AMALGAMATION - LDR SUMMARY

(INTERLINKED • TRANSFEROR ↔ TRANSFEREE • ICAI FORMAT)

## STEP 1 – TRANSFER OF ASSETS

| TRANSFEROR | TRANSFEREE |
|---|---|
| Realisation A/c Dr | MERGER → Assets A/c Dr (Book Value) |
| To Assets A/c | To Business Purchase A/c |
| | PURCHASE → Assets A/c Dr (Agreed Value) |
| | To Business Purchase A/c |

Interlink → Transferor removes assets; transferee records them (book value in merger, agreed value in purchase).

## STEP 2 – TRANSFER OF LIABILITIES

| TRANSFEROR | TRANSFEREE |
|---|---|
| Liabilities A/c Dr | Business Purchase A/c Dr |
| To Realisation A/c | To Liabilities A/c |

Interlink → Transferor derecognises liabilities; transferee assumes them.

## STEP 3 – PURCHASE CONSIDERATION BECOMES RECEIVABLE/PAYABLE

| TRANSFEROR | TRANSFEREE |
|---|---|
| Transferee Co. A/c Dr | (No entry – PC is embedded in |
| To Realisation A/c | Business Purchase A/c) |

Interlink → PC receivable in transferor = PC payable already created via Business Purchase A/c.

## STEP 4 – PAYMENT OF PURCHASE CONSIDERATION

| TRANSFEROR | TRANSFEREE |
|---|---|
| Bank / Shares in Transferee A/c Dr | Business Purchase A/c Dr |
| To Transferee Co. A/c | To Share Capital A/c |
| | To Securities Premium A/c (if any) |
| | To Bank A/c (cash component) |

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Interlink → What transferee pays equals what transferor receives.
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 STEP 5 — PROFIT OR LOSS ON REALISATION (TRANSFEROR ONLY)
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If Profit → Realisation A/c Dr → To Equity SH A/c
If Loss   → Equity SH A/c Dr → To Realisation A/c        TRANSFEREE: No entry
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Interlink → Only transferor prepares and closes Realisation A/c.
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 STEP 6 — TRANSFER OF RESERVES
==================================================================================================
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TRANSFEROR                                           TRANSFEREE
All Reserves A/c Dr                                  MERGER →
      To Equity SH A/c                               Amalgamation Adj. A/c Dr
                                                          To Statutory Reserve A/c
                                                     PURCHASE → No reserves taken over
--------------------------------------------------------------------------------------------------
----
Interlink → Only statutory reserves continue in merger; none in purchase.
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 STEP 7 — GOODWILL / CAPITAL RESERVE (PURCHASE ONLY)
==================================================================================================
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TRANSFEROR → No entry                                 TRANSFEREE →
                                                     If PC > NA:
                                                         Goodwill A/c Dr
                                                              To Business Purchase A/c
                                                     If PC < NA:
                                                         Business Purchase A/c Dr
                                                              To Capital Reserve A/c
--------------------------------------------------------------------------------------------------
----
Interlink → Difference arises only in transferee books and only under purchase.
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 STEP 8 — CLOSING OF TRANSFEROR BOOKS
==================================================================================================
====
TRANSFEROR                                           TRANSFEREE
Equity SH A/c Dr                                     No entry
      To Share Capital A/c
--------------------------------------------------------------------------------------------------
----
Interlink → Transferor ceases to exist; transferee carries forward business.
--------------------------------------------------------------------------------------------------
----

                                               END OF LDR SUMMARY
```

```
Realisation Account
Dr.                                            Cr.
----------------------------------------------------------------------
To Assets A/c (all assets transferred)      By Liabilities A/c (all liabilities)
To Bank A/c (expenses by transferor)        By Transferee Co. A/c (PC receivable)
To Loss transferred to Equity SH A/c        By Bank A/c (sale of assets not taken over)
                                             By Profit transferred to Equity SH A/c
----------------------------------------------------------------------
```

Equity Shareholders Account

| Dr. | Cr. |
| --- | --- |
| To Shares in Transferee Co. A/c | By Share Capital A/c |
| To Bank A/c (if cash distributed) | By General Reserve A/c |
| To Loss on Realisation | By P&L A/c (credit balance) |
| | By Realisation A/c (profit) |

```
Transferee Company Account
Dr.                                                        Cr.
------------------------------------------------------------------------------------
To Realisation A/c (PC settlement)           By Equity SH A/c (PC receivable)
                                              (or) By Realisation A/c (as per entry)
------------------------------------------------------------------------------------
```

```
Business Purchase Account
Dr.                                                         Cr.
--------------------------------------------------------------------------------------------
To Share Capital A/c                               By Assets A/c (value of assets taken over)
To Securities Premium A/c (if any)                 By Liabilities A/c (value of liabilities)
To Bank A/c (cash portion of PC)                    (Credit side = Net Assets taken over)
--------------------------------------------------------------------------------------------
OR (Purchase Method)
To Capital Reserve A/c (if NA > PC)                By Goodwill A/c (if PC > NA)
```

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Goodwill Account
Dr.                                                     Cr.
--------------------------------------------------------------------------------
To Balance c/d (Goodwill recognised)         By Business Purchase A/c
--------------------------------------------------------------------------------
```

Capital Reserve Account

| Dr. | Cr. |
| --- | --- |
| | By Business Purchase A/c |

```
Amalgamation Adjustment Account
Dr.                                              Cr.
------------------------------------------------------------------------
To Statutory Reserves A/c                    (No other entries normally)
------------------------------------------------------------------------
```

AMALGAMATION – STEP 5: SPECIAL / RARE ADJUSTMENTS (Exam Attempts 2024-2026)

1️⃣ Adjustment of PC when multiple modes of settlement involved
(RTP Nov 2024 – conceptual application)

2️⃣ Treatment of statutory reserves (SCHEME OF AMALGAMATION)
- Reserve carried forward through Amalgamation Adjustment A/c
(PYQ May 2024)

3️⃣ Inter-company holdings (cross-holding, mutual holdings)
- Cancellation of mutual shareholding
(MTP May 2025 - advanced scenario)

4️⃣ Calculation of PC when intrinsic value method + lump sum combined
(RTP Jan 2025 - mixed PC computation)

5️⃣ Hidden goodwill / capital reserve recognition due to pre-acquisition revaluation
(ICAI SM advanced example)

6️⃣ Vendor company's unrealised profit / loss in stock taken over
(PYQ Nov 2024 conceptual point)

7️⃣ Treatment when purchase consideration < net assets = Capital Reserve
(Repeated in RTP)

8️⃣ Debentures conversion at premium/discount in transferee
(MTP Jan 2026 - corporate restructuring question)

9️⃣ Treatment of unrecorded liabilities/ assets discovered on amalgamation date
(PYQ Jan 2025)

🔟 Adjustment of PC when acquisition is in "nature of merger"
- Transferor's reserves preserved
(RTP May 2024)

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PURCHASE CONSIDERATION (PC) - LDR SUMMARY
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1️⃣ METHODS OF PC (ICAI APPROVED)
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1. Lumpsum / Direct Method → PC GIVEN directly. (No calculation)
2. Net Assets Method → PC = Assets Taken - Liabilities Taken. (When PC NOT given)
3. Net Payment Method → PC = Cash + Shares + Debentures issued. (MOST exam-used)
4. Intrinsic Value Method → Based on Exchange Ratio derived from Net Asset Value per share.

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2️⃣ WHICH METHOD TO USE? - ICAI SHORTCUT (Flow Logic)
--------------------------------------------------------------------------------
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IF PC is mentioned → Lumpsum
ELSE IF assets/liabilities with values given → Net Assets
ELSE IF payment mode given → Net Payment
ELSE IF NAV-based exchange ratio given → Intrinsic Value

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3️⃣ MAIN FORMULAS (ALL EXAM FORMULAS IN TWO LINES)
--------------------------------------------------------------------------------
-----
Net Assets Method:  PC = (Assets Taken - Liabilities Taken)
Net Payment: PC = Cash Paid + (Shares Issued × Issue Price) + (Debentures Issued)
Intrinsic Value: IV = Net Assets ÷ Shares;
                   Exchange = IV(Transferor) : IV(Transferee);
                   PC = Shares issued × Issue Price

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4️⃣ EXAM ILLUSTRATIONS (COMPRESSED)
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-----
ILLUSTRATION 1 — LUMPSUM
PC given = 12,00,000 → Shares @10 = 1,20,000 shares.

ILLUSTRATION 2 — NET ASSETS
Assets: 5,00,000 + 2,00,000 + 1,50,000 = 8,50,000
Less Liabilities: 1,00,000 → PC = 7,50,000.

