained by the way of providing for any known liability. Since the contingencies stipulated by the company are not known at the balance sheet date, the provision in this regard cannot be created. Therefore, the provision so created by the company shall be treated as a 'Reserve'.

Question 103 (Q.AS29.RMP.214: (RTP Jan'25))

During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2023 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2023, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

QA Ltd. has estimated that it's probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1st October, 2023, QA Ltd. has estimated that the damages it would have to pay K would be ₹ 5 crore. This estimate was revised to ₹ 5.2 crore as on 31st March, 2024 and ₹ 5.25 crore as at 15th May, 2024. This case was eventually settled on 1st June, 2022, when the Company paid damages of ₹ 5.3 crore to K. On 1st December, 2023, QA Ltd. had estimated that it would receive damages of ₹ 3.5 crore from F. This estimate was revised to ₹ 3.6 crore as at 31st March, 2024 and ₹ 3.7 crore as on 15th May, 2024. This case was eventually settled on 1st June, 2022 when F paid ₹ 3.75 crore to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31st March, 2024, provided ₹ 3.6 crore as the financial statements were approved by the Board of Directors on 26th April, 2024.

(i) Whether the Company is required to make provision for the claim from customer K as per applicable AS? If yes, please give the rationale for the same.

(ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2024?

(iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable AS?

ANSWER:

(i) Yes, QA Ltd. is required to make provision for the claim from customer K as per AS 29 since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

Further, a reliable estimate of ₹ 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31st March, 2024.

(ii) Statement of Profit and Loss A/c Dr. ₹ 5.2 crore
    To Current Liability A/c ₹ 5.2 crore

(iii) As per para 30 of AS 29, QA Ltd. shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized.

25. PREPARATION OF FINANCIAL STATEMENTS

Question 104 (Q.FS.RMP.01(A) (Exam May'24) (Dividend Declaration))

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

1. Equity shares of Rs. 100 each Rs. 500 lakhs
2. General reserve Rs. 100 lakhs
3. Loss for the year ending 31st March, 2024 Rs. 5 lakhs

Due to absence of profits during the year 2023 – 24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023 – 24 are as following:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend.

SOLUTION

In case of declaration of dividend out of free reserves, there are 3 conditions:

(1) Dividend Rate < Average Rate of last 3 years 10% < 12% [(12+14+10)/3]
Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus 50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]
Condition is Satisfied

(3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)
Condition is Not Satisfied

(4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000) Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

(1) Condition I
The proposed dividend of 10% is less than the average rate of dividend being 12%
(i.e.) (12+14+10) /5 =12 %.
Hence, this condition is satisfied.

(2) Condition II
Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	5,00,000
Amount to be drawn from General Reserve	55,00,000

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.
= 10% of [₹ 500 lakhs + ₹ 100 lakhs] = ₹ 60,00,000
As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

(3) Condition III
Balance of reserves after withdrawal (100-55) ₹ 45,00,000 15% of paid-up capital ₹ 75,00,000
As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.
Maximum withdrawal of Reserve if condition II is satisfied.
Opening balance of Reserves in the beginning of the year = ₹ 1,00,00,000
- Closing balance of reserves being 15% of = ₹ 75,00,000

paid-up capital
Reserves available = ₹ 25,00,000
Maximum permissible Divisible Profits
Permissible withdrawal as above = ₹ 25,00,000
Less: Current Year's Loss = ₹ 5,00,000
Maximum permissible Divisible profit = ₹ 20,00,000
Actual permissible rate of Dividend =
(₹ 20,00,000 / ₹ 5,00,00,000) x 100 = 4%
Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

Question 105 (Q.FS.SM.07(A))

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 20X2:

	Dr.	**Cr.**
	Rs	**Rs**
Authorised Capital-divided into 5,000 6% Preference Shares of Rs 100 each and 10,000 equity Shares of Rs 100 each		15,00,000
Subscribed Capital -		
5,000 6% Preference Shares of Rs 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of Rs 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		2,00,000
	19,75,000	**19,75,000**

Wages and Salaries Outstanding	1,280	
Inventory on 31st March, 20X2 Wines, Cigarettes and Cigars, etc. Foodstuffs	 22,500 16,400	

Depreciation: Furniture and Fittings @ 5% p.a.: Land and Building @ 2% p.a.

The Equity capital on 1st April, 20X1 stood at Rs 7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs 60 paid. The directors made a call of Rs 40 per share on 1st October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs 90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

SOLUTION

Statement of Profit and Loss of International Hotels Ltd.
for the year ended 31st March, 20X2

	Particulars	Notes	Amount
I.	Revenue from operations	9	1,79,700
II.	Other income	10	6,800
III.	**Total Revenue (I + II)**		**1,86,500**
IV.	Expenses:		
	Cost of materials consumed	11	25,060
	Purchases of Inventory-in-Trade	12	45,800
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	13	(9,700)
	Employee benefits expense	14	29,580
	Other operating expenses	15	18,000
	Selling and administrative expenses	16	14,200
	Finance costs	17	12,000
	Depreciation and amortisation expense	18	21,315
	Other expense (preliminary expenses written off)		8,000
	Total expenses		**1,64,255**
V.	**Profit (Loss) for the period (III - IV)**		**22,245**

Balance Sheet of International Hotels Ltd. as on 31st March, 20X2

Particulars				Note No	Rs
EQUITY AND LIABILITIES					
1	**Shareholders' funds**				
	a	Share capital		1	13,00,000
	b	Reserves and Surplus		2	2,68,745
2	**Non-current liabilities**				
	a	Long-term borrowings		3	2,00,000
3	**Current liabilities**				
	a	Trade Receivables		4	42,000
	b	Other current liabilities		5	13,280
			Total		**18,24,025**
ASSETS					
1	**Non-current assets**				
	a	PPE			
		I	Tangible assets	6	9,14,985
		II	Intangible assets (Goodwill)		5,00,000
	B	Non-current investments			2,72,300
2	**Current assets**				
	A	Inventories		7	38,900
	B	Trade receivables			19,260

	C	Cash and bank balances	8	78,580
		Total		**18,24,025**

Notes to accounts

			Rs
1	**Share Capital**		
	Equity share capital		
	Authorised		
	10,000 Equity shares of Rs 100 each		10,00,000
	Issued & subscribed		
	8,000 Equity Shares of Rs 100 each		8,00,000
	Preference share capital		
	Authorised		
	5,000 6% Preference shares of Rs 100 each		5,00,000
	Issued & subscribed		
	5,000 6% Preference shares of Rs 100 each		5,00,000
	Total		**13,00,000**
2	**Reserves and Surplus**		
	Capital reserve [100 x (90 – 40)]		5,000
	General reserve	2,00,000	
	Less: Amount used to pay dividend	(30,255)	1,69,745
	Surplus (Profit & Loss A/c)	22,245	
	Add: Balance from previous year	41,500	
			63,745
	Total		**2,68,745**
3	**Long-term borrowings**		
	Secured		
	6% Debentures		2,00,000
	Total		**2,00,000**
4	**Trade Receivables**		42,000
5	**Other current liabilities**		
	Wages and Salaries Outstanding	1,280	
	Interest on debentures dividend Receivable	12,000	13,280
	Total		**13,280**
6	**Tangible assets**		
	Freehold land & Buildings	8,50,000	
	Less: Depreciation	(17,000)	8,33,000
	Furniture and Fittings	86,300	
	Less: Depreciation	(4,315)	81,985
	Total		**9,14,985**
7	**Inventories**		
	Wines, Cigarettes & Cigars, etc.		22,500
	Foodstuffs		16,400
	Total		**38,900**
8	**Cash and cash equivalents**		
	Cash at bank		76,380
	Cash in hand Other bank balances		2,200 Nil
	Total		**78,580**
9	**Revenue from operations**		
	Sale of products		
	Wines, Cigarettes, Cigars etc.	68,400	
	Food	57,600	1,26,000
	Sale of services		

	Room Rent	48,000	
	Billiards	5,700	53,700
	Total		**1,79,700**
10	**Other income**		
	Transfer fees	700	
	Miscellaneous Receipts	2,800	
	Discount received	3,300	
	Total		**6,800**
11	**Cost of materials consumed**		
	Opening Inventory	5,260	
	Add: Purchases during the year	36,200	
	Less: Closing Inventory	(16,400)	25,060
	Total		**25,060**
12	**Purchases of Inventory-in-Trade**		
	Wines, Cigarettes etc.		45,800
	Total		**45,800**
13	**Changes in inventories of finished goods work-in-progress and Inventory-in-Trade**		
	Wines, Cigarettes etc.		
	Opening Inventory	12,800	
	Less: Closing Inventory	(22,500)	(9,700)
	Total		**(9,700)**
14	**Employee benefits expense**		
	Wages and Salaries	28,300	
	Add: Wages and Salaries Outstanding	1,280	29,580
	Total		**29,580**
15	**Other operating expenses**		
	Rent, Rates and Taxes		8,900
	Coal and Firewood		3,290
	Laundry		750
	Carriage and Cooliage		810
	Repairs		4,250
	Total		**18,000**
16	**Selling and administrative expenses**		
	Advertising		8,360
	Sundry Expenses		5,840
	Total		**14,200**
17	**Finance costs**		
	Interest on Debentures (2,00,000 x 6%)	12,000	
	Total		**12,000**
18	**Depreciation and amortisation expense**		
	Land and Buildings (8,50,000 x 2%)	17,000	
	Furniture & Fittings (86,300 x 5%)	4,315	
	Total		**21,315**

Question 106 (Q.FS.RMP.09(A): (RTP May'18 & May'24, MTP Nov'20 & May'22))

Kapil Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31st March, 2017:

	Rs		Rs
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns (Tangible Asset)	3,75,000	Calls in Arrear @ Rs 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity shares capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs. 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000	Trade Payables (for goods)	2,40,500
Freehold Land	16,25,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr.)	30,000
Engineering Tools	1,50,000	Transfer fees received	6,500
Trade Receivables	4,00,500	Profit & Loss A/c (Cr.)	67,000
Advertisement	15,000	Repairs to Building	56,500
Commission & Brokerage	67,500	Bad debts	25,500
Business Expenses	56,000		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.
Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off Rs. 16,000 as bad debts. Provide for income tax @ 30%.
You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

SOLUTION

Kapil Ltd. Balance Sheet as at 31st March, 2017

	Particulars	Note No.	(Rs)
I	**Equity and Liabilities**		
(1)	**Shareholders' Funds**		
(a) Share Capital		1	19,90,000
(b) Reserves and Surplus		2	3,47,000
(2)	**Current Liabilities**		
(a) Trade Payables			2,40,500
(b) Short Term Borrowings		3	12,67,000
(b) Other Current Liabilities		4	61,000
(c) Short-Term Provisions		5	1,20,000
	Total		**40,25,500**
II	**ASSETS**		
(1)	**Non-Current Assets**		
(a) Fixed Assets			
(i) Tangible Assets		5	29,30,000
(2)	**Current Assets**		
(a) Inventories			7,08,000
(b) Trade Receivables		6	3,59,500
(c) Cash and Cash Equivalents		7	28,000
	Total		**40,25,500**

Kapil Ltd. Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(Rs)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**

IV Expenses:			
Cost of purchases			12,32,500
Changes in Inventories [6,65,000-7,08,000]			(43,000)
Employee Benefits Expenses		9	13,93,000
Finance Costs		10	1,11,000
Depreciation and Amortization Expenses			1,20,000
Other Expenses		11	4,40,000
Total Expenses			**32,53,500**
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		(1,20,000)
VII	**Profit for the period**		**2,80,000**

Notes to Accounts:

1. Share Capital

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

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e., Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	3,40,000
		3,47,000

3. Short Term Borrowings

Bank Overdraft	12,67,000
	12,67,000

4. Other Current Liabilities

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

5. Short-term Provisions

Provision for Tax	1,20,000
	1,20,000

6. Tangible Assets

Particulars	Value given (Rs)	Depreciation rate	Depreciation Charged (Rs)	Written down value at the end (Rs)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
			1,20,000	**29,30,000**
	30,50,000			

7. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

8. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

9. Other Income

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

10. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

11. Finance Cost

Interest on Bank overdraft	1,11,000

12. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Question 107 (Q.FS.RMP.10(A): (RTP May'19, Nov'21))

Om Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Redeemable Preference shares of Rs. 100 each and 90,000 equity Shares of Rs. 10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures up to 30th Sep (1st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	

Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

Other Information:

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable includes Rs. 4,500 being dishonored bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include Rs. 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

SOLUTION

Balance sheet of Om Ltd. as at 31st March, 2021

		Note	(Rs.)
I	**Equity and Liabilities**		
(1)	**Shareholders' funds:**		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
(2)	**Non-current liabilities:**		
	Long term borrowings	3	4,50,000
(3)	**Current liabilities:**		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		**24,88,950**
II	**ASSETS**		
(1)	**Non- Current Assets:**		
	(a) Property, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000

(2)	**Current Assets:**		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	Total		**24,88,950**

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs. 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

	Particulars	**Note**	**Rs.**
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		12,750
III	**Total Revenue (I &+ II)**		**20,23,800**
IV	**Expenses:**		
	(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		**19,95,150**
V	Profit before exceptional, extraordinary items and tax		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	**Profit before tax**		**28,650**

<u>Notes to accounts</u>

			(Rs.)
1.	**Share Capital**		
	Authorized capital:		
	90,000 Equity Shares of Rs. 10 each.	9,00,000	
	6,000 6% Preference shares of Rs. 100 each	6,00,000	
	Issued, subscribed & called up:		
	60,000, Equity Shares of Rs. 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	12,00,000
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2020	85,500	
	Add: Surplus for current year	28,650	
	Balance as on 31st March, 2021		1,14,150
3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000

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

	Director's remuneration	30,000	3,47,550
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	2,250	

Working note

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

Question 108 (Q.FS.RMP.13(A): (EXAM July'21))

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

	Dr.	**Cr.**
Equity Capital (Shares of Rs. 100 each)		8,05,000
5,000, 6% preference shares of Rs. 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2021)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	**1,30,29,000**

Additional Information:

(i) The authorised share capital of the company is: Rs.
5,000, 6% preference shares of Rs. 100 each 5,00,000
10,000, equity shares of Rs. 100 each 10,00,000

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

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

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

*This should have been given as 31.3.2021.

(iv) Suspense account of Rs. 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was Rs. 1,00,000 and the accumulated depreciation thereon being Rs. 30,000.

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

(vi) Amortize 1/5th of Goodwill.