ILLUSTRATION 3 — NET PAYMENT
Shares 20,000 @12 = 2,40,000; Cash 1,00,000 → PC = 3,40,000.

ILLUSTRATION 4 — INTRINSIC VALUE
IV(B)=15; IV(A)=30; Ratio=1:2;
B has 1,00,000 shares → receives 50,000 shares → PC=50,000×30=15,00,000.

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5️⃣ TRICKY ADJUSTMENTS (ICAI EXAM TRAPS)

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🔹 Unrecorded Items:
PC = Assets + Unrecorded Assets - Unrecorded Liabilities - Liabilities
Example: 8,00,000 + 50,000 - 20,000 - 3,00,000 = 5,30,000.

🔹 Debentures at Premium (VERY common):
Liabilities taken at SETTLEMENT value.
Example: 1,00,000 debentures @10% premium → 1,10,000.
PC = Assets - 1,10,000.

🔹 Shares Issued at Premium:
Shares issued = 30,000 @₹15 → PC=4,50,000
But entry splits: Share Capital = 3,00,000; Premium=1,50,000.

🔹 Intrinsic Value Adjustment (Equity only):
If preference shares exist → Use *only equity* in exchange.
Example: Net Assets=12,00,000; Equity shares=70,000 → IV=17.14.

🔹 Assets/Liabilities NOT taken:
New Assets Taken = Total Assets - Not Taken
New Liabilities Taken = Total Liabilities - Not Taken
Example: 10,00,000 - 1,50,000; 3,00,000 - 50,000 → PC=6,00,000.

🔹 Mixed Method (VERY popular ICAI trap):
EVEN IF assets/liabilities are given,
IF mode of payment is given → USE NET PAYMENT.
Example: Cash 50,000 + Shares 20,000@12 → PC=2,90,000.

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6️⃣ FINAL PC DECISION TABLE (WRITE THIS IN EXAM FOR FULL MARKS)

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PC given → Lumpsum
PC NOT given but assets/liabilities given → Net Assets
Payment details given → Net Payment
Exchange ratio based on IV given → Intrinsic Value
If BOTH Net Assets & Payment info given → ALWAYS Net Payment (ICAI rule)

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END OF ONE PAGE SUMMARY

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CONSOLIDATION - LDR MASTER SUMMARY
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1️⃣ BASIC FORMULA (THE ONLY 4 ITEMS ICAI TESTS)
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1. GOODWILL / CAPITAL RESERVE = Cost of Investment - Holding’s Share in Net Assets of
Subsidiary
2. MINORITY INTEREST (MI) = MI % × (Share Capital + Reserves of Subsidiary after adjustments)
3. CONSOLIDATED RESERVES = Parent’s Own Reserves + Parent’s Share of Post-Acquisition Profits
4. CONSOLIDATED BALANCE SHEET = Parent Assets + Subsidiary Assets - Intercompany Effects

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2️⃣ STEPS OF CONSOLIDATION (ICAI SEQUENCE)
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STEP 1 — Determine % of Holding & Minority Interest
         (Holding % = Shares held by parent / Total shares of subsidiary)

STEP 2 — Break Reserves into:
         (i) Pre-Acquisition → affects Goodwill/Capital Reserve
         (ii) Post-Acquisition → increases Parent Reserves

STEP 3 — Compute Net Assets of Subsidiary on Date of Acquisition
         Net Assets = Share Capital + Pre-acquisition Reserves

STEP 4 — Goodwill / Capital Reserve
         If Cost of Investment > Holding’s Share of Net Assets → Goodwill
         If Cost < Holding’s Share of Net Assets → Capital Reserve

STEP 5 — Post-Acquisition Profits
         Parent Share = Holding % × Post-Acq Reserves
         MI Share = MI % × Post-Acq Reserves

STEP 6 — Minority Interest (ICAI Format)
         MI = MI% × (Share Capital + Pre-acq Reserves + MI’s share of Post-acq Profits)

STEP 7 — Consolidated Reserves
         = Parent’s Own Reserves + Parent Share of Post-Acq Profits

STEP 8 — Inter-Company Adjustments
         • Unrealised profit on inventory
         • Unrealised profit on fixed assets
         • Bills receivable/payable
         • Inter-company balances
         • Bonus issue effects

STEP 9 — Prepare Consolidated Balance Sheet (Schedule III Format)

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3🟦 QUICK ILLUSTRATIONS (ULTRA-COMPRESSED ICAI PATTERN)
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ILLUSTRATION 1 — GOODWILL / CAPITAL RESERVE
Holding 80%; Cost of Investment = 5,00,000
Subsidiary Net Assets at Acquisition = Share Capital 4,00,000 + Reserves 1,00,000 = 5,00,000
Holding's Share = 5,00,000 × 80% = 4,00,000
GOODWILL = 5,00,000 - 4,00,000 = 1,00,000

ILLUSTRATION 2 — MINORITY INTEREST
MI = 20%
Subsidiary: Share Capital 4,00,000; Post-acq reserves 1,00,000
MI = 20% × (4,00,000 + 1,00,000) = 1,00,000

ILLUSTRATION 3 — POST-ACQUISITION PROFITS
Post-acq reserves = 1,00,000
Holding 80% → Parent Share = 80,000 (goes to Consolidated Reserves)
MI Share = 20,000

ILLUSTRATION 4 — UNREALISED PROFIT (Stock Reserve)
Subsidiary sold goods costing 50,000 to parent for 65,000
Closing stock includes goods worth 30,000 (cost 23,077)
Unrealised Profit = 30,000 - 23,077 = 6,923 → Deduct from Consolidated Inventory & Group Profit.

ILLUSTRATION 5 — BILL OF EXCHANGE
Parent's Bills Receivable = Subsidiary's Bills Payable → Cancel both.

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4🟦 CONSOLIDATED BALANCE SHEET FORMAT (ICAI MINI-FORM)
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=====
ASSETS
Fixed assets (P + S - Unrealised Profits)
Goodwill / Capital Reserve
Current assets (P + S - adjustments)

EQUITY & LIABILITIES
Share Capital (Parent ONLY)
Consolidated Reserves (Parent + share of post-acq profits)
Minority Interest
Long-term / short-term liabilities (P + S - intercompany items)

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5🟦 EXAM TRAPS (ICAI MOST FREQUENT)
==========================================================================================
=====
✔ Pre-acquisition profits NEVER go to Consolidated Reserves → they adjust Goodwill.
✔ Post-acquisition profits ALWAYS shared between Parent & MI.
✔ Unrealised profits ALWAYS deducted from group profits.
✔ Bonus issue from pre-acquisition profits → adjust net assets at acquisition.
✔ For preference shares: MI includes preference share capital + dividend arrears.
✔ Intercompany asset sales → eliminate profit + adjust asset to original carrying amount.

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WN 1 - ANALYSIS OF PROFITS OF SUBSIDIARY