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

SOLUTION

H Ltd

Balance Sheet as at 31st March 2021

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

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

Particulars	Note No	Amount in Rs.
I. Revenue from operations		60,00,000
Total Revenue		60,00,000
II. Expenses		
Purchases (adjusted)		22,32,100
Finance Costs	8	36,000
Depreciation and Amortization	9	3,17,000
Other Expenses	10	32,30,000
Total Expenses		58,15,100

III. Profit/(Loss) for the period		**1,84,900**

Notes to Accounts **(Amount in Rs.)**

1	**Share Capital**		
	a. Authorized Capital		
	5,000, 6% Preference shares of Rs. 100/- each		5,00,000
	10,000 Equity Shares of Rs. 100/- each		10,00,000
	b. Issued & Subscribed Capital		**15,00,000**
	5,000, 6% Preference shares of Rs. 100/- each		5,00,000
	8,000, Equity shares of Rs. 100/- each		8,00,000
	Total		**13,00,000**
2	**Reserves & Surplus**		
	Capital Reserve (100 X (90-40))		5,000
	Revaluation Reserve (36,00,000-24,00,000)		12,00,000
	General Reserve		40,00,000
	Surplus	1,84,900	
	Add: Balance from previous year	72,000	
	Less: Dividends declared	(70,000)	
	Profit/(Loss) carried forward to Balance Sheet		1,86,900
	Total		**53,91,900**
3	**Long-Term Borrowings**		
	Secured		
	9% Debentures		4,00,000
4	**Trade Payables**		**10,40,000**
5	**Other Current Liabilities**		
	Dividend Payable		
	Preference Dividend		30,000
	Equity Dividend		40,000
	Total		**70,000**
6	**Property, Plant and Equipment**		
	Land		
	Opening balance		24,00,000
	Add: Revaluation Adjustment		12,00,000
	Closing Balance		36,00,000
	Plant and Machinery		
	Opening Balance		7,70,000
	Less: Disposed off		(1,00,000)
	Depreciation		(2,09,000)
	Closing Balance		4,61,000
	Total		**40,61,000**
7	**Intangible Assets**		
	Goodwill		12,50,000
	Less: Amortized (1/5th)		(2,50,000)
	Total		10,00,000
8	**Finance Costs**		
	Debenture Interest		36,000

9	**Depreciation and Amortization**		
	Plant and Machinery		67,000
	Goodwill		2,50,000
	Total		**3,17,000**
10	**Other Expenses**		
	Factory Expenses		15,00,000
	Selling Expenses		14,00,000
	Administrative Expenses		3,00,000
	Loss on sale of Plant and Machinery		
	Book Value (1,00,000-30,000)	70,000	
	Less: Sale Value	(40,000)	30,000
	Total		**32,30,000**

Note:

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

26. CASH FLOW STATEMENT (AS 3)

Question 109 (Q.CFS.SM.306(A))

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

Balance Sheet

	31stMarch, 20X1	31stMarch, 20X0
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	–	2,00,000
Capital Redemption Reserve	1,00,000	–
Capital Reserve	1,00,000	–
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	–
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	15,00,000	**12,50,000**
	31st March,20X1	**31st March,20X0**
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	**12,50,000**

Additional Information:

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

(ii) On 1st April, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.

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

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

(v) Directors have declared 15% dividend for the current year.

(vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.

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

Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

SOLUTION

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

	Particulars	Rs	
	CASH FLOW FROM OPERATING ACTIVITIES		
	Net Profit before taxation (W.N.1)	2,45,000	
	Adjustment for		
	Depreciation (W.N.3)	1,35,000	
	Profit on sale of plant (W.N.3)	(40,000)	
	Profit on sale of investments (W.N.3)	(20,000)	
	Interest on debentures (W.N.4)	18,000	

	Operating profit before working capital changes	**3,38,000**	
	Increase in inventory	(5,000)	
	Increase in trade receivables	(25,000)	
	Increase in Trade payables	5,000	
	Increase in accrued liabilities	10,000	
	Extraordinary items	(1,10,000)	
	Income taxes paid (W.N.8)	(1,00,000)	
	Net cash generated from operating activities		**1,13,000**
	CASH FLOW FROM INVESTING ACTIVITIES		
	Proceeds from sale of land (W.N.2)	1,50,000	
	Proceeds from sale of plant (W.N.3)	90,000	
	Proceeds from sale of investments (W.N.4)	70,000	
	Purchase of plant (W.N.3)	(3,50,000)	
	Purchase of investments (W.N.4)	(25,000)	
	Pre-acquisition dividend received (W.N.4)	5,000	
	Net cash used in investing activities		**(60,000)**
	CASH FLOW FROM FINANCING ACTIVITIES		
	Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
	Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
	Redemption of preference shares	(2,00,000)	
	Dividends paid	(60,000)	
	Interest paid on debentures	(18,000)	
	Net cash used in financing activities		**(78,000)**
	Net decrease in cash and cash equivalents		(25,000)
	Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year			65,000

Working Notes:

1. Net Profit before taxation

Particulars	**Rs**
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	20,000
Provision for taxation	1,35,000
Dividend payable	90,000
Net Profit before taxation	2,75,000

2. Land and Building Account

Particulars		**Rs**	**Particulars**		**Rs**
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		3,00,000			**3,00,000**

3. Plant and Machinery Account

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

4. Investments Account

Particulars	Rs	Particulars	Rs
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre acquisition)	5,000
To Bank (Balancing figure)	25,000	To Balance C/d	50000
	125000		**125000**

5. Capital Reserve Account

Particulars	Rs	Particulars	Rs
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		**700,000**

6. General Reserve Account

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

7. Dividend payable Account

Particulars		Rs	Particulars		Rs
To	Bank (Balancing figure)	1,50,000	By	Balance b/d	60,000
To	Balance c/d	-	By	Profit & loss account	90,000
		1,50,000			**1,50,000**

8. Provision for Taxation Account

Particulars	Rs	Particulars	Rs
To Bank (Balancing figure)	1,00,000	By balance b/d	60,000
To Balance c/d	95,000	By Profit & loss account	1,35,000
	1,95,000		**1,95,000**

9. Other Current Assets Account

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

Question 110 (Q.CFS.RMP.311(A): (EXAM Jan21))

The following information was extracted from the books of S Ltd. for the year ended 31.03.2020.

(1) Net profit before taking into account income tax and after taking into account the following items was Rs. 30 Lakhs
   (a) Depreciation on Property, Plant and Equipment Rs. 7,00,000
   (b) Discount on issue of debentures written off Rs. 45,000
   (c) Interest on debentures paid Rs. 4,35,000
   (d) Investment of Book value Rs. 3,50,000 sold for 3,75,000
   (e) Interest received on investments Rs.70,000

(2) Income tax paid during the year Rs.12,80,000

(3) The company issued 60,000 equity shares of Rs. 10 each at a premium of 20% on 10.04.2019

(4) 20,000 9% Preference Shares of Rs. 100 were redeemed on 31st March 2020 at a premium of 5%

(5) Dividend paid during the year amounted to Rs. 11,00,000 (Including dividend distribution tax)

(6) A new plant costing 7 Lakhs was purchased in part exchange of an old plant on 1st January 2020. The book value of the old plant was Rs. 8 Lakhs but the vendor took over the old plant at a value of Rs. 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March 2020.

(7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was 14,76,000.
    The Inventory on 31.03.2019 was correctly valued at Rs. 13,50,000

(8) Current assets and current liabilities in the beginning and at the end of the years 2019-2020 were as:

	As on 01.04.2019	**As on 31.03.2020**
	Rs.	**Rs.**
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash in Hand	2,40,700	3,70,500
Trade payables	2,84,700	2,87,300
Outstanding expenses	97,000	1,01,400

You are required to prepare a Cash Flow Statement for the year ended 31st March 2020 as per AS 3 (revised) using the indirect method.

SOLUTION

S Ltd.

Cash Flow Statement for the year ended 31st March, 2020

Cash flows from operating activities		
Net profit before taxation*		30,00,000
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital change		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets	(1,00,000)	
(7,00,000 – 6,00,000)		
Net cash used in investing activities		3,45,000
Cash flows from financing activities		
Redemption of Preference shares	(21,00,000	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		**3,70,500**

*Net profit given in the question is after considering only the items listed as information point (1) of the question; hence amount of loss on plant not added back

Question 111 (Q.CFS.SM.401(A))

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

Extract of Balance sheet

		Particular	Notes	31.3.20X1 (Rs. In lakhs)	31.3.20X0 (Rs. In lakhs)
		Equity and Liabilities			
1		**Current liabilities**			
	A	Trade Payables		250	230
	B	Short term Provisions	1	200	180
	C	Other current liabilities	2	70	50
		Assets			
1		**Current assets**			
	A	Inventories		200	180
	B	Trade Receivable		400	250
	C	Other current assets	3	195	180

Statement of Profit and Loss of ABC Ltd.
for the year ended 31st March, 20X1

	Particulars	Notes	Rs. In lakhs
I	Revenue from operations		4,150
II	Other income	4	100
III	Total income (I + II)		**4250**
	Expenses:		
	Purchase on Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		200
IV	**Total expenses**		**3,540**
V	Profit before tax (III -IV)		710
VI	Tax expense:		
	Current tax		200
VII	**Profit for the year from continuing operations**		**510**

Appropriations

Balance of profit and loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		20X1 (Rs. In lakhs)	20X0 (Rs. In lakhs)
1	**Short term provision**		
	Provision for tax	200	180
2	**Other current liabilities**		
	Outstanding wages	50	40
	Outstanding expenses	20	10
	Total	**70**	**50**
3	**Other current assets:**		
	Advance tax	195	180
4	**Other income:**		

	Interest and dividend	100	
5	**Finance cost:**		
	Interest	60	

Compute cash flow from operating activities using both direct and indirect method.

SOLUTION

By direct method
Computation of Cash Flow from Operating Activities

Particulars	**Rs in lakhs**	**Rs in lakhs**
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150+250-400	4,000
Cash payments:		
Cash purchases & payment to Trade payables Purchases + Opening Trade payables – Closing Trade payables	2,400+230-250	2,380
Wages and salaries paid	800+40-50	790
Cash expenses	200+10–20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A – B)		**445**

By Indirect Method
Computation of Cash Flow from Operating Activities

	Rs in lakhs	**Rs in lakhs**
By Indirect method		
Profit before tax		710
Add: Non-cash items: Depreciation		100
Add: Interest: Financing cash outflow		60
Less: Interest and Dividend: Investment cash inflow		(100)
Less: Tax paid		(195)
Working capital adjustments		
Trade receivables	250-400 = (150)	
Inventories	180-200 = (20)	
Trade payables	250-230 =20	
Outstanding wages	50-40=10	
Outstanding expenses	20-10 =10	(130)
Cash flow from operating activities		**445**

Question 112 (Q.CFS.RMP.301(B): (RTP May'24))

From the following particulars calculate cash flows from Operating activities:

Particulars	**₹**
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional Information:

	31. 3. 22 ₹	31. 3. 23 ₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepare Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

SOLUTION

Calculation of Cash Flow from Operating Activities

Particulars	**Amount ₹**
Retained earnings	17,000
Add: Depreciation	4,000
Add: Loss on sale of Machinery	3,000
Add: Premium Payable on redeemable Preference Shares	2,000
Add: Dividend paid	8,000
Add: Interim dividend paid during the year	10,000
Add: provision for tax made during the current year	7,000
Less: Refund of tax	(1,000)
Less: Profit on Sale of Investment	(10,000)
Operating Profit before Working Capital Changes	40,000
Add: Decrease in Prepaid Expenses	1,000
Less: Increase in Trade receivable	(2,000)
Add: Increase in Trade Payable	8,000
Less: Decrease in Outstanding Expenses	(400)
Cash generated from (Net of refund) operation	46,600
Less: Income tax paid (4,000 – 1,000)	(3,000)
Net Cash flow operating activities	**43,600**

Question 113 (Q.CFS.SM.302(B))

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

Balance Sheets of Mr. Zen

Liabilities	**As on 1.4.20X0**	**As on 1.4.20X1**
	Rs	**Rs**
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000
	18,40,000	**19,76,000**
Assets		
Land	6,00,000	8,80,000
Plant and Machinery	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000
	18,40,000	**19,76,000**

Additional information:

A machine costing Rs 80,000 (accumulated depreciation there on Rs 24,000) was sold for Rs 40,000. The provision for depreciation on 1.4.20X0 was Rs 2,00,000 and 31.3.20X1 was Rs 3,20,000. The net profit for the year ended on 31.3.20X1 was Rs 3,60,000.

SOLUTION

Cash Flow Statement of Mr. Zen as per AS 3

for the year ended 31.3.20X1

Particulars		**Rs**
(i) CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit (given)		3,60,000
Adjustments for		
Depreciation on Plant & Machinery (W.N.2)	1,44,000	
Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in inventories	80,000	
Increase in trade receivables	(1,60,000)	
Increase in trade payables	32,000	(48,000)
Net cash generated from operating activities		**4,72,000**
(ii) CASH FLOW FROM INVESTING ACTIVITIES		
Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
Net cash used in investing activities		**(2,40,000)**
(iii) CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		**(2,56,000)**
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

Working Notes:

1. **Plant & Machinery A/c**

Particulars	**Rs**	**Particulars**	**Rs**
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		**8,40,000**

2. **Provision for depreciation on Plant and Machinery A/c**

Particulars	**Rs**	**Particulars**	**Rs**
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		**3,44,000**

3. **To find out Mr. Zen's drawings:**

Particulars	**Rs**
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

27. BUYBACK OF SECURITIES

Question 114 (Q.BB.RMP.205(A): (RTP May'24 and May'21) (Buyback and Bonus))

Mukti Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(Rs.)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital:1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2020 the Company announced the buyback of 15,000 of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 2.50 lakhs. On 25th April, 2020, the company achieved the target of buy back.

On 1st May, 2020 the company issued one fully paid-up share of Rs. 10 each by way of **bonus** for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

SOLUTION:

In the books of Vriddhi Infra Ltd.
Journal Entries

Date	Particulars	Dr.	Cr.
April 21	Bank Account Dr. To Investment Account To Profit and Loss Account (Being investment sold on profit)	2,50,000	 2,00,000 50,000
April 25	Equity Share capital account Dr. Securities premium A/c Dr. To Equity shares buy back Account (Being the amount due to equity shareholders on buy back)	1,50,000 75,000	 2,25,000
	Equity shares buy back A/c Dr. To bank A/c (Being the payment made on account of buyback of 15,000 Equity Shares)	2,25,000	 2,25,000
	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	1,50,000	 1,50,000
May 1	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	1,06,250	 1,06,250
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	1,06,250	 1,06,250

Working Note:
Amount of bonus shares = {(1,00,000 – 15,000) X 1/8} X 10
= Rs. 1,06,250

Question 115 (Q.BB.RMP.206(A): (EXAM Nov'19, RTP Nov'21) (Buyback & Bonus))

X Ltd. furnishes the following summarized Balance Sheet as at 31 -03-2018.

Liabilities	(in Rs)	(in Rs)
Share Capital		
Equity Share Capital of Rs 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		**1,21,50,000**
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		**1,21,50,000**

The shareholders adopted the resolution on the date of the above-mentioned Balance Sheet to:

(1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs 30 per share.

(2) To finance the buy-back of shares, company:

(a) Issues 3000, 14% debentures of Rs 100 each at a premium of 20%.

(b) Issues 2500, 10% preference shares of Rs 100 each.

(3) Sell investment worth Rs 1,00,000 for Rs 1,50,000.

(4) Maintain a balance of Rs 2,00,000 in Revenue Reserve.

(5) Later the company issue three fully paid-up equity share of Rs 20 each by way of **bonus share** for every 15-equity share held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

SOLUTION:

In the books of X Limited
Journal Entries

	Particulars	Dr. Rs	Cr. Rs
1.	Bank A/c Dr.	3,60,000	
	To 14 % Debenture A/c		3,00,000
	To Securities Premium A/c		60,000
	(Being 14 % debentures issued to finance buy back)		
2.	Bank A/c Dr.	2,50,000	
	To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)		2,50,000

3.	Bank A/c Dr.	1,50,000	
	To Investment A/c		1,00,000
	To Profit on sale of investment (Being investment sold on profit)		50,000
4.	Equity share capital A/c (62,500 x Rs 20) Dr.	12,50,000	
	Securities premium A/c (62,500 x Rs 16) Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x Rs36)		22,50,000
	(Being the amount due to equity shareholders on buy back)		
5.	Equity shares buy back A/c Dr.	22,50,000	
	To Bank A/c		22,50,000
	(Being the payment made on account of buyback of 62,500 Equity Shares as per the Companies Act)		
6.	Revenue reserve Dr.	3,00,000	
	Securities premium Dr.	2,60,000	
	Profit and Loss A/c Dr.	4,40,000	
	To Capital redemption reserve A/c*		10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]		
7.	Capital redemption reserve A/c Dr.	7,50,000	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)		7,50,000
8.	Bonus shares A/c Dr.	7,50,000	
	To Equity share capital A/c		7,50,000
	(Being issue of 3 bonus equity share for every 15equity shares held)		

*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

<u>Note</u>: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other **specified securities**. Issue of debentures has been excluded for the purpose of "**specified securities**" and the entire amount of Rs 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	**Note No**	**Amount Rs**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000

(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		**1,05,60,000**

Notes to Accounts

				Rs
1.	Share Capital			
	Equity share capital (Fully paid-up shares of Rs 20 each)			
	(2,50,000-62,500+37,500 shares)		45,00,000	
	10% preference shares @ Rs 100 each (10,00,000 + 2,50,000)		12,50,000	
2.	Reserves and Surplus			
	Capital Reserve		1,00,000	57,50,000
	Revenue reserve		2,00,000	
	Securities premium	12,00,000		
	Add: Premium on debenture	60,000		
	Less: Adjustment for premium paid on buy back (10,00,000)			
	Less: Transfer to CRR	(2,60,000)	Nil	
	Capital Redemption Reserve			
3.	Transfer due to buy-back of shares from P&L 10,00,000			
	Less: Utilisation for issue of bonus shares (7,50,000)		2,50,000	
	Profit & Loss A/c	20,00,000		
	Add: Profit on sale of investment	50,000		
	Less: Transfer to CRR	(4,40,000)	16,10,000	
	Dividend equalization reserve	(5,50,000)	5,50,000	27,10,000
	Long-term borrowings - 12% Debentures	12,50,000		
	- 14% Debentures	3,00,000		15,50,000

Working Notes:

1. Amount of bonus shares = [(2,50,000 -25%)3/15] x 20 = 37,500 x 20=7,50,000
2. Cash at bank after issue of bonus shares

	Rs
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	1,50,000
	23,35,000
Less: Payment for buy back of shares	(22,50,000)
	85,000

Question 116 (Q.BB.RMP.302(A): (EXAM May'23))

VIJ Ltd. has the following Capital Structure as on 31st March, 2022:

Particulars		**(₹ in Lakhs)**
Equity Share Capital (Shares of ₹ 10 each, fully Paid)		990
Reserves & Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1,800

Loan Funds	5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September, 2022 a proposal to buy-back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.
The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market rate.
You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.
You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and **also under a situation where the loan funds of the company were either ₹ 3,600 lakh or ₹ 4,500 lakh.**
The entire buy-back is completed by 09/12/2022, show the accounting entries with full narration in the company's books in each situation.

Solution:

Statement determining the maximum number of shares to be bought back

(Number of shares)

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

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

₹ in lakhs

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

Notes:

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

₹ in lakhs

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

(Being premium payable on buy-back charged from Securities premium)	225.00	225.00

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

₹ in lakhs

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

Working Notes:

1. **Shares Outstanding Test**

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

2. **Resource Test**

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

3. **Debt Equity Ratio Test**

	Particulars	**When loan fund is**		
		₹ 5,400 lakhs	**₹ 3,600 lakhs**	**₹ 4,500 lakhs**
(a)	Loan funds (₹ in lakhs)	5,400	3,600	4,500
(b)	Minimum equity to be maintained after buyback in the ratio of 2:1 (₹ in lakhs)	2,700	1,800	2,250
(c)	Present equity shareholders fund (₹ in lakhs)	2,250	2,250	2,250
(d)	Future equity shareholder fund (₹ in lakhs)	N.A	2137.5 (2,250-112.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹in lakhs) [(d) – (b)]1	Nil	337.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

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

<u>**Working Note:**</u>

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

a) Face Value of Buyback shares is 10x

b) CRR to be Created due to buyback equal to face value is 10x

c) Premium on Buyback is 20x (30/- buyback price less Face Value 10/-)
d) Therefore, total impact of Buyback on Current Equity would be 40x

Situation 2:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

2250 - 40x = 1800

X = 11.25 lakhs Numbers of Buyback Shares

28.ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

Question 117 (Q.IR.SM.209(A): (Removed from ICAI New Syllabus Material))

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 20X1:

	₹
Property, plant and equipment (Cost₹ 3,90,000) - estimated at	1,50,000
Cash in hand of the receiver	2,70,000
Charged under debentures	4,20,000
Uncalled capital	1,80,000
Deficiency	7,50,000
6,000 shares of ₹ 60 each, ₹ 30 paid up	1,80,000
First debentures	3,00,000
Second debentures	6,00,000
Unsecured trade payables	4,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs.3,00,000 and is an unsecured trade payables for Rs. 60,000. The following scheme of reconstruction is proposed:

1. A is to cancel Rs. 2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs. 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

SOLUTION:

Journal Entries

Particulars		Debit	Credit
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Capital reduction A/c			2,10,000
(Being cancellation of debt upto ₹ 2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000

To Capital reduction A/c (Being B's liability discharged)			2,70,000
Unsecured trade payables A/c To Equity share capital A/c To Loan (Unsecured) A/c To Capital reduction A/c (Being settlement of unsecured creditors)	Dr.	3,00,000	 1,12,500 75,000 1,12,500
Share call A/c To Share capital A/c (Being final call money due)	Dr.	1,80,000	 1,80,000
Bank A/c To Share call A/c (Being final call money received)	Dr.	1,80,000	 1,80,000
Share capital A/c (Face value ₹ 60) To Share capital (Face value ₹ 7.50) To Capital reduction A/c (Being share capital reduced to ₹ 7.50 each)	Dr.	3,60,000	 45,000 3,15,000
Capital reduction A/c To Profit and loss A/c To Capital Reserve (Being reconstruction surplus used to write off losses and balance transfer to capital reserve)	Dr.	9,07,500	 8,70,000 37,500

Working Notes:

1.	**Settlement of claim of remaining unsecured creditors**	**₹**
	75% of ₹ 3,00,000 Considering their claim for share of ₹ 60 each 2,25,000/60 =3,750 shares Less: Number of shares to be issued 3,750 x 4= 15,000 shares of ₹ 7.5 each Total value= 15,000 x 7.50	2,25,000 (1,12,500)
	Transferred to Capital reduction A/c	1,12,500

2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.

	₹	₹
Asset		
Fixed assets	3,90,000	
Cash	2,70,000	6,60,000
Less: Capital & Liabilities:		
Share capital	1,80,000	
1st Debenture	3,00,000	
2nd Debenture	6,00,000	
Unsecured trade payables	4,50,000	(15,30,000)
Profit and loss A/c (Debit balance)		**(8,70,000)**

Question 118 (Q.IR.RMP.210(A): (RTP Nov18, Nov20 & May22))

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Particulars	**Amount in Rs.**
Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000

Reserves and Surplus:	
Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

SOLUTION

Journal Entries in the Books of Z Ltd.

			Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures payable A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000

	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

		Rs.			Rs.
To	Reconstruction (Y)	1,00,000	By	Balance b/d (overdraft)	1,00,000
To	Reconstruction(Z)	60,000	By	Reconstruction A/c	15,000
To	Reconstruction A/c (Refund of earlier fees by directors)	1,00,000		(Capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		2,60,000			**2,60,000**

Reconstruction Account

		Rs.			Rs.
To	Bank (penalty)	15,000	By	Equity Share Capital A/c	25,00,000
To	Bank (Reconstruction expenses)	15,000	By	9% Pref. Share Capital A/c	10,00,000
To	Goodwill	11,00,000	By	Mr. Y (Settlement)	5,78,000
To	Patent	5,00,000	By	Mr. Z (Settlement)	3,82,000

To	P & L A/c	14,60,000	By	Trade Payables A/c	1,70,000
To	P & M	6,50,000	By	Director's loan	60,000
To	Furniture and Fixtures	1,00,000	By	Bank	1,00,000
To	Trade investment	50,000	By	Provision for tax	25,000
To	Inventory	2,50,000	By	Land and Building	2,00,000
To	Trade Receivables	1,00,000			
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			**50,15,000**

Question 119 (Q.IR.RMP.211(A): (MTP Oct20, May22))

The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:

	(Rs.)
Authorized and subscribed capital:	
20,000 Equity shares of Rs. 100 each fully paid	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Interest payable thereon	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Property, plant and equipment:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

i) Each share be sub-divided into 10 fully paid up equity shares of Rs. 10 each.
ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
iii) Out of shares surrendered 20,000 shares of Rs. 10 each shall be converted into 10% Preference shares of Rs. 10 each fully paid up.
iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 2,00,000 which are converted out of shares surrendered.
v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
vi) Balance of Profit and Loss account to be written off.
vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

SOLUTION:

Sr. No.	Particulars		Dr.	Cr.
1	Equity Share Capital A/c (Rs.10)	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (Rs. 10) A/c			10,00,000

	(Sub-division of 20,000 equity shares of Rs. 100 each into 2,00,000 equity shares of Rs. 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)		
2 **3**	15% Debentures Account Dr. Interest payable A/c (proportionate 50%) Dr. To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	3,00,000 45,000	 3,45,000
    4	Trade payables A/c Dr. To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	1,04,000	 1,04,000
     5	Share Surrender A/c Dr. To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	10,00,000	 2,00,000 78,000 7,22,000
	Reconstruction A/c Dr. To Profit & Loss A/c To Capital Reserve A/c 11,000 (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,71,000	 11,60,000 11,000

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

Question 120 (Q.IR.SM.212(A): (Jan'25 Exam))

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

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	10,00,000
	B	Reserves and Surplus	2	(20,50,000)
2		**Non-current liabilities**		
		Long-term borrowings	3	4,50,000
3		**Current liabilities**		
	A	Trade Payables		1,30,000
	B	Short term borrowing – Bank Overdraft		65,000
	C	Other Current Liabilities (Interest payable on Debentures)		45,000
	D	Short term provision (Provision for Income Tax)		1,00,000
		Total		**15,40,000**
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	8,50,000
	B	Intangible assets	5	60,000

	C	Non- Current investments	6	2,80,000
2		**Current assets**		
	A	Inventories		1,20,000
	B	Trade Receivables		2,30,000
		Total		**15,40,000**

Notes to accounts

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

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

1) Uncalled capital is to be called up in full and such shares and other fully paid-up equity shares to be reduced to ₹ 5 per share.
2) The preference shareholders will accept a reduction of ₹ 2.5 per share, in exchange the rate of dividend is to be increased to 9%
3) Preference shareholders will forgo their claim of dividend for one year and one equity share of ₹ 5 each is to be issued for the remaining arrears of dividend.
4) Mr. X holds 10% debentures for ₹ 2,50,000. He is also a creditor for ₹ 50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay ₹ 20,000 to the company and to receive new 12% debentures for the balance amount.
5) The remaining claim of the debenture holders, including outstanding interest to be reduced to 60%. In consideration of the reduction, the debenture holders are to receive new 9% preference shares at new face value.
6) The taxation liability is to be settled at ₹ 1,20,000.
7) Market value of Non-current Investments is ₹ 2,50,000. Investments to be brought to their market value.
8) Inventory equal to ₹ 1,00,000 at book value will be taken over by remaining creditors in fill settlement of their claim.
9) A bad debt provision of 2% is to be created on trade receivables.

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

You are required to:

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

29. AMALGAMATION OF COMPANIES (AS 14)

Question 121 (Q.AMG.SM.105(A))

Following is the balance sheet of A Ltd. as on 31st March, 20X1

		Particulars		Notes	Rs. (000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	22,50
	B	Reserves and Surplus		2	9,00
2		**Non-current liabilities**			
	A	Long-term borrowings		3	7,00
3		**Current liabilities**			
	A	Trade Payables			5,00
			Total		**43,50**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		4	32,50
		Non-current investments		5	6,00
2		**Current assets**			
	A	Inventories			2,00
	B	Trade receivables			2,00
	C	Cash and Cash equivalents			1,00
			Total		**43,50**

Notes to accounts

1	**Share Capital**	**Rs. in ('000)**
	Equity share capital	
	1,50,000 Equity Shares of Rs. 10 each	15,00
	7,500 14% Preference Shares of Rs. 100 each	7,50
		22,50
2	**Reserves and Surplus**	
	General reserve	9,00
3	**Long-term borrowings**	
	Secured	
	15% Debentures	7,00
4	**Property, plant and Equipment**	
	Land and Building	32,50
5	**Non-current investments**	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of B Ltd.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.