A. Pre-Acquisition Profits                    XXXX
   (Reserves at acquisition date)

B. Post-Acquisition Profits                   XXXX
   (Increase in reserves after acquisition)

C. Allocation:
   Holding Company Share:
      Pre-Acq → Adjust Cost of Control
      Post-Acq → Consolidated Reserves

   Minority Interest Share:
      Pre-Acq + Post-Acq → Minority Interest
```

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PRE-ACQUISITION PROFITS (Capital Profits)   |  POST-ACQUISITION PROFITS (Revenue Profits)
----------------------------------------------+-----------------------------------------------
• EXISTING reserves at acquisition            | • Increase in reserves after acquisition
• Pre-acq P&L balance                         | • Increase in P&L after acquisition
• Pre-acq General Reserve                     | • FV adjustment depreciation impact
• Pre-acq FV adjustments (net)                | • Unrealised profit adjustments
• Pre-acq bonus issue adjustments             | • Interim/proposed dividend adjustments

                              |
                              ▼
       =============================================================
        STEP 3 – Allocation of PROFITS
       =============================================================

HOLDING COMPANY SHARE                          | MINORITY INTEREST SHARE
= Holding % × Post-Acq Profits                 | = MI % × Post-Acq Profits
Goes to: CONSOLIDATED RESERVES                 | Goes to: MINORITY INTEREST (CBS)

Pre-Acq Profits × Holding % → Reduce Goodwill (Cost of Control)
Pre-Acq Profits × MI % → Added to MI

                              |
                              ▼
       =============================================================
        STEP 4 – FLOW TO CONSOLIDATED BALANCE SHEET
       =============================================================

1. Pre-acquisition Profits:
   → Affect Goodwill calculation (Cost of Control)
   → MI share added to Minority Interest

2. Post-acquisition Profits:
   → Holding Share → Consolidated Reserves (CBS: Shareholders' Funds)
   → MI Share → Minority Interest

3. FV Adjustments:
   → Pre-acq FV ↑ reduces Goodwill
   → Post-acq extra depreciation reduces Post-acq Profits

4. Unrealised Profit:
   → Deduct from Group Reserves
   → Deduct from Inventory or PPE

                              |
                              ▼
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WN 2 - COST OF CONTROL (Goodwill/Capital Reserve)

A. Cost of Investment in Subsidiary                             XXXX

B. Less: Holding Company's Share in Net Assets of Subsidiary:
     Share Capital × Holding %                                 XXXX
   + Pre-Acquisition Reserves × Holding %                      XXXX
   + Fair Value Adjustments × Holding %                        XXXX
                                                                ----
                                              Total (B)         XXXX

C. GOODWILL = A - B   (If positive)
D. CAPITAL RESERVE = B - A   (If negative)
```

```
CONSOLIDATED BALANCE SHEET
                                As at 31st March, 20XX

EQUITY & LIABILITIES
A. Shareholders’ Funds
   1. Share Capital (Holding Co. ONLY)
   2. Reserves & Surplus (Consolidated Reserves)
        = Parent’s own reserves
        + Parent’s share of Post-Acquisition Profits
        - Parent’s share of Goodwill Impairment (if any)

B. Minority Interest
   = MI% × (Share Capital + Reserves after adjustments)
   + MI share of Post-Acquisition Profits
   - MI share of Impairment Loss

C. Long-term Liabilities
   (Holding + Subsidiary - Intercompany items)

D. Current Liabilities
   (Holding + Subsidiary - Intercompany items)
   NOTE: Bills Payable/Bills Receivable cancellation happens here.

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ASSETS
A. Non-Current Assets
   1. Fixed Assets (Holding + Subsidiary - Unrealised Profit Adjustments)
   2. Goodwill / Capital Reserve (from Cost of Control)
   3. Other Non-Current Assets

B. Current Assets
   Inventory (minus unrealised profit)
   Trade Receivables (after eliminating intercompany dues)
   Cash and bank balances
   Other CA

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CONSOLIDATION - ADJUSTMENTS + ACCOUNTING TREATMENT (1 PAGE)

| ADJUSTMENT TYPE | QUICK ILLUSTRATION | ACCOUNTING TREATMENT |
|---|---|---|
| 1 GOODWILL / CAPITAL RESERVE | Cost of Investment = 6,00,000<br>Net Assets = 5,00,000<br>Holding Share = 3,75,000<br>Goodwill = 2,25,000 | Goodwill = Cost - H's share<br>Capital Reserve if negative<br>Shown in Consolidated BS |
| 2 PRE & POST ACQ PROFITS | Pre-acq: 1,00,000<br>Post-acq: 2,00,000<br>H(75%) = 1,50,000<br>MI(25%) = 50,000 | Pre-acq → Adjust Goodwill<br>Post-acq → Share b/w H & MI<br>Increase Group Reserves<br>Increase MI |
| 3 FAIR VALUE ADJUSTMENT (ICAI special) | FV +40,000 at acquisition<br>Post-acq Depn = 4,000 | Add FV uplift in Net Assets<br>Reduces Goodwill<br>Depn reduces Post-acq profits |
| 4 UNREALISED PROFIT - STOCK | Goods sold S→H: Cost 60,000, Sale 80,000<br>Closing stock part = 20,000<br>URP = 5,000 | Deduct URP from:<br>(1) Inventory<br>(2) Group Profit |
| 5 UNREALISED PROFIT - FIXED ASSET | Asset CA = 1,00,000 sold at 1,40,000<br>URP = 40,000<br>Depn(S) = 14,000 vs correct 10,000 | Reduce PPE by remaining URP<br>Excess Depn adjustment:<br>Add Excess Depn to Group Profit |
| 6 INTER-COMPANY BALANCES | Parent Debtors = 50,000 from Sub<br>Bills Rec 1,00,000 = Bills Payable 1,00,000 | Cancel both:<br>Dr Creditors / BP<br>Cr Debtors / BR |
| 7 DIVIDENDS (MOST TESTED) | Proposed Dividend → Post-acq only<br>Interim Dividend (after acq)<br>Parent share is deducted from Post-Acq Profit | Parent Share → Group Reserves<br>MI Share → MI<br>Do NOT affect Goodwill |

| | | |
|---|---|---|
| 8️⃣ BONUS ISSUE - PRE / POST ACQ | Pre-acq Bonus: 1:1<br>Post-acq Bonus | Pre-acq → Adjust Net Assets<br>Post-acq → Only Share Capital ↑<br>NO effect on Goodwill/ Post-acq |
| 9️⃣ PREFERENCE SHARES & ARREARS | Pref Capital = 2,00,000<br>Arrears Div = 30,000 | Include in MI:<br>MI = Pref Part + MI% of Equity |
| 🔟 GOODWILL IMPAIRMENT | Original Goodwill = 2,25,000<br>Impairment = 25,000<br>H (75%) = 18,750<br>MI(25%) = 6,250 | Reduce Goodwill in CFS<br>Allocate:<br>H portion → Deduct Group Reserves<br>MI portion → Reduce MI |
| 1️⃣1️⃣ INTEREST, BILLS, OTHER ITEMS | Subsidiary owes Parent 70,000<br>Includes interest? Remove unrealised portion | Cancel receivable & payable<br>Adjust Group Profits |
| 1️⃣2️⃣ ASSETS/LIABILITIES REVALUATION | Land ↑ 1,00,000 at acquisition<br>Land ↓ 40,000 at acquisition | Increase Net Assets → Reduce Goodwill<br>Decrease Net Assets → Increase Goodwill |
| 1️⃣3️⃣ CHAIN HOLDING (If applicable) | H holds 80% of S; S holds 40% of T<br>H's effective holding = 0.8×0.4 = 32% | Consolidate T proportionately:<br>Parent share = Effective %<br>MI = Remaining % |
| 1️⃣4️⃣ WORKING NOTES (ICAI DECIDED MARKS) | WN1 Pre/Post Profits<br>WN2 Cost of Control<br>WN3 MI<br>WN4 Group Reserves<br>WN5 Unrealised Profit | Required in every answer:<br>• WN1 - Profit split<br>• WN2 - Goodwill<br>• WN3 - MI<br>• WN5 - Adjustments |

CONSOLIDATION — STEP 5: SPECIAL / RARE ADJUSTMENTS (Exam Attempts 2024-2026)

1️⃣ Fair Value Adjustments at acquisition + post-acquisition depreciation
(RTP Nov 2024 – FV adjustments)

2️⃣ Bonus issue pre- and post-acquisition
(PYQ May 2024 – reserves impact)

3️⃣ Dividend treatment: proposed dividend, interim dividend, pre/post acquisition split
(MTP May 2025)

4️⃣ Unrealised profits on intra-group transfer of fixed assets
– cancellation + excess depreciation adjustment
(RTP Jan 2025)

5️⃣ Unrealised profits in stock where selling company is subsidiary vs parent
(PYQ Nov 2024 – MI proportion questioned)

6️⃣ Chain holding (multi-level holding)
(ICAI SM + MTP Nov 2024)

7️⃣ Goodwill impairment distribution between Parent & MI
(Repeated RTP and PYQ 2024-2025)

8️⃣ Intra-group bills receivable & payable cancellation
– including discounting & dishonour scenarios
(MTP Jan 2026)

9️⃣ Treatment of preference share capital and arrears of preference dividend
(RTP May 2024)

🔟 Revaluation profit/loss belonging partly to pre- and post-periods
(Tested multiple attempts)

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CASH FLOW STATEMENT — ONE PAGE MASTER
==============================================================================================
======
A) CASH FLOW FROM OPERATING ACTIVITIES (INDIRECT METHOD)
==============================================================================================
======
Net Profit Before Tax (as per P&L / Balance Sheet)

🟧 ADD: NON-CASH & NON-OPERATING EXPENSES (No cash outflow)
   • Depreciation, Amortisation
   • Loss on sale of fixed assets
   • Bad debts / Provision for doubtful debts
   • Increase in Provision for Tax / Expenses
   • Unrealised Foreign Exchange Loss

🟧 LESS: NON-OPERATING INCOMES (Cash appears elsewhere)
   • Profit on sale of fixed assets
   • Interest Income (Investing)
   • Dividend Income (Investing)
   • Unrealised Foreign Exchange Gain

🟩 ADD / LESS: WORKING CAPITAL CHANGES (Convert accrual → cash)
   Current Assets (Opposite effect):
     • Increase in CA (Debtors ↑, Inventory ↑, Prepaid ↑) → - CFO
     • Decrease in CA → + CFO

   Current Liabilities (Same effect):
     • Increase in CL (Creditors ↑, Outstanding Exp ↑) → + CFO
     • Decrease in CL → - CFO

🟦 LESS: INCOME TAX PAID (Always shown separately under CFO)
🟦 ADD: TAX REFUND RECEIVED

**NET CASH GENERATED FROM OPERATING ACTIVITIES (A)**

==============================================================================================
======
B) CASH FLOW FROM INVESTING ACTIVITIES (🟦 GROUP)
==============================================================================================
======
- Purchase of Fixed Assets / Intangible Assets / Investments
+ Sale of Fixed Assets (full cash received)
+ Sale of Investments
+ Interest Received
+ Dividend Received

(🟧 Profit/Loss already adjusted in Operating; only CASH goes here.)

**NET CASH FROM INVESTING ACTIVITIES (B)**

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C) CASH FLOW FROM FINANCING ACTIVITIES (🟣 GROUP)
================================================================================================
+ Proceeds from Issue of Shares / Securities Premium
+ Proceeds from Debentures / Loans
- Redemption of Shares / Debentures
- Buyback of Shares
- Loan Repayment
- Interest Paid
- Dividend Paid (Interim/Final)

**NET CASH FROM FINANCING ACTIVITIES (C)**

================================================================================================
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS  = A + B + C
ADD: Opening Cash & Cash Equivalents
CLOSING CASH & CASH EQUIVALENTS
================================================================================================
INTERLINKED ADJUSTMENTS (SAME ICON = SAME “COLOUR GROUP”)
================================================================================================

🟧 NON-CASH ITEMS (affect NP → adjust CFO):
   Depreciation, Amortisation, Provisions, Unrealised FX, Loss on sale.

🟧 NON-OPERATING ITEMS:
   Profit on sale (- CFO), Interest Income (- CFO), Dividend Income (- CFO).

🟦 LONG-TERM ASSET CASH FLOWS:
   Purchase (- investing), Sale (+ investing), Interest Received (+ investing), Dividend
Received (+ investing).

🟣 CAPITAL STRUCTURE FLOWS:
   Issue of capital (+), Redemption/Borrowing (-), Interest Paid (-), Dividend Paid (-).

🟩 WORKING CAPITAL MOVEMENTS:
   CA ↑ → - CFO          CA ↓ → + CFO
   CL ↑ → + CFO          CL ↓ → - CFO

🟦 TAX & NON-CASH DISCLOSURES:
    • Income Tax Paid → Operating Outflow
    • Non-cash transactions → NOT included in CF (only disclosed)
================================================================================================
ICAI FINAL EXAM FORMULA (ALWAYS WRITE IN CFO WORKING NOTE)
================================================================================================
CFO = Net Profit Before Tax
     + (🟧 Add: Non-cash / Non-operating expenses)
     - (🟧 Less: Non-operating incomes)
     + / - (🟩 Working capital changes)
     - (🟦 Income tax paid)
================================================================================================
```

CASH FLOW STATEMENT - ADJUSTMENTS + ACCOUNTING TREATMENT (1 PAGE)

| ADJUSTMENT TYPE | QUICK ILLUSTRATION (ICAI STYLE) | ACCOUNTING TREATMENT |
|---|---|---|
| 1️⃣ NET PROFIT TO OPERATING CF<br>(STARTING POINT) | Net Profit = 2,50,000<br>Add non-cash & non-operating items | Start from Net Profit:<br>+ Depreciation, + Loss on Sale<br>- Profit on Sale, - Interest Income |
| 2️⃣ DEPRECIATION / AMORTISATION<br>(NON-CASH) | Depreciation = 80,000 | ADD BACK to Operating Activities<br>Dr Depreciation (non-cash) |
| 3️⃣ PROFIT / LOSS ON SALE OF ASSET<br>(ICAI frequently tests) | Sold asset for 1,20,000; BV = 1,00,000<br>Loss 20,000 → ADD to Operating CF | Profit 20,000 → DEDUCT from Operating<br>Cash from sale → IN INVESTING |
| 4️⃣ INTEREST PAID / INTEREST RECEIVED | Interest Paid: Operating (AS) / Financing (Ind-AS)<br>Interest Received → Investing (Ind-AS) | Interest Paid → Financing (if Ind-AS)<br>Interest Received → Investing |
| 5️⃣ DIVIDEND PAID / RECEIVED<br>(ICAI classification) | Dividend Paid = FINANCING<br>Dividend Received = INVESTING | Dividend Paid → Financing CF<br>Dividend Received → Investing CF |

6️⃣ WORKING CAPITAL CHANGES Increase in Debtors 40,000 → REDUCE CF Δ Current Assets → opposite effect
(MAJOR ICAI ADJUSTMENT) Increase in Creditors 30,000 → INCREASE CF Δ Current Liabilities → same effect
(ADD increase, DEDUCT decrease)

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7️⃣ PURCHASE OF FIXED ASSETS New Asset purchased = 3,00,000 Investing Outflow:
(Non-current items) Dr Fixed Assets / Cr Bank

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8️⃣ SALE OF FIXED ASSETS Sale proceeds = 1,20,000 Investing Inflow = FULL cash received
(NOT profit, NOT BV) Profit/Loss separately in Operating

---------------------------------------------------------------------------------------------------------

9️⃣ ISSUE OF SHARE CAPITAL Fresh issue = 5,00,000 (premium included) Financing Inflow:
(FINANCING SECTION) Dr Bank / Cr Share Capital / Cr SP

---------------------------------------------------------------------------------------------------------

🔟 REDEMPTION OF DEBENTURES / Redemption of Debenture = 2,00,000 Financing Outflow:
PREFERENCE SHARES Dr Debenture / Dr Premium / Cr Bank

---------------------------------------------------------------------------------------------------------

1️⃣1️⃣ NON-CASH TRANSACTIONS Asset purchased by issuing shares NOT included in CF
(disclosure only)
(ICAI exam trap) e.g., Building ₹10,00,000 via equity Add note: “Non-cash transaction”

---------------------------------------------------------------------------------------------------------

1️⃣2️⃣ TAX PAID (IMPORTANT) Income Tax Paid = 70[illegible] Operating Outflow:
(Always shown sepa[illegible]ly) “Less: Income tax paid”

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1️⃣3️⃣ EXTRAORDINARY / If loss due to fire, insured claim partly received Cash effect ONLY →
Operating CF
NON-RECURRING ITEMS
Non-cash portion ignored

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1️⃣4️⃣ BANK OVERDRAFT TREATMENT If part of working capital → treat as Current Liab Increase OD → Increase
Op CF
(ICAI point) If term loan OD → Financing Decrease OD → Reduce
Op CF

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1️⃣5️⃣ PROVISIONS / WIP / EXPENSES Provision for Tax ↑ 20,000 → ADD to Op CF Add back non-cash
expenses
ADJUSTMENT (Cash paid separately shown) Provision decrease →
Deduct

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1️⃣6️⃣ FOREIGN CURRENCY EFFECT FC gain/loss unrealised → Ignore in CF Realised gain/loss →
Operating CF
(ICAI theory) Translation
differences → separate line

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1️⃣7️⃣ OPENING-CLOSING CASH MATCH Closing Cash = 1,50,000 Mandatory reconciliation:
(CHECKPOINT) Opening Cash = 1,00,000 Closing - Opening =
Total CF

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1️⃣8️⃣ FINAL STRUCTURE FOR EXAM OPERATING → INVESTING → FINANCING Must show:
(ICAI expected format) Net Increase/Decrease in Cash • Separate sections
Add: Opening Cash • Note for non-cash
transactions
Closing Cash (Tally) • Tax Paid shown
separately

CASH FLOW STATEMENT – STEP 5: SPECIAL ADJUSTMENTS (2024-2026)

1🟦 Deferred tax adjustments (Integral for AS-3)
- Adjustment made only in operating activities
(RTP Nov 2024)

2🟦 Non-cash & non-operating items:
• Unrealised forex gain/loss
• Profit/loss on sale of PPE
• Non-cash expenses like amortization
(PYQ May 2024)

3🟦 Working capital changes with reverse effect (creditors dropped, debtors rose)
(MTP May 2025)

4🟦 Acquisition of assets via issue of shares (NON-CASH)
- Not shown in main CFS
(RTP Jan 2025)