(e) Issue 3 equity shares of Rs. 10 each for every 2 equity shares in A Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	(Rs. in '000's)
Value of assets taken over:	

Property, Plant and Equipment Non-Current Investments Current Assets	35,75 6,00 4,50
Total Assets (A)	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	**33,55**
Mode of Purchase Consideration	
In the form of 15% Preference shares In the form of Equity shares In the form of Cash (Balance)	8,25 22,50 2,80 **33,55**
Total	

Question 122 (Q.AMG.SM.202(A))

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
	A	Trade Payables		2,50,000	1,50,000
		Total		**15,50,000**	**9,00,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		**15,50,000**	**9,00,000**

Notes to Accounts

		P Ltd.	Q Ltd.
1	**Share Capital**		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	**4,00,000**
2	**Long term borrowings**		
	12% Debentures	2,00,000	1,50,000
		2,00,000	**1,50,000**

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	**2,10,000**

Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	**1,50,000**

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.
After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

SOLUTION

Journal Entries in the Books of P Ltd.

		Dr. ₹	Cr, ₹
Property, Plant & Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve & Surplus	Dr.	60,000	
To equity Dividend			60,000
(Declaration of Equity Dividend @10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of Equity Dividend)			
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
PPE (115% of ₹2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank (₹40,000 – ₹ 30,000 dividend paid)	Dr.	10,000	
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	

Discount on Issue of Debentures To 12% Debentures (Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)	Dr.	18,000	1,80,000
Sundry Creditors of Q Ltd. To Sundry Debtors of P Ltd. (Cancellation of mutual owing)	Dr.	10,000	10,000
Goodwill To Bank (Being liquidation expenses reimbursed to Q Ltd.)	Dr.	30,000	30,000
Capital Reserve To Goodwill (Being goodwill set off)	Dr.	30,000	30,000

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8 =$ 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

$\frac{1,00,00 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Question 123 (Q.AMG.RMP.203(A): (RTP Nov'22))

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (Rs.)	Myth Ltd. (Rs.)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		**22,75,000**	**11,45,000**
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		**22,75,000**	**11,45,000**

Notes to Accounts:

Note No.	Particulars	Truth Limited (Rs.)	Myth Limited (Rs.)
1	**Share Capital**		
	Equity shares of Rs. 10 each	10,00,000	4,00,000
2	**Reserves & Surplus**		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000

		11,35,000	**4,13,000**
3	**Non- Current Liabilities**		
	14% Debentures	---	1,50,000
4	**Current Liabilities**		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	**1,82,000**
5	**Current Assets**		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	**3,65,000**

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (Rs.)	**Myth Limited (Rs.)**
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

SOLUTION

Balance Sheet of Truth Ltd. (after amalgamation with Myth Ltd.) as at 1.4.2021

Particulars	**Note No.**	**(Rs.)**
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		**38,87,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 +		2,00,000

1,05,000)		
Total		**38,87,000**

Notes to Accounts

		(Rs.)	(Rs.)
1.	**Share Capital**		
	1,31,375 Equity Shares of Rs. 10 each [1,00,000 + 31,375]		13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)		
2.	**Reserves and surplus**		
	General Reserve	5,05,000	
	Profit and Loss A/c	4,45,000	
	Securities Premium [31,375 x 30]	9,41,250	
	Export profit reserve 1,85,000		
	Add: Balance of Myth Ltd. 25,000	2,10,000	
	Amalgamation Adjustment Reserve	(25,000)	20,76,250
3.	**Long Term Borrowings**		
	12% Debentures issued to Myth Ltd.		1,75,000
4.	**Trade payables**		
	Trade payables	90,000	
	Add: Taken over	1,42,000	2,32,000
5	**Other Current Liabilities**		
	Truth Ltd.	50,000	
	Myth Ltd.	40,000	90,000
6.	**Property, Plant & Equipment**		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000
7.	**Investment**		
	Truth Ltd.	1,87,500	
	Myth Ltd.	1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		Myth Ltd.	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
Less: Liabilities:		21,25,000		10,65,000
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		**19,85,000**		**7,33,000**

(ii) Average Profit before Tax

	Truth Ltd.		Myth Ltd.	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
(iii) Goodwill		6,93,000		2,16,000
Capitalised value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		**18,65,000**		**4,67,000**

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		Rs.		**Rs.**
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= Rs. 40		**= Rs. 31.375**

** 1,50,000 x 14%/12% = 1,75,000

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	Rs. 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	Rs. 12,55,000
Intrinsic Value of Truth Ltd. [d]	Rs. 40 per share
No. of shares to be issued [c / d]	31,375 shares

Question 124 (Q.AMG.RMP.204(A): (Exam Jan'21))

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

			Galaxy ltd. Rs.	Glory ltd. Rs.
(I)		**Equity and liabilities**		
	1	**Shareholders' fund**		

		Share capital		
		Equity shares of Rs. 10 each	8,40,000	4,55,000
		Reserves and surplus		
		General reserve	4,48,000	40,000
		Profit & Loss A/C	1,12,000	72,000
	2	**Non-Current liabilities**		
		Secured loan		
		6% Debentures	-	3,30,000
	3	**Current liabilities**		
		Trade payables	4,20,000	1,83,000
		Total	**18,20,000**	**10,80,000**
(II)		**Assets**		
	1	**Non-current Assets**		
		Property, Plant & Equipment		
		Freehold property, at cost	5,88,000	3,36,000
		Plant & Machinery, at cost less depreciation	1,40,000	84,000
		Motor vehicles, at cost less depreciation	56,000	-
	2	**Current Assets**		
		Inventories	3,36,000	4,38,000
		Trade Receivables	4,62,000	1,18,000
		Cash at bank	2,38,000	1,04,000
		Total	**18,20,000**	**10,80,000**

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at Rs. 2,52,000.

(iii) Goodwill is to be valued at:
Galaxy Ltd. Rs. 4,48,000 Glory Ltd. Rs. 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected Rs. 1,10,000 from debtors and paid Rs. 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to:

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is Rs. 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

SOLUTION

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

	Galaxy Ltd.	**Glory Ltd.**
Purchase Consideration:	**Rs.**	**Rs.**
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	**10,50,000**

Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	(4,20,000)	(3,30,000)
Trade payables	19,60,000	7,20,000
Net Assets taken over to be satisfied by issue of shares of Glorious. Ltd. @ Rs. 10 each	1,96,000	72,000

(ii) **Balance Sheet of Glorious Ltd. as at 1st April, 2020**

Particulars	**Note. no**	**Amount**
		Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	26,80,000
Reserves and surplus	2	30,000
Non-current liabilities		
Long-term borrowings	3	3,00,000
Current liabilities		
Trade payables		4,20,000
Total		**34,30,000**
ASSETS		
Non-current assets		
Property, plant and equipment	4	13,16,000
Intangible assets	5	6,16,000
Current assets		
Inventories	6	7,74,000
Trade receivables		4,62,000
Cash and cash equivalents	7	2,62,000
Total		**34,30,000**

Notes to accounts:

		Rs.	**Rs.**
1.	Share Capital		
	Equity share capital		26,80,000
	2,68,000 shares of Rs. 10 each		
	(All the above shares are issued for consideration other than cash)		
2.	Reserves and surplus		30,000
	Securities Premium		
	(10% premium on debentures of Rs.3,00,000)		
3.	Long-term borrowings Secured		3,00,000
	8% 3,000 Debentures of Rs.100 each		
4.	Property Plant and Equipment	5,88,000	9,24,000
	Freehold property	3,36,000	
	Galaxy Ltd. Glory Ltd.		
	Plant and Machinery Galaxy Ltd.	2,52,000	3,36,000
	Glory Ltd.	84,000	
	Motor vehicles - Galaxy Ltd.		56,000
			13,16,000
5	Intangible		
	assets Goodwill		
	Galaxy Ltd.	4,48,000	
	Glory Ltd.	1,68,000	6,16,000
6	Inventories		
	Galaxy Ltd.	3,36,000	
	Glory Ltd.		

7	Cash and cash equivalents Galaxy Ltd. Glory Ltd.(As per working note)	4,38,000 2,38,000 24,000	7,74,000 2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

	Rs.
Cash balance as at 31st March,2020	1,04,000
Add: Received from debtors	1,10,000
	2,14,000
Less: paid to creditors	(1,80,000)
	34,000
Less: Commission to liquidators	
On Debtors @ 5% 5,500	
On Creditors @ 2.5% 4,500	(10,000)
	24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is Rs. 100 each.

As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of Rs. 10 for discharge of debentures of Rs. 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Question 125 (Q.AMG.RMP.205(A): (RTP May'22))

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		**5,08,00,000**	**3,28,00,000**
II. Assets:			
(1) Non-Current Assets:			
Property, Plant & Equipment		68,00,000	1,36,00,000
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		**5,08,00,000**	**3,28,00,000**

Notes to Accounts:

		Aakash Limited (Rs.)	Ganga Limited (Rs.)
1.	**Share Capital**		
	Authorized, Issued, Subscribed & Paid up:		
	6,00,000 Equity Shares of Rs.10 each	60,00,000	-
	20,000 Preference Shares of Rs. 100 each	20,00,000	-
	2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
		80,00,000	**20,00,000**
2.	**Reserves and Surplus**		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	**56,00,000**
3.	**Secured Loans** (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	**Unsecured Loans**	**1,72,00,000**	**-**
5.	**Other Current Liabilities**		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	**56,00,000**

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.

(iii) Secured Loans include Rs. 32,00,000 accured interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth Rs. 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

SOLUTION

Balance sheet of AakashGanga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,40,00,000
(2) Non-Current Liabilities		

(a) Long term borrowings	2	2,12,60,000
(3) Current Liabilities		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		**5,90,20,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) Current assets		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		**5,90,20,000**

Notes to Accounts

			(Rs.)
1.	**Share Capital**		
	Issued, subscribed & paid up:		
	14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4)		1,40,00,000
	(Of the above 10,00,000 shares have been issued for consideration other than cash)		
2.	**Long Term borrowings**		
	Secured Loans		
	Aakash Limited 25,60,000		
	Ganga Limited 1,44,00,000	1,69,60,000	
	Unsecured Loans	43,00,000	2,12,60,000
3.	**Trade Payables (W.N.1)**		
	Aakash Limited	44,80,000	
	Ganga Limited	28,80,000	73,60,000
4.	**Other current liabilities**		
	Statutory Liabilities		
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	**Property, Plant & Equipment**		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	**Intangible assets**		
	Goodwill (W.N.3)		1,54,20,000
7.	**Other Current Assets**		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. Value of total liabilities taken over by Aakash Ganga Ltd. (Rs.)

	Aakash Limited		**Ganga Limited**	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	

Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		3,17,40,000		**2,28,80,000**

2. **Assets taken over by Aakash Ganga Ltd.** **(Rs.)**

	Aakash Limited	**Ganga Limited**
	Rs.	**Rs.**
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	**2,70,40,000**

3. **Goodwill / Capital Reserve on amalgamation** **(Rs.)**

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		**1,54,20,000**	

4. **Equity shares issued by Aakash Ganga Ltd.**

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000
			1,40,00,000
	No. of shares @ Rs. 10	**14,00,000**	

Question 126 (Q.AMG.SM.301(A))

The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.3.20X1:

		Particulars	**Notes**	**₹ A Ltd (in'000)**	**₹ B Ltd (in'000)**
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	2,000	1,000
	B	Reserves and Surplus	2	1,000	(800)
2		**Non-current liabilities**			
	A	Long-term borrowings	3	750	450
3		**Current liabilities**			

	A	Trade Payables		300	300
	B	Short term Borrowings – Bank overdraft		--	50
		Total		**4,050**	**1,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		2,700	850
	B	Non-current investments		700	--
2		**Current assets**			
	A	Trade receivables		400	150
	B	Cash and Cash equivalents (cash at bank)		250	--
		Total		**4050**	**1000**

Notes to Accounts

1	**Share capital**	**A Ltd. ('000)**	**B Ltd. ('000)**
	Equity shares of ₹ 100 each	2000	1000
		2000	**1000**
2	**Reserves and Surplus**		
	General reserve	1000	--
	Profit and loss A/c (debit balance)	--	(800)
		1000	**(800)**
3	**Long term borrowings**		
	10% debentures	500	--
	Loan from banks	250	450
		750	**450**

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger

SOLUTION:

Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd. will be issued against 20,000 equity shares of A Ltd.)	20,000 shares

Journal Entries in the books of B Ltd.