5🟦 Disposal of PPE:
- Cash from sale in investing
- Gain/loss moved to operating
(PYQ Nov 2024)

6🟦 Bank overdraft considered as cash equivalent (Only if repayable on demand)
(ICAI SM Note)

7🟦 Interest & dividend classification:
• Interest paid → Financing
• Interest received → Investing
• Dividend received → Investing
• Dividend paid → Financing
(Tested in multiple RTPs)

8🟦 Extraordinary items shown separately in CFS
(RTP May 2024)

9🟦 Provision adjustments not involving cash outflow
- Add back to profits
(MTP Nov 2024)

🔟 Tax refunded/paid → Operating section
(PYQ Jan 2025)

```
BUYBACK - LDR SUMMARY (CA INTER)
=============================================================================================
=====
 STEP 1 — CHECK LEGAL CONDITIONS BEFORE BUYBACK
=============================================================================================
=====
• Only FULLY PAID shares can be bought back
• Buyback limit → max 25% of paid-up capital + free reserves
• Post-buyback Debt-Equity Ratio ≤ 2:1
• Sources allowed:
   ✔ Free Reserves
   ✔ Securities Premium
   ✔ Proceeds of fresh issue (NOT of same kind of shares)
• CRR required if buyback is from Free Reserves / SP
---------------------------------------------------------------------------------------------
-----
LOGIC → If conditions not satisfied → No journal entries allowed.
---------------------------------------------------------------------------------------------
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=============================================================================================
=====
 STEP 2 — ANNOUNCEMENT & CREATION OF BUYBACK LIABILITY
=============================================================================================
=====
Buyback Price × Number of Shares = Buyback Amount due to shareholders

Journal Entry:
Buyback of Shares A/c Dr
      To Equity Shareholders A/c
---------------------------------------------------------------------------------------------
-----
LOGIC → This records the obligation payable to shareholders.
---------------------------------------------------------------------------------------------
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=============================================================================================
=====
 STEP 3 — PAYMENT TO SHAREHOLDERS
=============================================================================================
=====
Equity Shareholders A/c Dr
      To Bank A/c
---------------------------------------------------------------------------------------------
-----
LOGIC → Settlement of buyback dues.
---------------------------------------------------------------------------------------------
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=============================================================================================
=====
 STEP 4 — CANCELLATION OF SHARE CAPITAL (MANDATORY)
=============================================================================================
=====
Face Value × Number of Shares Bought Back = Capital Cancelled

Equity Share Capital A/c Dr
      To Buyback of Shares A/c
---------------------------------------------------------------------------------------------
-----
LOGIC → Shares bought back must be extinguished → capital must reduce.
---------------------------------------------------------------------------------------------
```

```
 STEP 5 – PREMIUM ON BUYBACK (If Buyback Price > Face Value)
==========================================================================================
=====
Premium = (Buyback Price - Face Value) × No. of Shares

Premium on Buyback A/c Dr
      To Bank A/c

Adjust premium from:
• Securities Premium A/c (preferred)
• General Reserve A/c (if SP insufficient)
------------------------------------------------------------------------------------------
-----
LOGIC → Companies Act allows buyback premium from SP or FR.
------------------------------------------------------------------------------------------
-----

==========================================================================================
=====
 STEP 6 – CREATE CAPITAL REDEMPTION RESERVE (CRR)
==========================================================================================
=====
CRR = Face Value of Shares Bought Back
(Only if buyback financed from Free Reserves / SP)

General Reserve A/c Dr
      To CRR A/c
------------------------------------------------------------------------------------------
-----
LOGIC → CRR protects creditors by replacing reduced share capital.
------------------------------------------------------------------------------------------
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==========================================================================================
=====
 STEP 7 – TREATMENT OF BUYBACK EXPENSES
==========================================================================================
=====
Buyback Expenses (e.g., fees, stamp duty, compliance costs)

Securities Premium A/c Dr
(OR Profit & Loss A/c Dr)
      To Bank A/c
------------------------------------------------------------------------------------------
-----
LOGIC → Treated as capital losses; cannot be charged to CRR.
------------------------------------------------------------------------------------------
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==========================================================================================
=====
 STEP 8 – FINAL BALANCE SHEET EFFECTS (ICAI PRESENTATION)
==========================================================================================
=====
• Share Capital ↓ (cancelled amount)
• Securities Premium ↓ (if used for premium)
• Free Reserves ↓ (buyback financing)
• CRR ↑ (face value replaced)
• Cash/Bank ↓

------------------------------------------------------------------------------------------
-----
LOGIC → Post-buyback position must reflect adjusted capital structure.
------------------------------------------------------------------------------------------
```

BUY-BACK OF SECURITIES - ADJUSTMENTS + ACCOUNTING TREATMENT (1 PAGE)

| ADJUSTMENT TYPE | QUICK ILLUSTRATION (ICAI STYLE) | ACCOUNTING TREATMENT |
|---|---|---|
| 1️⃣ CREATION OF BUYBACK LIABILITY<br>(EQUITY SHARE BUYBACK A/C) | Buyback 50,000 shares @ ₹20<br>Liability becomes due | Dr Buy-back of Shares A/c<br>Cr Equity Shareholders A/c |
| 2️⃣ PAYMENT TO SHAREHOLDERS | Payment of buyback liability<br>(Bank 10,00,000) | Dr Equity Shareholders A/c<br>Cr Bank A/c |
| 3️⃣ CANCELLATION OF SHARE CAPITAL<br>(MANDATORY UNDER SEC 68/69) | Face value = ₹10; Buyback 50,000 shares<br>Capital cancelled = 5,00,000 | Dr Equity Share Capital A/c<br>Cr Buy-back of Shares A/c |
| 4️⃣ PREMIUM ON BUYBACK<br>(₹10 premium per share) | Buyback price = ₹20; Face value = ₹10<br>Premium = ₹10 × 50,000 = 5,00,000 | Dr Securities Premium A/c<br>(OR) Dr General Reserve A/c<br>Cr Premium on Buyback A/c |
| 5️⃣ TRANSFER TO CRR (VERY IMPORTANT) | Buyback from Free Reserves/Securities Premium<br>Face value bought back = 5,00,000<br>→ CRR = Face Value Cancelled | Dr General Reserve A/c<br>Cr Capital Redemption Reserve A/c<br>(CRR = FV of shares bought back) |

6️⃣ SETTLEMENT OF PREMIUM ACCOUNT    Premium payable = 5,00,000    Dr Premium on Buyback A/c
Paid through Bank    Cr Bank A/c

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7️⃣ BUYBACK FROM PROCEEDS OF    If new issue was made for buyback    NO CRR REQUIRED
FRESH ISSUE (EXAM TRICK)    If fresh issue = 6,00,000 > FV cancelled    (ICAI rule)

-------------------------------------------------------------------------------------------
--
8️⃣ CHECK RESERVE SUFFICIENCY    Free Reserves = 8,00,000    Must maintain:
(ICAI CONDITION)    Buyback (max 25% of paid-up capital + FR)    • Post-buyback
debt-equity ratio ≤ 2:1
Check legal limits    • Enough free reserves
post buyback

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--
9️⃣ TREATMENT OF EXPENSES ON    Buyback expenses = ₹50,000    Dr Securities Premium A/c
BUYBACK (STAMP DUTY, FEES)    Allowed under Sec 52    (OR) Dr Profit & Loss
A/c
Cr Bank A/c

-------------------------------------------------------------------------------------------
--
🔟 BUYBACK FROM SECURITIES PREMIUM    Buyback Premium may be adjusted from SP    Dr Securities Premium
A/c
(ICAI PERMITTED SOURCE)    Cr Premium on Buyback A/c

-------------------------------------------------------------------------------------------
--
1️⃣1️⃣ BUYBACK THROUGH TENDER OFFER    Shares accepted proportionately    Normal buyback entries;
no special entry
(ICAI theory)    Only quantity changes

-------------------------------------------------------------------------------------------
--
1️⃣2️⃣ BUYBACK FROM ODD LOT HOLDERS    Special scheme in Companies Act    Same accounting as norma
buyback

1⬜3⬜ TREATMENT OF UNPAID SHARE    Only fully paid shares can be bought back    No entry – compliance condition
CAPITAL (ICAI theory)

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1⬜4⬜ TREATMENT OF PARTLY PAID    Cannot be bought back unless fully paid    First pass:
SHARES (IMPORTANT)    e.g., Call money due: ₹5 per share    Dr Shareholders A/c
Cr Share Capital / Bank

THEN buyback entries

---

1⬜5⬜ IMPACT ON BALANCE SHEET    After buyback:    • Share Capital ↓
(ICAI Presentation Item)    • Share Capital reduced    • CRR ↑
• CRR created    • Free Reserves ↓
• Cash Balance ↓    • Securities Premium ↓ (if used)

---

1⬜6⬜ JOURNAL ENTRY SUMMARY    (i) Dr Buyback A/c → Cr SH A/c    (Liability creation)
(ii) Dr SH A/c → Cr Bank A/c    (Payment)
(iii) Dr Equity Share Capital → Cr Buyback A/c    (Capital cancellation)

(iv) Premium: Dr SP/GR → Cr Premium on Buyback A/c
(v) CRR: Dr GR → Cr CRR
(vi) Dr Premium on Buyback A/c → Cr Bank

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```
INTERNAL RECONSTRUCTION - LDR SUMMARY
===============================================================================================
=====
 STEP 1 — IDENTIFY NEED FOR RECONSTRUCTION
===============================================================================================
=====
• Heavy losses, overvalued assets, fictitious assets, unpaid dividends, creditor pressure
LOGIC → Company must restructure without liquidation.
-----------------------------------------------------------------------------------------------
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===============================================================================================
=====
 STEP 2 — REDUCTION OF SHARE CAPITAL (Creates CAPITAL REDUCTION ACCOUNT)
===============================================================================================
=====
Examples:
• Equity Share ₹10 → reduced to ₹2
• Preference Share capital reduced
Entry:
Share Capital A/c Dr
      To CAPITAL REDUCTION A/c    ← (Main Working Account)
LOGIC → Capital Reduction A/c = FUND created to clean balance sheet.
-----------------------------------------------------------------------------------------------
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===============================================================================================
=====
 STEP 3 — WRITE-OFF ACCUMULATED LOSSES & FICTITIOUS ASSETS
===============================================================================================
=====
Capital Reduction A/c Dr
      To P&L (Dr balance)
      To Preliminary Expenses
      To Discount on Issue / Misc. Expenditure
LOGIC → Capital Reduction A/c FIRST removes all fictitious items & losses.
-----------------------------------------------------------------------------------------------
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===============================================================================================
=====
 STEP 4 — REALIGN / REVALUE ASSETS (WRITE-DOWN / WRITE-UP)
===============================================================================================
=====
Overvalued assets:
Capital Reduction A/c Dr
      To Asset A/c

Undervalued assets:
Asset A/c Dr
      To Capital Reduction A/c
LOGIC → After reconstruction, assets = true fair value.
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===============================================================================================
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 STEP 5 — CREDITORS / DEBENTURE AGREEMENTS
==========================================================================
=====
If creditors accept reduction:
Creditors A/c Dr
      To Capital Reduction A/c

If debentures converted:
Debentures A/c Dr
      To Share Capital / New Debentures
LOGIC → Creditor sacrifice increases Capital Reduction A/c.
--------------------------------------------------------------------------
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==========================================================================
=====
 STEP 6 — CANCEL ARREARS OF PREFERENCE DIVIDENDS
==========================================================================
=====
Dividend Arrears A/c Dr
      To Capital Reduction A/c
LOGIC → Removes old obligations & cleans capital structure.
--------------------------------------------------------------------------
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==========================================================================
=====
 STEP 7 — FRESH ISSUE OF SHARES (OPTIONAL STEP)
==========================================================================
=====
Bank A/c Dr
      To Share Capital / Securities Premium A/c
LOGIC → New issue strengthens finances; NOT related to CR A/c.
--------------------------------------------------------------------------
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==========================================================================
=====
 STEP 8 — TRANSFER SURPLUS IN CAPITAL REDUCTION ACCOUNT → CAPITAL RESERVE
==========================================================================
=====
If Capital Reduction A/c has CREDIT balance left:
Capital Reduction A/c Dr
      To Capital Reserve A/c
LOGIC → CR A/c must be closed; any leftover = capital profit.
--------------------------------------------------------------------------
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==========================================================================
=====
 STEP 9 — PREPARE REVISED BALANCE SHEET
==========================================================================
=====
• Reduced Share Capital
• NO fictitious assets
• Clean P&L (ZERO balance)
• Revalued Assets
• Capital Reserve (if CR surplus)
--------------------------------------------------------------------------
```

```
CAPITAL REDUCTION ACCOUNT
Dr.                                                         Cr.
------------------------------------------------------------------------------------------------------------
To P&L A/c (Accumulated losses written off)      By Share Capital A/c (Capital reduced)
To Preliminary Expenses A/c                      By Creditors A/c (Creditor sacrifice, if any)
To Discount on Issue of Shares A/c               By Debenture Holders A/c (if they sacrifice)
To Goodwill A/c (write-off)                      By Asset Revaluation A/c (if assets undervalued ↑)
To Inventory / Plant / Land A/c (write-down)
To Miscellaneous Expenditure A/c
To Arrears of Preference Dividend A/c (cancelled)

                                            (Balancing figure, if credit)
To Capital Reserve A/c                       ← CR transferred to Capital Reserve

------------------------------------------------------------------------------------------------------------
```

INTERNAL RECONSTRUCTION — ADJUSTMENTS + ACCOUNTING TREATMENT (1 PAGE)

| ADJUSTMENT TYPE | QUICK ILLUSTRATION | ACCOUNTING TREATMENT |
|---|---|---|
| 1️⃣ REDUCTION OF SHARE CAPITAL (ICAI Primary Step) | Equity Shares ₹10 each reduced to ₹2 paid-up<br>Reduction = ₹8 per share | Dr Share Capital<br>Cr Capital Reduction A/c |
| 2️⃣ WRITE-OFF ACCUMULATED LOSSES | P&L debit balance = ₹4,00,000<br>Preliminary Expenses = ₹50,000<br>Discount on Issue = ₹25,000 | Dr Capital Reduction A/c<br>Cr P&L / Fictitious Assets<br>(Reduces CR A/c) |
| 3️⃣ WRITE-DOWN OVERVALUED ASSETS | Goodwill ₹3,00,000 written off<br>Inventory overvalued by ₹40,000 | Dr Capital Reduction A/c<br>Cr Goodwill / Inventory |
| 4️⃣ WRITE-UP UNDERVALUED ASSETS | Land undervalued by ₹1,00,000<br>Plant undervalued by ₹50,000 | Dr Land A/c<br>Cr Capital Reduction A/c |
| 5️⃣ CREDITORS' / DEBENTURE HOLDERS' SACRIFICE | Creditors agree to accept 80% of dues<br>Sacrifice = 20% | Dr Creditors A/c<br>Cr Capital Reduction A/c |
| 6️⃣ CANCELLATION OF ARREARS OF PREFERENCE DIVIDEND | Preference dividend arrears = ₹1,20,000 | Dr Dividend Arrears A/c<br>Cr Capital Reduction A/c |
| 7️⃣ PAYMENT TO CREDITORS UNDER NEW TERMS | Creditors paid partly in cash:<br>e.g., Settlement 1,00,000 via:<br>Cash 70,000 + Shares 30,000 | Dr Creditors A/c<br>Cr Bank A/c / Share Capital A/c<br>(If equity issued to creditors) |
| 8️⃣ CONVERSION INTO SHARES OR NEW DEBENTURES | Debenture holders accept equity shares worth ₹1,50,000 | Dr Debentures A/c<br>Cr Share Capital A/c<br>(If new debentures → Cr New Debentures) |