Date		**(₹in thousands)**	
20X1		**Dr. ₹**	**Cr. ₹**
March,31	Loan from bank A/c Dr. To Capital reduction A/c (Being loan from bank waived off to the extent of ₹ 60 thousand)	60	 60
	Equity share capital A/c (₹ 100) Dr. To Equity share capital A/c (₹10) To Capital reduction A/c (Being equity shares of ₹100 each reduced to ₹ 10 each)	1,000	 100 900
	Equity share capital A/c (₹ 10) Dr. To Equity share capital A/c (₹ 100 each) (Being 10 equity shares of ₹ 10 each consolidated to one share of ₹100 each)	100	 100
	Capital reduction A/c Dr.	960	

	To Profit and loss A/c		800
	To Capital reserve A/c		160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)		
	Property, Plant & Equipment A/c Dr.	2,700	
	Investment A/c Dr.	700	
	Trade receivables A/c Dr.	400	
	Cash at bank A/c Dr.	250	
	To Trade payables A/c		300
	To Loans from bank A/c		250
	To 10% Debentures A/c		500
	To Business purchase A/c		2,000
	To Reserves A/c		1,000
	(Being assets, liabilities and reserves taken over under pooling of interest method)		
	Liquidator of A Ltd. A/c Dr.	2,000	
	To Equity share capital A/c		2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)		
	Trade payables A/c Dr.	100	
	To Trade receivables A/c		100
	(Being mutual owing cancelled)		

Balance Sheet of B Ltd. after merger as on 31.3.20X1

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	2,100
	B	Reserves and Surplus	2	1,160
2		**Non-current liabilities**		
	A	Long term borrowings	3	1,140
3		**Current liabilities**		
	A	Trade payables		500
	B	Short term borrowings	4	50
		Total		**4,950**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		3,550
	B	Non-current investments		700
2		**Current assets**		
	A	Trade receivables		450
	B	Cash and cash equivalents		250
		Total		**4,950**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	21,000, Equity shares of ₹ 100 each fully paid		2,100
	(Out of the above, 20,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	1,000	
	Total		**1,160**

3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

Question 127 (Q.AMG.RMP.501(A): (RTP – May18 & Nov21))

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. Rs	Q Ltd. Rs	Assets	P Ltd. Rs	Q Ltd. Rs
Equity & liabilities:			**Assets:**		
Shareholders Fund			**Non-current Assets:**		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 Rs 3,00,000; 2015-16 Rs 5,25,000 and 2016-17 Rs 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of Rs 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare required journal entries in the books of PQ Ltd.; and

(iii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

SOLUTION

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	Rs
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = Rs 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]
= Rs 8,64,000 or 86,400 shares

Securities premium = Rs 21,60,000 – Rs 8,64,000 = Rs 12,96,000

Premium per share = Rs 12,96,000 / Rs 86,400 = Rs 15

Issued 86,400 shares @ Rs 10 each at a premium of Rs 15 per share

Share of Q Ltd. = Rs 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= Rs 5,76,000 or 57,600 shares
Securities premium = Rs 14,40,000 – Rs 5,76,000 = Rs 8,64,000
Premium per share = Rs 8,64,000 / Rs 57,600 = Rs 15
Issued 57,600 shares @ Rs 10 each at a premium of Rs 15 per share

(ii) **Journal Entries in the books of PQ Ltd.**

Particulars		Dr. Amount (Rs)	Cr. Amount (Rs)
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs 10)			8,64,000
To Securities premium (86,400 x Rs 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs 10)			5,76,000
To Securities premium (57,600 x Rs 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium (Equity share capital issued to raise working capital)			10,80,000

(iii) **Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation**

	Particulars	Notes	Rs
Equity and Liabilities			
1	**Shareholders' funds**		
a	Share capital	1	21,60,000
b	Reserves and Surplus	2	32,40,000
2	**Current liabilities**		
a	Trade payables (2,40,000 + 5,40,000)		7,80,000
	Total		**61,80,000**
Assets			
1	**Non-current assets**		

a	Fixed assets		
	Tangible assets (7,20,000 + 10,80,000)		18,00,000
	Intangible assets (goodwill)	4	5,40,000
2	**Current assets**		
a	Inventories (3,60,000 + 6,60,000)		10,20,000
b	Trade receivables (4,80,000 +7,80,000)		12,60,000
c	Cash and cash equivalents	3	15,60,000
	Total		**61,80,000**

Notes to accounts

		Rs
1	**Share Capital**	
Issued, subscribed and paid-up share capital 2,16,000 Equity shares of Rs10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)		21,60,000
2	**Reserves and Surplus**	
Securities premium (@Rs 15 for 2,16,000 shares)		32,40,000
3	**Cash and cash equivalents**	
Cash at Bank		15,60,000
4	**Intangible Assets**	
Goodwill		5,40,000

Working Notes:

1. **Calculation of goodwill of P Ltd.**

Particulars	Amount Rs	Weight	Weighted amount Rs
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight] [Rs 32,40,000/6] **Goodwill**			**5,40,000**

2. **Calculation of Net assets**

	P Ltd. Rs	Q Ltd. Rs
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	**21,60,000**	**14,40,000**

3. **New authorized capital**

= Rs 14,40,000 + Rs 12,00 000 = Rs 26,40,000

4. **Cash and Cash equivalents**

	Rs
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X Rs 25)	18,00,000
	21,00,000
Less: Bank Overdraft	5,40,000

	15,60,000

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

Question 128 (Q.AMG.RMP.502(A): (Exam July'21))

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	**Notes**	**Black Limited (Rs. In 000)**	**White Limited (Rs. In 000)**
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		**7,680**	**4,620**

Note No.	**Particulars**	**Black Limited (Rs. in 000)**	**White Limited (Rs. in 000)**
1.	Share Capital Equity Shares of Rs. 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of Rs. 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was Rs. 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at Rs. 2,40,000 and Property Plant and Equipment are valued at Rs. 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

i. Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

ii. Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

iii. Give balance of Profit or Loss of Black Limited as on 1st July, 2020

iv. Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

SOLUTION

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.	**Rs.**	**Rs.**
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 · 10 % · 3/12]	(60,000)	
	23,40,000	
Add: Appreciation	1,20,000	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation 2,40,000		
Add: Depreciation (non-cash) 60,000	3,00,000	
Less: Dividend [36,00,000 · 10%]	(3,60,000)	3,60,000
		48,60,000
Less: Trade payables		(3,60,000)
Purchase Consideration		45,00,000
Number of shares to be issued by Black Ltd. @ Rs. 100 each		**45,000 shares**

ii. Calculation of Net Current Assets as on 01.07.2020

		Black Ltd.		**White Ltd.**
		Rs.		**Rs.**
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		**18,00,000**

iii. Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	Rs.
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

iv. Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
	24,00,000	35,10,000

Property, plant and equipment of White Ltd. Taken over as on 31.03.2020		
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		**59,70,000**

Question 129 (Q.AMG.RMP.503(A): (RTP – Nov19 & Nov23, MTP Nov21))

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	Amount	Assets	Amount
8,000 Equity shares of 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
Total	**17,60,000**	**Total**	**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- B Ltd. is to take over trade payables at book value.
- The purchase consideration is to be paid in cash to the extent of 6,00,000/- and the balance in fully paid equity shares of 100/- each at 125/- per share.
- The average profit is Rs. 1,24,400.
- The liquidation expenses amounted to Rs. 16,000.
- B Ltd. sold prior to 31st March, 2018 goods costing Rs. 1,20,000 to A Ltd. for Rs. 1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018.
- Trade payables of A Ltd. include Rs. 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

SOLUTION

Books of A Limited

Realization Account

Particulars	Rs.	Particulars	Rs.
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		**16,06,000**

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		**7,36,000**

Equity Share Holders Account

To Realization Account	76,000	Equity share capital	8,00,000
To Share issue Expenses	34,000	General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		**8,80,000**

B Ltd

Balance Sheet as on 1st April, 2019 (An extract)

	Particulars	Notes	Rs.
	EQUITY AND LIABILITIES		
1	**Shareholders' funds**		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	**Current liabilities**		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
			14,75,000
	ASSETS		
1	**Non-current assets**		
	Property, Plant and Equipment		
A	Tangible assets	4	8,82,000
B	Intangible assets	5	2,16,000
2	**Current assets**		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

Sr. No.	Particulars		Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account		
	Less: Unrealized profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000

7	**Trade receivables**		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1. Valuation of Goodwill	**Rs.**
Average profit	1,24,400
Less: 8% of Rs. 8,80,000	(70,400)
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000
1. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	2,34,000
Total Assets	15,30,000
Less: Trade payables	(3,20,000)
Net Assets	**12,10,000**

Out of this Rs. 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of 125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealized Profit on Inventory	**Rs.**
The Inventory of A Ltd. includes goods worth Rs. 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be 40,000. 40000 x 100000 / 160000	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of Rs. 1,00,000.	(10,000)
Amount of unrealized profit	**15,000**

Question 130 (Q.AMG.RMP.302(B): (MTP – May19 & Nov18))

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in Lakhs)**
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	**12,500**
Assets	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in lakhs)**
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700

Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	**12,500**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an **amalgamation in the nature of merger**. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	**463**
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	-	80
	2,120	**1,100**

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd. You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

SOLUTION

		(Rs. in lacs)	(Rs. In lacs)
		Debit	**Credit**
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit & loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,000	

To 13% Debentures A/c (12% debentures discharged by issue of 13% debentures)		1,000
Bills Payable A/c Dr. To Bills Receivable A/c (Cancellation of mutual owing on account of bills)	80	 80

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	**24,000**
2.	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Tangible assets**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = Rs 6,000 lacs $\times \frac{3}{2}$ = Rs. 9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

30. CONSOLIDATED FINANCIAL STATEMENT (AS 21)

Question 131 (Q.CFS.RMP.104(A): (Exam Nov'23))

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

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

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

SOLUTION

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

	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(38,000)	38,000	(38,000)	3,42,400	
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(1,36,000)	1,36,000	(1,36,000)	2,06,400	14,28,800
Balance		Nil	6,80,000			
2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		(2,06,400)	2,06,400			
Balance		47,600	12,22,400			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2016

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

Question 132 (Q.CFS.SM.303(A))

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 20X1. On 31st December, 20X1, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 20X1

Particulars	**Note No.**	**A Ltd. (₹)**	**B Ltd. (₹)**
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	2,00,000
(b) Reserves and Surplus	2	2,97,200	1,82,000
(2) Current Liabilities			
(a) Trade Payables		47,100	17,400
(b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400

II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

		A Ltd. ₹	B Ltd. ₹
1.	**Share Capital**		
	5,000 shares of ₹ 100 each, fully paid up	5,00,000	-
	2,000 shares of ₹ 100 each, fully paid up	-	2,00,000
	Total	**5,00,000**	**2,00,000**
2.	**Reserves and Surplus**		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	**2,97,200**	**1,82,000**
3.	**Short term borrowings**		
	Bank overdraft	80,000	--
4.	**Property plant and equipment**		
	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	**3,90,000**	**3,15,000**
5.	**Non-current Investments**		
	Investment in B Ltd (at cost)	3,40,000	--
6.	**Cash & Cash equivalents**		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 20X1 was considered as worth ₹1,80,000 on 1st July, 20X1; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).
Prepare consolidated Balance Sheet as at 31st December, 20X1.

SOLUTION

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 20X1

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	3,08,800
(2) Minority Interest		83,600
(3) Current Liabilities		
(a) Trade Payables	3	64,500
(b) Short term borrowings	4	80,000
Total		10,36,900
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	7,41,000

(b) Intangible assets	6	17,200
(2) Current assets		
(a) Inventories	7	1,56,400
(b) Trade receivables	8	99,800
(c) Cash & Cash equivalents	9	22,500
Total		10,36,900

Notes to Accounts

				₹
1.	**Share Capital**			
	5,000 shares of ₹ 100 each			5,00,000
2.	**Reserves and Surplus**			
	Reserves		2,40,000	
	Profit & loss (Refer to W.N 8)		68,800	
	Total			3,08,800
3.	**Trade Payables**			
	A Ltd.	47,100		
	Add: B Ltd	17,400		
	Total			64,500
4.	**Short term borrowings**			
	Bank overdraft			80,000
5.	**Property, plant and equipment**			
	Land and building- A Ltd	1,50,000		
	Add: Land and building- B Ltd	1,80,000	3,30,000	
	Plant & Machinery (Refer to W.N 7)		4,11,000	
	Total			7,41,000
6.	**Intangible assets**			
	Goodwill (refer to W.N 6)			17,200
7.	**Inventories**			
	A Ltd.		1,20,000	
	B Ltd.		36,400	
	Total			1,56,400
8	**Trade Receivables**			
	A Ltd.	59,800		
	B Ltd.	40,000		
	Total			99,800
9	**Cash & Cash equivalents**			
	Cash of A Ltd		14,500	
	Add: cash of B Ltd.		8,000	
	Total			22,500

Share holding Pattern

Total Shares of B Ltd	2,000 shares
Shares held by A Ltd	1,600 shares i.e. 80 %
Minority Shareholding	400 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 1,600 shares - ₹16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

Profit & Loss Account	Dr.	₹ 16,000	
To Investment			₹ 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at ₹ 1,42,500 on 1st July, 20X1, considering only six months' depreciation on ₹ 1,50,000 total depreciation being ₹ 15,000. The value put on the assets being ₹ 1,80,000, there is an appreciation to the extent of ₹ 37,500 (1,80,000 – 1,42,500).

3. **Capital profits of B Ltd.**

	₹	₹
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1st January 20X1 is same as of 31st December 20X1)		1,00,000
Profit & Loss Account Balance on 1st January, 20X1	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 20X1: Total ₹ 82,000 Less: ₹ 10,000 ₹ 72,000		
Proportionate upto 1st July, 20X1 on time basis (₹ 72,000/2)		36,000
Appreciation in value of Plant & Machinery		37,500
		1,83,500
Less: 20% due to outsiders		(36,700)
Holding company's share		**1,46,800**

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

Profit after 1st July, 20X1 [(82,000 – 10,000) x ½]	36,000
Less: Depreciation 10% depreciation on ₹1,80,000 for 6 months 9,000 Less: Depreciation already charged for 2nd half year on 1,50,000 (7,500)	(1,500)
	34,500
Less: 1/5 due to outsiders	(6,900)
Share of A Ltd.	**27,600**

5. **Minority interest:**

Par value of 400 shares (2,00,000 X 20%)	40,000
Add: 1/5Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

6. **Cost of Control:**

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits –share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		17,200

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

8.

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2nd half charged on pre- revalued value	7,500	
Less: Depreciation on ₹1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

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

A Ltd. as given	57,200	

Less: Dividend transferred to Investment A/c	(16,000)	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

Question 133 (Q.CFS.RMP.306(A): (RTP Nov'18) (Similar to Q305A))

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	Amounts as at 31st March, 2017	
	X Ltd. (Rs in lakhs)	**Y Ltd. (Rs in lakhs)**
LIABILITIES		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	25,896	**10,727**
ASSESTS		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016	6,800	-
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	**10,727**

The following information is also given to you:

(a) **10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.**

(b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs 650 Lakhs.

(c) General Reserve of Y Ltd. stood at same Rs 1,450 Lakhs as on 1st April, 2016.

(d) **Y Ltd.'s Plant & machinery showed a balance of Rs 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs 1,000 Lakh.**

(e) Included in Trade Payables of Y Ltd. are Rs 50 Lakh for goods supplied by X Ltd.

(f) **On 31st March, 2017, Y's ltd. inventory included goods for Rs 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.**

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes.

SOLUTION

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd.as on 31st March, 2017

Particulars		Note No.	Rs in lakhs
I	**Equity and Liabilities**		
1.	**Shareholders' Funds**		
(a) Share Capital		1	19,000
(b) Reserves and Surplus		2	5,620
2.	**Minority interest**	3	3,400
3.	**Current Liabilities**		

(a) Trade payables	4	2,623
Total		**30,643**
II Assets		
1 **Non-Current Assets**		
Fixed Assets		
(i) Tangible Assets	5	17,435
2 **Current Assets**		
(a) Inventories	6	6,632
(b) Trade Receivables	7	4,842
(c) Cash and Cash equivalents	8	1,734
Total		**30,643**

Notes to Accounts

	Rs in lakhs	
1. Share Capital		
Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs 10 each fully paid up)		15,000
400 lakh Preference Shares of Rs 10 each fully paid up		4,000
		19,000
2. Reserves and Surplus		
Credit Balance of Profit & Loss Account	2,750	
Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs 4500 Lakh Equity Shares)	450	
	2,300	
Add: Share in Y Ltd. Revenue Profit (Working Note i)		825
	3,125	
Less: Unrealised Profit (Working Note iv)	30	3,095
Capital Reserve (Working Note iii)		25
General Reserve	2,500	2,525
		5,620
3. Minority interest		
100 Lakh Preference Shares of Rs 10 fully paid up	1,000	
150 Lakh Equity Shares of Rs10 each fully paid up	1,500	2,500
Share in Revenue Profits (Working Note i)	275	
Share in Capital Profit (working Note ii)	625	900
		3,400
4. Trade payables		
X Ltd.	1,646	
Y Ltd.	1,027	
	2,673	
Less: Mutual owing	50	2,623
5. Tangible Assets		
Land & Building		
X Ltd.	3,550	
Y Ltd	1,510	5,060
Plant & Machinery		
X Ltd.	5,275	
Y Ltd (Working note v)	4,500	9,775
Furniture & Fixtures		
X Ltd.	1,945	
Y Ltd	655	2,600
		17,435
6. Inventories		
X Ltd.	4,142	

Y Ltd	2,520	
	6,662	
Less: Unrealized Profit	(30)	6,632
7. Trade Receivables		
X Ltd.	3,010	
Y Ltd	1,882	
	4,892	
Less: Mutual Owing	50	4,842
8. Cash & cash Equivalents		
X Ltd.	1,174	
Y Ltd	560	1,734

Working Notes

(i) Calculation of Revenue Profits

Y's Ltd Profit & Loss Account

	Rs in lakh		**Rs in lakh**
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	1,850		**1,850**

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	4,000
Less Balance as 31st March 2017	3,600
	400
Hence rate of Depreciation = 400/4000 x 100	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd.'s share- 1100 x 450/600	825
Y Ltd.'s share = 1100 x150/600	275

(ii) Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000
Capital Profit	2,500
X Ltd.'s Share in Capital Profit = 2,500 x 450/600	1,875
Y Ltd.'s Share in Capital Profit = 2,500 x 150/600	625

(iii) Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = 6,375-6,350	25

(iv) Unrealised Profit

Rs 150 Lakh x 25/125* = 30 lakh

(v) Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	100	900
		4,500

* Rs 150 lakh considered as cost to Y ltd.

Question 134 (Q.CFS.SM.501(A))

Subsidiary B Ltd. provides the following balance sheet

Particulars	**Note No.**	**20X0 (₹)**	**20X1 (₹)**
Equity and Liabilities			
(I) Shareholder's Funds			
(a) Share Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,86,000	7,14,000
(2) Current Liabilities			
(a) Short term borrowings	3	--	1,70,000
(b) Trade Payables		4,90,000	4,94,000
(c) Short-term provisions	4	3,10,000	4,30,000
Total		**15,86,000**	**23,08,000**
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	5	2,72,000	2,24,000
(b) Non-current Investment			4,00,000
(2) Current assets			
(a) Inventories		5,97,000	7,42,000
(b) Trade Receivables		5,94,000	8,91,000
(c) Cash & Cash Equivalents		51,000	3,000
(d) Other current assets	6	72,000	48,000
Total		**15,86,000**	**23,08,000**

Notes to Accounts

		20X0 (₹)	**20X1 (₹)**
1.	**Share capital**		
	5,000 equity shares of ₹10 each, fully paid up	5,00,000	5,00,000
2.	**Reserves and Surplus**		
	General Reserves	2,86,000	7,14,000
3.	**Short term borrowings**		
	Bank overdraft	--	1,70,000
4.	**Short term provisions**		
	Provision for taxation	3,10,000	4,30,000
5.	**Property, plant and equipment**		
	Cost	3,20,000	3,20,000
	Less: Depreciation Total	(48,000)	(96,000)
6.	**Other current Assets**	2,72,000	2,24,000
	Prepaid expenses	72,000	48,000

Also consider the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

(b) A Ltd. values inventory on weighted average basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd, its value of inventory is required to be reduced by ₹12,000 at the end of 20X0 and ₹ 34,000 at the end of 20X1.

(c) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 20X0 and₹ 30,000 in 20X1, being part of initial advertising expenditure of ₹ 90,000 in 20X0 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 20X0.

Restate the balance sheet of B Ltd. as at 31st December, 20X1 after considering the above information, for the purpose of consolidation. Would restatement be necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

SOLUTION

As per para 20 and 21 of AS 21, Consolidated financial statements:

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

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

Accordingly in the given case, restatement would be required to make the accounting policies of A Ltd and B Ltd uniform.

Adjusted reserves of B Ltd.:

	₹	₹
Reserves as given		7,14,000
Add: Provision for doubtful debts {[8,91,000 / 99 X 100]-8,91,000}		9,000
		7,23,000
Less: Reduction in value of Inventory	34,000	
Advertising expenditure to be written off	30,000	64,000
		6,59,000

Note: No adjustment would be required in respect of opening inventory of B Ltd as that will not have any impact on P&L.

Restated Balance Sheet of B Ltd. as at 31st December, 2016

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	6,59,000
(2) Current Liabilities		
(a) Short term borrowings	3	1,70,000
(b) Trade Payables		4,94,000
(c) Short-term provision	4	4,30,000
Total		**22,53,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
Tangible assets	5	2,24,000
(b) Non-current Investment		4,00,000
(2) Current assets		
(a) Inventories	6	7,08,000
(b) Trade Receivables	7	9,00,000
(c) Cash & Cash Equivalents		3,000
(d) Other current assets	8	18,000
Total		**22,53,000**

Notes to Accounts

			₹
1.	**Share Capital**		
	5,000 equity shares of ₹ 10 each, Fully Paid		5,00,000
2.	**Reserves and Surplus**		
	Reserves (refer to W.N.)		6,59,000
3.	**Short term borrowings**		
	Bank overdraft		1,70,000
4.	**Short-term provision**		
	Provision for taxation		4,30,000
5.	**Tangible Assets**		
	Cost	3,20,000	
	Less: Depreciation to date	(96,000)	2,24,000
6.	**Inventory**		
	Cost	7,42,000	
	Less: Adjustment because of change in method of valuation	(34,000)	7,08,000
7.	Trade receivables		
	Cost	8,91,000	
	Add: Provision adjustment	9,000	9,00,000
8.	**Other current assets**		
	Prepaid expenses (48,000 – 30,000)		18,000

<u>Question 135 (Q.CFS.SM.503(A))</u>

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(a) The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.

(b) The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.

(c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.20X1. The total assets of VR Ltd. as on 31st March, 20X1 was ₹ 1,00,00,000. It was decided to write down Property, Plant and Equipment by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

<u>SOLUTION</u>

1. Computation of Purchase Consideration

(a)	Yield of VR Ltd. {(40/100 x [(30+40+65)/3)]}	₹ 18 lakhs
(b)	Price per share of VR Ltd.	
	Capitalized Yield: (18 lakhs/0.15)	₹ 120 lakhs
	No. of Shares	2 lakhs
	Therefore, Price per share	₹ 60
(C)	Purchase Consideration for 54% shares in VR Ltd. 2 lakh shares x 54% x ₹ 60 per shares	₹ 64.80 lakhs
(d)	Discharge of Purchase Consideration:	
	Tax at source (₹ 64.80 lakhs - ₹ 5.40 lakhs) x 30/100	₹ 17.82 lakhs
	50% of Purchase Consideration (net of tax) in cash (₹ (64.80-17.82) x 50%)	₹ 23.49 lakhs
	Balance – Unsecured Loan	₹ 23.49 lakhs

2. Goodwill / Capital Reserve to Variety Ltd.

	₹ in lakhs	
Total Assets	100.00	
Less: Reduction in Value of Property, Plant and Equipment	(1.75)	
	98.25	
Less: Current Liabilities	(20.00)	
Net Assets of VR Ltd. on Date of Acquisition		78.25
Purchase Consideration: 54% purchased from Foreign Co.	64.80	
Investment: 46% existing stake	15.64	(80.44)
Goodwill on Date of Acquisition		**2.19**

Question 136 (Q.CFS.SM.303(B): (Similar to Q305A))

On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1

Particulars	Note No.	H Ltd. (₹ in Lacs)	S Ltd. (₹ in Lacs)
I. Equity and Liabilities			
(1) **Shareholder's Funds**			
(a) Share Capital	1	12,000	4,800
(b) Reserves and Surplus	2	5,499	3,000
(2) **Current Liabilities**			
(a) Trade payables (b) Short term provisions	3 4	1,833 855	1,014 394
(c) Other current liabilities (Dividend payable)		1,200	-
Total		**21,387**	**9,208**
II. Assets			
(1) **Non-current assets**			
Property, Plant and Equipment	5	9,468	5,486
Non-current Investments (Shares in S Ltd.)		3,000	
(2) **Current assets**			
(a) Inventories		3,949	1,956
(b) Trade receivables	6	2,960	1,562
(c) Cash and cash equivalents		1,490	204
(d) Short term loans and advances	7	520	
Total		**21,387**	**9,208**

Notes to Accounts

		H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
1.	**Share Capital**		
	Authorized share capital	15,000	6,000
	Equity shares of ₹ 10 each, fully paid up		
	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up	12,000	4,800
2.	**Reserves and surplus**		
	General Reserve	2,784	1,380

	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3.	**Trade Payables**		
	Creditors	1,461	854
	Bills Payable	372	160
		1,833	1,014
4.	**Short term provisions**		
	Provision for Taxation	855	394
5.	**Property, plant and equipment**		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6.	**Trade receivables**		
	Debtors	2,600	1,363
	Bills Receivable	360	199
	Total	2,960	1,562
7.	**Short term loans and advances**		
	Sundry Advances	520	--

The following information is also provided to you:

(a) H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 20X0 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹1,200 lakh respectively.

(b) On 1st April, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.

(c) On 1st January, 20X1, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 20X0.

(d) On 31st March, 20X1, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

(e) On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1.

SOLUTION

Consolidated Balance Sheet of H Ltd.

and its subsidiary S Ltd. as at 31st March, 20X1

Particulars	**Note No.**	**(₹ in Lacs)**
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159
(2) **Minority Interest [W.N.6]**		3,120
(3) **Current Liabilities**		
(a) Trade payables (b) Short term provisions	3 4	2,802 1,249
(c) Other current liabilities	5	1,200
Total		**27,530**
II. Assets		
(1) **Non-current assets**		
Property, Plant and Equipment	6	14,954
(2) **Current assets**		

(a)	Inventories	7	5,885
(b)	Trade receivables	8	4,477
(c)	Short term loans and advances	9	520
(d)	Cash and cash equivalents	10	1,694
	Total		**27,530**

Notes to Accounts

			(₹ in lacs)	**(₹ in lacs)**
1.	**Share Capital**			
	Authorized share capital			
	Equity shares of ₹10 each, fully paid up			15,000
	Issued and Subscribed:			
	Equity shares of ₹ 10 each, fully paid up			12,000
	Total			12,000
2.	**Reserves and surplus**			
	Capital Reserve (Note 5)		1,320	
	General Reserve (2,784 + 108)		2,892	
	Profit and Loss Account:			
	H Ltd.	2,715		
	Less: Dividend wrongly credited 360			
	Unrealized Profit 20	(380)		
		2,335		
	dd: Share in S Ltd.'s Revenue profits	612	2,947	
	Total			7,159
3.	**Trade payables**			
	Creditors			
	H Ltd.	1,461		
	S Ltd.	854	2,315	
	Bills Payable			
	H Ltd.	372		
	S Ltd.	160		
		532		
	Less: Mutual owing	(45)	487	2,802
4.	**Short term provisions**			
	Provision for Taxation			
	H Ltd.		855	
	S Ltd.		394	
	Total			1,249
5.	**Other current liabilities**			
	Dividend payable			
	H Ltd.			1,200
6.	**Property, plant and equipment**			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	4,905		
	S Ltd.	4,900	9,805	
	Furniture and Fittings			
	H Ltd.	1,845		
	S Ltd.	586	2,431	
	Total			14,954
7.	**Inventories**			
	Stock			

	H Ltd.		3,949	
	S Ltd.		1,956	
			5,905	
	Less: Unrealized profit		(20)	5,885
8.	**Trade receivables**			
	Debtors			
	H Ltd.	2,600		
	S Ltd.	1,363	3,963	
	Bills Receivable			
	H Ltd.	360		
	S Ltd.	199		
		559		
	Less: Mutual Owing	(45)	514	4,477
9.	**Short term loans and advances**			
	Sundry Advances			520
10.	**Cash and cash equivalents**			
	Cash and Bank Balances			1,694

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs/ ₹ 10)
H Ltd.'s holding as on 1st April, 20X0	180 lakhs
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e. 60 % [288/480×100]
Minority Shareholding	40%

Working Notes:

1. S Ltd.'s General Reserve Account

		₹ in lakhs			**₹ in lakhs**
To	Bonus to equity shareholders (WN-8)	1,800	By	Balance b/d	3,000
To	Balance c/d	1,380	By	Profit and Loss A/c (Balancing figure)	180
		3,180			3,180

2. S Ltd.'s Profit and Loss Account

		₹ in lakhs			**₹ in lakhs**
To	General Reserve [WN 1]	180	By	Balance b/d	1,200
To	Dividend paid (20% on ₹3,000 lakhs)	600	By	Net Profit for the year* (Balancing figure)	1,200
To	Balance c/d	1,620			
		2,400			2,400

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60% (General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	(720)
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,020 lakhs as post-acquisition Profit and Loss balance and ₹ 180 lakhs as post-acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. **Calculation of Minority Interest**

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

₹ 100 Lakhs x 25 / 125 = ₹ 20 Lakhs

8. Computation of bonus to equity shareholders

	₹ In lakhs
Shares as on 31 March 20X1 including bonus share issued on 1 January 20X1 Or we can say these are 1 + 3/5 or 8/5	4,800
i.e., Shares before bonus issue should have been (4,800) / (8/5)	3,000
Accordingly, bonus issue would be (4,800-3,000)	1,800

Question 137 (Q.CFS.RMP.307(B): (RTP Nov'19, MTP April'21, May'22 and May'18 EXAM))

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2019:

	H Ltd. (Rs.)	**S Ltd. (Rs.)**
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000

Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,25,000	1,25,000
Total	**22,40,000**	**5,45,000**
Assets		
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	1,64,000	32,000
Total	**22,40,000**	**5,45,000**

- H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018.
- On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.
- **Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April,2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%).**
- Trade Payables of H Ltd. includes Rs. 40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.