```
9️⃣ FRESH ISSUE OF SHARES          New capital raised: Bank ₹3,00,000                Dr Bank A/c
                                    Shares issued at premium                          Cr Share Capital /
Securities Premium
---------------------------------------------------------------------------------------------------
🔟 CAPITAL REDUCTION ACCOUNT        After all adjustments, if CR A/c has balance        Dr Capital Reduction A/
c
BALANCE                             (credit) → transfer to Capital Reserve              Cr Capital Reserve A/c
---------------------------------------------------------------------------------------------------
1️⃣1️⃣ STATUTORY LIABILITY            If statutory liability is written down,             Cannot be reduced unless
permitted
RESTRICTION (ICAI THEORY POINT)     CR A/c **cannot** be used for such write-offs       by law → No journal
entry allowed
---------------------------------------------------------------------------------------------------
1️⃣2️⃣ UNRECORDED LIABILITIES &       Unrecorded Liability ₹50,000 → record first        Dr Capital Reduction A/c
(if written off)
ASSETS (ICAI Adjustment)            Unrecorded Asset ₹70,000 → recognise                Cr Liability / Cr Asset
A/c (if added)
                                                                                      (Depends on scheme)
---------------------------------------------------------------------------------------------------
1️⃣3️⃣ CAPITAL RESERVE EFFECT         Capital Reduction Surplus = ₹2,50,000               Transfer to Capital
Reserve:
                                    After using CR A/c for losses                       Dr Capital Reduction A/
c
                                                                                      Cr Capital Reserve A/c
---------------------------------------------------------------------------------------------------
1️⃣4️⃣ TREATMENT OF FICTITIOUS        Preliminary Expenses / Discount on Issue            Dr Capital Reduction A/c
ASSETS (MUST BE WRITTEN OFF)                                                          Cr Respective Fictitious
A/c
---------------------------------------------------------------------------------------------------
1️⃣5️⃣ OVERHEAD / OPERATING LOSSES    Business loss ₹3,00,000 written off                Dr Capital Reduction A/c
                                    (Allowed under reconstruction)                      Cr P&L A/c
---------------------------------------------------------------------------------------------------
```

1⬜6⬜ BALANCE SHEET AFTER change:
RECONSTRUCTION (ICAI PATTERN)

revised values

A/c surplus

Reconstructed B/S includes:

✓ Reduced Share Capital
✓ Cleaned P&L (0 balance)

✓ Revalued Assets

No entry – Presentation

- Lower Share Capital
- Adjusted assets at
- Capital Reserve if CR

INTERNAL RECONSTRUCTION — STEP 5: SPECIAL ADJUSTMENTS (2024-2026)

1️⃣ Creditor waiver partly in cash & partly in equity issue
(RTP Nov 2024 - hybrid settlement)

2️⃣ Reduction of share capital + simultaneous consolidation of shares
(MTP May 2025)

3️⃣ Treatment of unrecorded liabilities discovered after reduction
(PYQ Jan 2025)

4️⃣ Revaluation of assets with both increase (some assets) and decrease (others)
(ICAI SM complex illustration)

5️⃣ Writing off heavy debit balance in P&L + fictitious assets
- priority order tested
(RTP May 2024)

6️⃣ Adjustment of arrears of preference dividend cancellation
(MTP Nov 2024)

7️⃣ New issue of shares at premium to restore working capital
- premium usage restrictions
(PYQ Nov 2024)

8️⃣ Debenture holders accepting restructuring (equity + partial write-off)
(ICAI SM + RTP)

9️⃣ Capital Reduction Account surplus transferred to Capital Reserve
(Repeated PYQ 2024-2025)

🔟 Treatment when capital reduction is insufficient → Additional contribution by owners
(MTP Jan 2026)

```
BRANCH ACCOUNT - INTERLINKED JOURNAL ENTRIES (HO ↔ BRANCH)
===============================================================================================
=====
 STEP 1 – OPENING BALANCES (STOCK / DEBTORS / CASH / FIXTURES)
===============================================================================================
=====
HEAD OFFICE (HO)                                         BRANCH (If branch keeps books)
Branch A/c Dr                                            Opening Stock A/c Dr
     To Branch Stock A/c                                 Opening Debtors A/c Dr
     To Branch Debtors A/c                               Opening Cash/Bank A/c Dr
     To Branch Cash A/c                                  Opening Fixtures A/c Dr
     To Branch Fixtures A/c                                   To Branch Capital A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: HO records assets *on behalf of branch*; Branch records its own opening balances.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 2 – GOODS SENT TO BRANCH
===============================================================================================
=====
HO                                                       BRANCH
Goods Sent to Branch A/c Dr                              Branch Stock A/c Dr
     To Purchases / HO Stock A/c                             To HO A/c (or Branch A/c)
-----------------------------------------------------------------------------------------------
-----
INVOICE PRICE SYSTEM: HO records “loading adjustment” later.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 3 – RETURN OF GOODS TO HO
===============================================================================================
=====
HO                                                       BRANCH
HO Stock / Purchases A/c Dr                              HO A/c Dr
     To Goods Sent to Branch A/c                             To Branch Stock A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: Goods movement reversed in both books.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 4 – CASH SALES AT BRANCH
===============================================================================================
=====
HO                                                       BRANCH
Branch Cash A/c Dr                                       Cash A/c Dr
     To Branch A/c                                           To Sales A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: Branch → creates sale; HO → recognises receipt.
-----------------------------------------------------------------------------------------------
```

```
 STEP 5 – CREDIT SALES AT BRANCH
===============================================================================================
=====
HO                                                         BRANCH
Branch Debtors A/c Dr                                      Debtors A/c Dr
     To Branch A/c                                             To Sales A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: HO mirrors Branch’s credit sale.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 6 – CASH RECEIVED FROM DEBTORS (BRANCH REMITS)
===============================================================================================
=====
HO                                                         BRANCH
Branch Cash A/c Dr                                         Cash A/c Dr
     To Branch Debtors A/c                                     To Debtors A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: HO reduces debtors; Branch reduces same debtors.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 7 – REMITTANCES TO HO
===============================================================================================
=====
HO                                                         BRANCH
Bank A/c Dr                                                HO A/c Dr
     To Branch Cash A/c                                        To Cash / Bank A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: Branch remits; HO receives → balances match.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 8 – EXPENSES PAID BY HO ON BEHALF OF BRANCH
===============================================================================================
=====
HO                                                         BRANCH
Branch A/c Dr                                              No entry (Dependent branch)
     To Bank / Expense A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: Branch expenses charged to Branch A/c at HO.
-----------------------------------------------------------------------------------------------
-----

===============================================================================================
=====
 STEP 9 – EXPENSES PAID BY BRANCH
===============================================================================================
=====
HO                                                         BRANCH
No entry (Dependent branch)                                Expenses A/c Dr
                                                               To Cash / Bank A/c
-----------------------------------------------------------------------------------------------
-----
INTERLINK: Expense appears ONLY in Branch books (if maintaining books).
-----------------------------------------------------------------------------------------------
```

```
 STEP 10 – BAD DEBTS / DISCOUNTS ALLOWED
================================================================================================
=====
HO                                                    BRANCH
Branch A/c Dr                                         Bad Debts A/c Dr
     To Branch Debtors A/c                                To Debtors A/c

HO records discount allowed:                          Discount Allowed A/c Dr
Branch A/c Dr                                             To Debtors A/c
     To Branch Debtors A/c
------------------------------------------------------------------------------------------------
-----
INTERLINK: Both reduce debtors; charged to Branch A/c at HO.
------------------------------------------------------------------------------------------------
-----

================================================================================================
=====
 STEP 11 – CLOSING STOCK (COST PRICE SYSTEM)
================================================================================================
=====
HO                                                    BRANCH
Branch Stock A/c Dr                                   Closing Stock A/c Dr
     To Branch A/c                                        To Trading A/c
------------------------------------------------------------------------------------------------
-----
INTERLINK: HO recognises closing stock for branch; Branch treats it normally.
------------------------------------------------------------------------------------------------
-----

================================================================================================
=====
 STEP 12 – LOADING ADJUSTMENT (INVOICE PRICE SYSTEM)
================================================================================================
=====
(A) REMOVE LOADING ON GOODS SENT
HO                                                    BRANCH
Goods Sent to Branch A/c Dr                           No entry
     To Branch Adjustment A/c

(B) REMOVE LOADING ON CLOSING STOCK
Branch Adjustment A/c Dr                              No entry
     To Branch Stock A/c
------------------------------------------------------------------------------------------------
-----
INTERLINK: HO removes profit element; Branch unaware of invoice price loading.
------------------------------------------------------------------------------------------------
-----

================================================================================================
=====
 STEP 13 – BRANCH PROFIT TRANSFER TO HO P&L
================================================================================================
=====
If branch shows PROFIT:
HO: Branch A/c Dr                                     BRANCH: Branch Capital A/c Dr
        To General P&L A/c                                    To Branch Profit A/c

If branch shows LOSS:
HO: General P&L A/c Dr                                Branch: Branch P&L A/c Dr
        To Branch A/c                                         To Branch Capital A/c
------------------------------------------------------------------------------------------------
-----
INTERLINK: Branch profit flows into HO P&L (dependent branch).
-------------
```

```
BRANCH ACCOUNTS - LDR SUMMARY (ALL METHODS + ADJUSTMENTS)
===============================================================================================
=====
1️⃣ DEBTORS METHOD (MOST BASIC ICAI METHOD)
===============================================================================================
=====
FLOW LOGIC (LDR):
STEP 1 → HO opens ONE account: BRANCH ACCOUNT (Nominal + Real + Personal combined)
STEP 2 → HO sends goods to branch → Dr Branch A/c
STEP 3 → Branch sells goods (cash + credit) → Cr Branch A/c
STEP 4 → HO pays branch expenses → Dr Branch A/c
STEP 5 → Branch remits cash to HO → Cr Branch A/c
STEP 6 → Closing items (stock, debtors, petty cash @ branch) → Cr Branch A/c
STEP 7 → Balance of Branch A/c = PROFIT or LOSS → Transfer to HO P&L