SOLUTION

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2019

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

Notes to Accounts

	IN Rs.		
1. Reserves and Surplus			
General Reserves		4,35,000	
Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
Profit and Loss Account		2,80,000	
Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
Less: Unrealised gain	(4,000)	17,200	2,97,200
			8,16,200
2. Trade Payables			
H Ltd.		3,25,000	
S Ltd.		1,25,000	
Less: Mutual transaction		(40,000)	**4,10,000**
3. Tangible Assets			
Machinery			
H Ltd.		6,40,000	
S Ltd.	2,00,000		
Add: Appreciation	1,00,000		
	3,00,000		
Less: Depreciation	(30,000)	2,70,000	**9,10,000**
Furniture			
H. Ltd.		3,75,000	
S Ltd.	40,000		
Less: Decrease in value	(10,000)		
	30,000		
Less: Depreciation	(4,500)	25,500	**4,00,500**
			13,10,500
4. Intangible assets			
Goodwill [WN 5]			24,000
5. Inventories			
H Ltd.		2,68,000	
S Ltd.		62,000	3,30,000
Less: Inventory reserve			(5,000)
			3,25,000
6. Trade Receivables			
H Ltd.		4,73,000	
S Ltd.		2,37,000	
			7,10,000
Less: Mutual transaction			(40,000)
			6,70,000
7. Cash and Bank			
H Ltd.		1,64,000	
S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018**

Particulars	**Amount (Rs.)**
Machinery	
Revaluation as on 1.4.2018	3,00,000
Less: Book value as on 1.4.2018	(2,00,000)
Profit on revaluation	1,00,000
Furniture	

Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

Particulars	Machinery	Furniture
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2019

	Pre-acquisition profit up to 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
Particulars	**(Capital profits)**	**General Reserve**	**Profit and loss account**
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000	35,000	
Upward Revaluation of machinery as on 1.4.18	1,00,000		
Downward Revaluation of Furniture as on 1.4.18	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	**1,70,000**	**1,05,000**	**26,500**

4. Minority Interest

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

5. Cost of Control or Goodwill:

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

Question 138 (Q.CFS.RMP.402(B): (RTP May'18 and MTP Aug'18; March'21 & Exam Nov'18))

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

	Hello Ltd. (Rs. in lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400

	12,000	2,400
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	**1,400**
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	**2,400**	**300**

Other Information:

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

You are required to **prepare** a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.

SOLUTION

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

Particulars	Note No.	Rs in Lakhs
I. Revenue from operations	1	11,730
II. Total revenue		**11,730**
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300
Depreciation and amortization expense	7	300
Other expenses	5	1,070
Total expenses		**3,538**
IV. Profit before Tax (II-III)		**8,192**
V. Tax Expenses	8	2,800
VI. Profit After Tax		**5,392**
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	300	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of Rs 300 lacs	(240)	(2,460)
Profit to be transferred to consolidated balance sheet		**2,932**

Notes to Accounts

		Rs in Lacs	Rs in Lacs
1.	**Revenue from Operations**		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	(20)	11,730
2.	**Increase in Inventory**		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	
	Less: Unrealized profits Rs 48 lacs × 20 120	(8)	2,392
			14,122
3.	**Cost of Material purchased/consumed**		
	Hello Ltd.	1,600	
	Sun Ltd.	400	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	(240)	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	600
			2,360
4.	**Employee benefits and expenses**		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	300	1,900
5.	**Other Expenses**		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	
	Sun Ltd.	100	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	480
			1,070
6.	**Finance Cost**		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	**Depreciation and Amortization**		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	**Provision for tax**		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

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

31. ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

Question 139 (Q.BRN.SM.101(A))

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 20X1:

	Head Office (Rs.)	Branch (Rs.)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.0. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 20X1.

SOLUTION

Working Note 1: -

Head Office

<table>
<tr><td colspan="3">Opening Stock – 2,25,000
+ Purchases – 25,50,000</td></tr>
<tr><td colspan="3">Total – 27,750000</td></tr>
<tr><td>Sale @180
COGS = 27,81,000/180 x 100
= 15,45,000</td><td>GSTB @180
COGS = 9,54,000/180 x 100
= 5,30,000</td><td>Closing Stock (b/f)
7,00,000</td></tr>
</table>

Working Note 2: -

Branch

<table>
<tr><td colspan="2">Opening Stock – 0
+ Purchases – 0
+ Goods Received from HO – 5,30,000</td></tr>
<tr><td colspan="2">Total – 5,30,000</td></tr>
<tr><td>COGS = 9,50,000/200 x 100 =4,75,000</td><td>Closing Stock (b/f)
55,000</td></tr>
</table>

Branch Trading (Cost Basis)

Goods Received from HO	5,30,000	Sales	9,50,000
Gross Profit	4,75,000	Closing Stock	55,000
	10,05,000		**10,05,000**

Question 140 (Q.BRN.SM.302(A))

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

	Rs.
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-20X1 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000
Cash Sales for the year @invoice price	59,000

Cash Remitted to head office		2,22,500
Expenses paid by H.O.		12,000
Bad Debts written off		750
Balances as on	**1-1-20X1**	**31-12-20X1**
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

SOLUTION

Books of Harrison

Branch Stock Account

	Rs.		Rs.
To Balance b/d	30,000	By Branch Debtors	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Bank	59,000
To Branch Adjustment A/c (Excess of sale over invoice price)	2,000	By Balance c/d	
		Goods in Transit (Rs. 2,40,000 –Rs. 2,20,000)	20,000
		By Stock at Branch	28,000
	2,72,000		**2,72,000**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock	1,65,000	By Branch Cash- collection (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		**1,97,750**

Branch Cash Account

	Rs.		Rs.
To Balance b/d	5,000	By Bank Remit to H.O.	2,22,500
To Branch Stock	59,000	By Branch profit & loss A/c [Bal. fig. (exp. Paid by Branch)]	10,000
To Branch Debtors	1,71,000	By Balance c/d	2,500
	2,35,000		**2,35,000**

Branch Adjustment Account

	Rs.		Rs.
To Stock Reserve (on closing stock (48,000 × 1/6)	8,000	By Stock Reserve opening (25000 ×20%)	5,000
To Gross Profit c/d	39,000	By Goods sent to Branch A/c	40,000
		By Branch Stock A/c	2,000
	47,000		**47,000**

Branch Adjustment Account

	Rs.		Rs.
To Cash (H.O)	12,000		
To Branch Cash	10,000	By Branch P&L a/c	22,000
	22,000		**22,000**

Branch Profit and Loss Account

	Rs.		Rs.
To Branch Expenses (paid by HO: Rs. 12,000 and paid by Branch Rs. 10,000)	22,000	By Gross Profit b/d	39,000
To Branch Debtors-Bad debts	750		
To Net Profit	16,250		
	39,000		**39,000**

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c To Purchase A/c –Transfer	40,000 2,00,000	By Branch to Stock A/c	2,40,000
	2,40,000		**2,40,000**

Question 141 (Q.BRN.RMP.304(A): (MTP May'18))

Ayan Ltd. Invoices goods to its branch at cost plus $33\frac{1}{3}\%$ From the following Particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	Rs
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs. 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31stMarch, 2018.

SOLUTION

In the books of Head Office Branch Stock Account

Particulars	Rs	Particulars	Rs
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs. 24,000 x25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d: In hand in transit	 2,88,000 48,000
	27,96,000		**27,96,000**

- Alternatively, combined posting for the amount of Rs. 24,000 may be passed through Goods pilfered account.
- Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

- It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	(Rs)	Particulars	(Rs)
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (Rs. 3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (Rs. 24,00,000 – Rs. 1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (Rs. 3,36,000x25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		**6,96,000**

Branch Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & LA/c	5,52,000		
	5,70,000		**5,70,000**

Question 142 (Q.BRN.SM.403(A): (Similar in RTP Nov'23))

Widespread invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after with-holding Rs. 10,000 necessary for meeting immediate requirements of cash. On 31st March, 20X1 the assets at the branch were as follows:

	Rs. ('000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs. 72,000. Other transactions at the branch during the year were as follows:

	(Rs. '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 20X2 the branch purchased new furniture for 1 lakh for which payment was made by head office through a cheque.

On 31st March, 20X2 branch expenses amounting to Rs. 6,000 were outstanding and cash in hand was again Rs. 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 20X2.

SOLUTION

In the Head Office Books
Branch Account
for the year ended 31st March, 20X2

	Rs.'000		Rs.'000
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve Rs. 1,080 × 1/6	180
Trade debtors	384	By Goods sent to branch A/c (Returns to H.O.)	72
Stock	1,080	By Goods sent to branch A/c (Loading on net goods sent to branch – 13,128X1/6	2,188
Furniture and fittings	500		
To Goods sent to branch A/c	13,200	Bank A/c (Remittance from branch to H.O.) (W.N.5)	11,700
To Bank A/c (Payment for furniture)	100	By Balance c/d	
To balance c/d stock reserve 1,470 x 1/6	245	Cash in hand	10
To Outstanding expenses	6	Trade debtors (W.N.3)	485
To Net profit transferred to General P/L account	1,096	Stock (W.N.1)	1,470
		Furniture & fittings (W.N.4)	516
	16,621		**16,621**

Working Notes:		
1. Invoice price and cost		
Let cost be		100
So, invoice price		120
Loading		20
Loading: Invoice price	= 20 : 120 = 1 :6	

2. Invoice price of closing stock in branch

Branch Stock Account

	Rs. '000		Rs. '000
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	14,382		**14,382**

3. Closing balance of branch debtors

Branch Debtors Account

	Rs. '000		Rs. '000
To Balance b/d	384	By Branch cash	2,842
To Branch stock	3,140	By Branch expenses discount	58
		By branch stock (Returns)	102
		By Branch expenses (Bad debts)	37
		By Balance b/d	485
	3,524		**3,524**

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	Rs. '000		Rs. '000
To Balance b/d	500	By depreciation [(500x16%) + (100x16%x3/12)]	84
To Bank	100	By Balance c/d	516

	600		**600**

Note: Since the new furniture was purchased on 1st Jan 20X2 depreciation will be for 3 months.

5. Remittance by branch to head office

Branch Cash Account

	Rs. '000		**Rs. '000**
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O. (b.f)	11,700
To Branch debtors	2,842	By Balance b/d	10
	12,552		**12,552**

Question 143 (Q.BRN.SM.405(A))

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ Rs. 1,000 per tin and 15 tins of Ghee @ Rs. 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office. Following are the other details:

		Delhi	**Lucknow**
		Rs.	**Rs.**
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

	(Delhi)	
Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	1,50,000	3,12,500
Oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

	(Lucknow)	
Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	17,000	13,250
Oil	27,000	44,750
Debtors	75,750	?
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

- Addition to Plant/Machinery on 1-1-20X1 Rs. 6,02,750.
- Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).
- The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of Rs. 2,000 p.m. General expenses incurred by H.O. Rs. 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

SOLUTION

In the books of Arnold
Lucknow Branch Account

To Balance b/d		By Bank (Remittance to H.O.)	6,13,250
To Opening stock:		By Balance c/d	
Ghee	17,000	Closing stock:	
Oil	27,000	Ghee	13,250
Debtors	75,750	Oil	44,750
Cash on hand	7,540	Debtors (W.N. 1)	86,900
Furniture & fittings	6,250	Cash on hand (W.N. 2)	12,350
To Goods sent to Branch A/c		Furniture & fittings	5,625
Ghee (15 x 1500 x 12)	2,70,000		
Oil (25 x 1000 x 12)	3,00,000		
To Bank (Expenses paid by H.O.)	14,250		
To Branch Manager commission (Rs. 58,335 × 1/11)	5,303		
To Net Profit transferred			
to General P & L A/c	53,032		
	7,76,125		**7,76,125**

Arnold Trading and Profit and Loss account for the year ended 31st December, 20X1 (Excluding branch transactions)

	Rs.		Rs.
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:		By Closing Stock:	
Ghee 14,75,000	12,05,000	Ghee	3,12,500
Less: Goods sent to Branch (2,70,000)		Oil	4,17,250
Oil 29,32,000			
Less: Goods sent To Branch (3,00,000)	26,32,000		
To Direct Expenses	3,83,275		
To Gross Profit	5,97,075		
	53,17,350		**53,17,350**
To Manager's Salary	24,000	By Gross Profit	5,97,075
To General Expenses	24,000	By Branch Profit transferred	53,032
To Depreciation			
Furniture @10% 2,150			
Plant & Machinery @ 15% (W.N.3) 1,36,500	1,38,650		
To General Manager's Commission @ 10% (i.e., 4,63,457 × 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		**6,50,107**

Working Notes:

1. **Debtors Account**

	Rs.		Rs.
To Balance b/d	75,750	By Cash Collections	6,47,330
To Sales made during the year:		By Balance c/d	86,900
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		**7,34,230**

2. Branch Cash Account

	Rs.		Rs.
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		**6,54,870**

3. Depreciation on Plant & Machinery 3,07,250 x 15% + 6,02,750 x 15% = Rs. 1,36,500

Question 144 (Q.BRN.RMP.502(A): (RTP Nov'18))

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid Rs. 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of Rs. 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office; depreciation charged for the year Rs. 15,000 not recorded by Branch.

(iv) Head Office expenses Rs. 75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected Rs. 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to Rs. 50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of Rs. 10,000 on behalf of other Branches, but not recorded in the books of Branch.

Head office made payment of Rs. 16,000 for purchase of goods by branch, but not recorded in branch books.

SOLUTION

Books of Branch
Journal Entries

			Amounts Rs	
			Dr.	**Cr.**
(i)	Head Office Account To Salaries Account (Being rectification of salary paid on behalf of Head Office)	Dr.	5,000	 5,000
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c To Head Office Account (Being depreciation of assets accounted for)	Dr.	15,000	 15,000
(iv)	Expenses Account To Head Office Account (Being allocated expenses of Head Office recorded)	Dr.	75,000	 75,000
(v)	Head Office Account To Debtors Account (Being adjustment entry for collection from Branch	Dr.	60,000	 60,000

	Debtors directly by Head Office)			
(vi)	Goods in-transit Account To Head Office Account (Being goods sent by Head Office still in-transit)	Dr.	50,000	 50,000
(vii)	Head Office Account To expenses Account / To Cash (Being expenditure incurred, wrongly recorded in books)	Dr.	10,000	 10,000
(vii)	Purchases account A/c / Creditors To Head Office Account (Being purchases booked)	Dr.	16,000	 16,000

Question 145 (Q.BRN.SM.503(A))

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter – branch transactions assuming that only head office maintains different branch accounts in its books.

A. Delhi branch:

(1) Received goods from Mumbai – Rs. 35,000 and Rs. 15,000 from Kolkata.

(2) Sent goods to Chennai – Rs. 25,000, Kolkata – Rs. 20,000.

(3) Bill Receivable received – Rs. 20,000 from Chennai.

(4) Bill Acceptances sent to Mumbai – Rs. 25,000, Kolkata – Rs. 10,000.

B. Mumbai Branch (apart from the above):

(1) Received goods from Kolkata – Rs. 15,000, Delhi – Rs. 20,000.

(2) Cash sent to Delhi – Rs. 15,000, Kolkata – Rs. 7,000.

C. Chennai Branch (apart from the above):

(3) Received goods from Kolkata – Rs. 30,000.

(4) Acceptances and Cash sent to Kolkata – Rs. 20,000 and Rs.10,000 respectively.

D. Kolkata Branch (apart from the above):

(5) Sent goods to Chennai – Rs. 35,000.

(6) Paid cash to Chennai – Rs.15,000.

(7) Acceptances sent to Chennai – Rs.15,000.

SOLUTION

(a) Journal entry in the books of Head Office

Date	Particulars		Dr.	Cr.
			Rs.	Rs.
30th April, 20X1	Mumbai Branch Account Chennai Branch Account To Delhi Branch Account To Kolkata Branch Account (Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)	Dr. Dr.	3,000 70,000	 15,000 58,000

Working Note:

		Delhi	Mumbai	Chennai	Kolkata
		Rs.	Rs.	Rs.	Rs.
A.	Delhi Branch				
1	Received goods	50,000(Dr.)	35,000(Cr.)		15,000(Cr.)
2	Sent goods	45,000(Cr.)		25,000(Dr.)	20,000(Dr.)
3	Received Bills receivable	20,000(Dr.)		20,000(Cr.)	
4	Sent Acceptance	35,000(Cr.)	25,000 (Dr.)		10,000(Dr.)
B.	Mumbai Branch				
5	Received goods	20,000(Cr.)	35,000 (Dr.)		15,000(Cr.)
6	Sent cash		22,000 (Cr.)		

C.	Chennai Branch				
7	Received goods			30,000 (Dr.)	30,000(Cr.)
8	Sent cash and acceptances			30,000(Cr.)	30,000 (Dr.)
D.	Kolkata Branch				
9	Sent goods			35,000(Dr.)	35,000(Cr.)
10	Sent cash			15,000(Dr.)	15,000(Cr.)
11	Sent acceptances			15,000(Dr.)	15,000(Cr.)
		15,000 (Cr.)	**3,000(Dr.)**	**70,000(Dr.)**	**58,000(Cr.)**

Question 146 (Q.BRN.SM.505(A))

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec.,20X1 in columnar form.

(a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.O.		Branch	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-20X1				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen Salaries	22,500		6,200	
Other administrative &				
selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry Creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods received from H.O.			44,500	
	3,10,200	**3,10,200**	**67,200**	**67,200**

Notes:

(8) On 28th Dec., 20X1 the branch remitted Rs. 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also, on the same date, the H.O. dispatched goods to the branch invoiced at Rs. 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(9) The stock of raw materials held at the H.O. on 31st Dec.,20X1 was valued at Rs. 2,300.

(10) You are advised that:

- There were no stock losses incurred at the H.O. or at the branch.

- It is KP's practice to value finished goods stock at the H.O. at factory cost.
- There were no opening or closing stock of work-in-progress.

(11) Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

SOLUTION

In the books of KP

Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Material consumed (W.N.1)	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory Overheads	39,000	-	39,000				
To Opening stock of finished goods	13,000	9,200	22,200	By Closing stock including transit (W.N.2)	15,000	9,560	24,560
To Goods from H.O.		46,000					
To Gross Profit c/d (W.N.3)	66,000	19,560	85,560				
	2,61,000	**74,760**	**2,89,760**		**2,61,000**	**74,760**	**2,89,760**
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & Selling Overheads	12,500	2,300	14,800				
To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	**17,053**	**6,904**	**23,957**				
	66,000	**19,560**	**85,560**		**66,000**	**19,560**	**85,560**

Balance Sheet as on 31st Dec., 20X1

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Capital	50,000	-	50,000	Fixed Assets	-	-	-
Profit: H.O. 17,053 Branch 6,904	17053		23,957	Current Assets:			
				Raw material	2,300		2,300
Trade Creditors	13,000		13,000	Finished Goods (Less Stock Res.)	15,000	9,560	23,313*
Bonus Payable		156	156	Debtors	37,000	-	37,000
H.O. Account*		3500		Cash (including transit item)	23,500	1,000	24,500
Stock Reserve (W.N.4)	1,247			Branch A/c	3500		
	88,204	**10,560**	**87,113**		**88,204**	**10,560**	**87,113**

*9,560 × 100/115 i.e., (8,313 + 15,000) = Rs.23,313

** (5,000 + 6,904) – 1500 = Rs. 10,404.

Working Notes:

(1) **Material Consumed**

Opening raw material + Raw Material Purchased – Closing raw material
= 1,800 + 35,000 - 2,300 = 34,500

(2) **Closing stock at head office**

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead
= 34,500 + 1,08,500 + 39,000 = 1,95,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit
= 2,00,000 – 2,00,000 x 70% = 1,40,000

(c) Stock transferred to branch = 46,000 x 100/115 = 40,000

(d) Closing stock=1,95,000–1,40,000–40,000=15,000

(3) **Gross profit of Branch** = Sales x Gross profit ratio
= 65,200 x 30% =19,560

(4) **Closing stock reserve** = 9,560 x 15/115 = 1,246
Charge to profit and loss=1,247–1,200=47

Question 147 (Q.BRN.SM.603(A))

The Washington branch of XYZ Mumbai sent the following trial balance as on31st December,20X1:

	$	$
Head office A/c	_	22,800
Sales	_	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	_
Cash at bank	1,200	_
Stock, 1 January, 20X1	11,200	_
Goods from H.O.	64,000	_
Expenses	5,000	_
	1,10,200	**1,10,200**

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

		Rs.			Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	29,26,000	By	Balance c/d	8,60,000
		37,36,000			**37,36,000**

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2007, when $ 1.00 = Rs.40.
Rates of exchange were:

1th January, 20X1	$ 1.00	=	Rs. 46
31st December, 20X1	$ 1.00	=	Rs.48
Average	$ 1.00	=	Rs. 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

(i) Prepare the Branch Trading &Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

SOLUTION

(i)

In the Books of Head Office
Branch Trading and Profit & Loss A/c (in Dollars)
for the year ended 31st December, 20X1

Opening stock	11200	By sales	84000
Goods from H.O.	64000	By closing stock	8000
Gross profit c/d	16800		
	92000		**92000**
Expenses	5,000	By Gross Profit b/d	16,800
To deprecation (24000X 10%)	2400		
To manager commission	470		
To net profit C/d	8930		
	16800		**16800**

(i) (a)

Converted Branch Trial Balance (into Indian Currency)

Particulars	Rate per $	Dr. (Rs.)	Cr. (Rs.)
Machinery	40	9,60,000	_
Stock January 1, 20X1	46	5,15,200	_
Goods from head office	Actual	29,26,000	_
Sales	47	_	39,48,000
Expenses	47	2,35,000	_
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	_
Head office A/c	Actual	_	8,60,000
Difference in exchange rate (b.f.)		47,000	_
		49,71,200	**49,71,200**
Closing stock $ 8,000 (W.N. 2)	48		Rs. 3,84,000

(b) Branch Trading and Profit &Loss A/c for the year ended 31st December, 20X1

	Rs.		Rs.
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10%on Rs. 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		8,90,800

(c)

Branch Account

To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	Less:		
To Creditors	1,63,200	By Depreciation	(96,000)	8,64,000
To Outstanding		By Closing stock		3,84,000
To commission	22,560	By Debtors		2,30,400
		By Cash at bank		57,600

	15,36,000			**15,36,000**

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e.,	5% of $[16,800 – (5,000 + 2,400)]
Or	5% × $9,400 = $ 470
Manager's commission in Rupees = $ 470 x Rs. 48 = Rs. 22,560	

2. Calculation of closing stock

	$
Opening stock	11,200
Add: Goods from head office	64,000
	75,200
Less: Cost of goods sold (at invoice price) 84000X100/125	(67,200)
Closing stock	8,000
Closing stock in Rupees = $8,000 x Rs. 48 = Rs.3,84,000.	

Note: Manager is entitled to commission on profits earned at the end of the year.

Question 148 (Q.BRN.RMP.604(A): (MTP Nov'19) (RTP Nov'20, Nov'22))

M & S Co. of Lucknow has a Branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousands)		**Canberra Branch (Aust. Dollars in thousands)**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	**4,880**	**390**	**390**

The following information is also available:

(i) Stock as at 31st March, 2019

Lucknow Rs. 1,50,000

Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%
(iii) Provision is to be made for doubtful debts at5%
(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:
(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = Rs. 50
Closing rate	1 A $ = Rs. 53
Average rate	1 A $ = Rs. 51.00
For Fixed Assets	1 A $ = Rs. 46.00

Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

SOLUTION

M & S Co. Ltd.

Canberra, Australia Branch Trial Balance As on 31st March 2019

	($ 'thousands)			(Rs.' thousands)	
	Dr.	**Cr.**	**Conversion rate per $**	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	**19,063**
Foreign Exchange Loss (bal. fig.)				208	
	390	**390**		**19,063**	**19,063**
Closing stock	**3.125**		**53**	**165.625**	

Trading and Profit & Loss Account for the year ended 31st March, 2019

(Rs.'000)

		H.O.	Branch	Total			H.O.	Branch	Total
To	Opening Stock	100	1,000.000	1,100.000	By	Sales	520	6,273.000	6,793.000
To	Purchases	240	1,020.000	1,260.000	By	Goods sent to Branch	100	–	100.000
To	Goods received from Head Office	–	100.000	100.000	By	Closing Stock	150	165.625	315.625
To	Wages & Salaries	75	2,295.000	2,370.000					
To	Gross profit c/d	355	2,023.625	2,378.625					
		770	**6,438.625**	**7,208.625**			**770**	**6,438.625**	**7,208.625**
To	Rent	–	612.000	612.000	By	Gross profit b/d	355	2,023.625	2,378.625
To	Office expenses	25	918.000	943.000	By	Commission receipts	256	5,100.000	5,356.000
To	Provision for doubtful debts @	14	159.000	173.000					

	5%								
To	Depreciation (W. N.)	460	644.000	1,104.000					
To	Balance c/d	112	4,790.625	4,902.625					
		611	**7,123.625**	**7,734.625**			**611**	**7,123.625**	**7,734.625**
To	Managing Partner's Salary			30.000	By	Balance b/d			4,902.625
To	Exchange Loss			208.000	By	Branch stock reserve			4.000
To	Balance c/d			4,668.625					
				4,906.625					**4,906.625**

Working Note:

Calculation of Depreciation

	H.O Rs. '000	Branch Rs. '000
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	**460**	**644**

Note: As the closing stock of Branch does not consist any stock transferred from M&S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&LA/c.

32. FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Question 149 (Q.FRW.RMP.06(A): (RTP Nov22; EXAM May19; EXAM Nov'20, EXAM JAN'25))

Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below:

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

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was Rs.3,25,000.

(2) Purchases and Sales in 2017-18 amounted to Rs.22,50,000 and Rs.27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2018 were Rs.2,00,000 and Rs.2,50,000 respectively.

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

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

(6) Sundry Debtors on 31.03.2018 are Rs.1,50,000 of which Rs.5,000 is doubtful. Collection of another Rs.25,000 depends on successful re-installation of certain product supplied to the customer;

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

(8) Cash balance as on 31.03.2018 is Rs.4,22,000.

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

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2017-18.

(2) Balance Sheet as on 31st March, 2018.

(3)

SOLUTION:

Profit and Loss Account for the year ended 2017-18(not assuming going concern)

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

Balance Sheet as at 31st March, 2018 (not assuming going concern)

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000

Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		**11,17,000**

*Assumed that Rs.78,000 includes interest on 10% loan amount for the year.

Question 150 (Q.FRW.RMP.4(B): (RTP May19, May21))

(i) With regard to financial statements, name any five qualitative characteristics and elements.

(ii) Aman started a business on 1st April 2020 with Rs. 24,00,000 represented by 1,20,000 units of Rs. 20 each. During the financial year ending on 31st March, 2021, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2020-21 if Financial Capital is maintained at historical cost.

SOLUTION

(a) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b)

Particular	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs. 30 x 1,20,000 units) Opening equity Permissible drawings to keep Capital intact	36,00,000 represented by cash 1,20,000 units x Rs. 20 = 24,00,000 12,00,000 (36,00,000 – 24,00,000)

Question 151 (Q.FRW.RMP.8(B): (EXAM July21))

A trader commenced business on April 1, 2020 with Rs. 1,20,000 represented by 6,000 units of a certain product at Rs. 20 per unit. During the year 2020-21 he sold these units at Rs. 30/- per unit and had withdrawn Rs. 60,000. The price of the product at the end of financial year was Rs. 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

SOLUTION:

Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).
Current cost of opening stock = (Rs. 1,20,000 / 100) x 125 Or 6,000 units x Rs. 25 = Rs. 1,50,000
Current cost of closing cash = Rs. 1,20,000 (Rs. 1,80,000 – Rs. 60,000)
Opening equity at closing current costs = Rs. 1,50,000
Closing equity at closing current costs = Rs. 1,20,000
Retained Profit = Rs. 1,20,000 – Rs. 1,50,000 = (-) Rs. 30,000
The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of Rs. 1, 20,000 is not sufficient to buy 6,000 units again at increased price of Rs. 25 per unit. The drawings should have been restricted to Rs. 30,000 (Rs. 60,000 – Rs. 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:
Current cost of opening stock = Rs. 1,80,000
Opening equity at closing current costs = Rs. 1,50,000
Retained Profit = Rs. 1,80,000 – Rs. 1,50,000 = Rs. 30,000
If the trader had not withdrawn any amount, then the retained profit would have been Rs. 30,000.