ADJUSTMENTS INCLUDED:
• Goods returned to HO
• Bad debts / discount allowed
• Goods-in-transit & Cash-in-transit
• Petty cash float
• Normal losses ignored; abnormal losses → Dr Branch A/c

BRANCH ACCOUNT FORMAT:
To Opening Stock / Debtors / Goods Sent / Expenses
By Cash Sales / Credit Sales / Closing Stock / Debtors / Petty Cash / Profit
-----------------------------------------------------------------------------------------------
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===============================================================================================
=====
2️⃣ STOCK & DEBTORS METHOD (INVOICE PRICE SYSTEM - LOADING METHOD)
===============================================================================================
=====
FLOW LOGIC (LDR):
STEP 1 → HO sends goods at INVOICE PRICE (contains LOADING)
STEP 2 → Use **FOUR LEDGERS**:
        (1) Branch Stock A/c (at invoice price)
        (2) Branch Debtors A/c
        (3) Branch Expenses A/c
        (4) Branch Adjustment A/c (loading adjustments)
STEP 3 → Branch Stock A/c records stock movement @ invoice price
STEP 4 → Branch Debtors A/c records credit sales & receipts
STEP 5 → Branch Adjustment A/c removes LOADING on:
        • Opening stock loading
        • Goods sent loading
        • Closing stock loading
        • Abnormal loss loading
STEP 6 → Final Branch Profit = Gross Profit (Branch Adj A/c) - Expenses - Abnormal loss α cos

KEY ADJUSTMENTS (EXAM CRITICAL):
• Loading = Invoice Price - Cost
• Closing Stock loading = Closing Stock × (Loading %)
• Goods sent back to HO reduce Branch Stock
• Normal Loss → ignore
• Abnormal Loss → adjusted in Branch A/c at cost and loading separately

BRANCH STOCK A/C (Invoice Price):
To Opening Stock / Goods sent
By Sales / Normal Loss / Closing Stock

BRANCH ADJUSTMENT A/C (GROSS PROFIT):
To Closing Stock Loading / Abnormal Loss Loading
By Goods Sent Loading / Opening Stock Loading / Gross Profit
-----------------------------------------------------------------------------------------------
```

```
3️⃣ FINAL ACCOUNTS METHOD (ONLY FOR INDEPENDENT BRANCHES OR WHEN FULL ACCOUNTS GIVEN)
================================================================================================
=====
FLOW LOGIC (LDR):
STEP 1 → Branch prepares FULL Trading, P&L & Balance Sheet
STEP 2 → HO AND Branch books are merged
STEP 3 → Inter-branch balances cancelled
STEP 4 → Goods-in-transit & Cash-in-transit recorded
STEP 5 → HO sends goods: Branch records Purchase
STEP 6 → HO records Branch Debtor / Stock etc.
STEP 7 → Prepare Consolidated Trading & P&L

ADJUSTMENTS (ICAI STANDARD):
• Stock reserve NOT required (goods at cost)
• Outstanding/Prepaid expenses at branch → adjust
• Goods-in-transit & Cash-in-transit → record in both books
• Depreciation on branch assets
• Bad debts / discount allowed

FINAL ACCOUNTS OF BRANCH:
Trading A/c → P&L → Balance Sheet → Transfer Branch profit to HO books
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=====
4️⃣ INDEPENDENT BRANCH METHOD (SEPARATE SET OF BOOKS)
================================================================================================
=====
FLOW LOGIC (LDR):
STEP 1 → Branch keeps its own books (full system)
STEP 2 → Branch records Purchases, Sales, Expenses, Cash, Debtors, Stock
STEP 3 → HO sends goods → Dr Purchases / Stock
STEP 4 → HO sends cash → Dr Bank
STEP 5 → Branch remits cash to HO → Cr Bank
STEP 6 → Branch sends statement to HO → HO opens: "Branch Adj A/c"
STEP 7 → HO incorporates branch results:

BRANCH INCORPORATION JE (CRITICAL ICAI ENTRY):
(a) Transfer Branch Trading A/c result
Branch Trading A/c Dr / Cr
        To Branch P&L A/c

(b) Transfer Branch P&L to HO
Branch P&L A/c Dr
        To General P&L A/c

(c) Transfer Branch Assets & Liabilities to HO
Branch Assets A/c Dr
Branch Liabilities A/c Cr
        To Branch A/c
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=====
5️⃣ UNIVERSAL ADJUSTMENTS (APPLY TO ALL METHODS)
================================================================================================
=====
✔ Goods-in-transit → Add to Branch Stock / Goods Sent
✔ Cash-in-transit → Add to Branch Cash / Remittance
✔ Abnormal Loss → Dr Branch A/c at COST (remove loading if applicable)
✔ Normal Loss → No adjustment (included in GP)
✔ Bad Debts → Dr Branch A/c & Cr Branch Debtors (HO perspective)
✔ Returns Inward → Reduce Branch Sales
✔ Returns Outward → Reduce Goods Sent to Branch
✔ Petty Cash Float → maintain fixed float system
------------------------------------------------------------------------------------------------
```

```
ONE PAGE - BRANCH LEDGER MASTER
================================================================================
=====
1️⃣ DEBTORS METHOD — MAIN LEDGER (BRANCH ACCOUNT - HO BOOKS)
================================================================================
=====
                           BRANCH ACCOUNT
Dr.                                                  Cr.
--------------------------------------------------------------------------------
To Opening Stock / Debtors / Cash                   By Cash Sales
To Goods Sent to Branch                             By Credit Sales
To Expenses (HO Paid)                               By Goods Returned to HO
To Abnormal Loss (at cost)                          By Closing Stock / Debtors / Cash
To Bad Debts / Discounts                            By Remittances to HO
To Goods-in-Transit (Opening)                       By Goods-in-Transit (Closing)
                                                    By Profit (to HO P&L)
--------------------------------------------------------------------------------

================================================================================
=====
2️⃣ STOCK & DEBTORS METHOD — KEY LEDGERS
================================================================================
=====
(A) BRANCH STOCK ACCOUNT (Invoice Price)
--------------------------------------------------------------------------------
To Opening Stock (IP)                               By Cash Sales
To Goods Sent to Branch (IP)                        By Credit Sales
To Debtors (Returns Inward)                         By Goods Returned to HO
To Branch Adjustment (Abnormal Loss IP)             By Normal Loss (IP)
                                                    By Closing Stock (IP)
--------------------------------------------------------------------------------

(B) BRANCH DEBTORS ACCOUNT
--------------------------------------------------------------------------------
To Opening Debtors                                  By Cash Received
To Credit Sales                                     By Discount Allowed
                                                    By Bad Debts
                                                    By Returns
                                                    By Closing Debtors
--------------------------------------------------------------------------------

(C) BRANCH ADJUSTMENT ACCOUNT (Loading + Gross Profit)
--------------------------------------------------------------------------------
To Closing Stock Loading                            By Opening Stock Loading
To Abnormal Loss Loading                            By Goods Sent Loading
To Gross Profit (Balancing Figure)                  (Represents GROSS PROFIT)
--------------------------------------------------------------------------------

(D) BRANCH EXPENSES ACCOUNT
--------------------------------------------------------------------------------
To Cash / Bank / Petty Cash                         By Branch Account
--------------------------------------------------------------------------------

================================================================================
```

```
3️⃣ FINAL ACCOUNTS METHOD — LEDGER SET
===============================================================================================
=====
(A) BRANCH TRADING ACCOUNT
------------------------------------------------------------------------------------------
To Opening Stock                                    By Sales
To Purchases (HO + Local)                           By Closing Stock
To Direct Expenses                                  By Gross Profit c/d
------------------------------------------------------------------------------------------

(B) BRANCH PROFIT & LOSS ACCOUNT
------------------------------------------------------------------------------------------
To Expenses (Rent, Salary, Admin)                   By Gross Profit
To Depreciation                                     By Misc. Income
To Bad Debts                                        By Closing Adjustments
To Net Profit (to HO P&L)                           (Loss → Dr HO P&L)
------------------------------------------------------------------------------------------

(C) BRANCH BALANCE SHEET (Format)
------------------------------------------------------------------------------------------
ASSETS: Cash, Debtors, Stock, FA, Prepaid           LIAB: Creditors, O/S Exp, HO A/c
------------------------------------------------------------------------------------------

===============================================================================================
=====
4️⃣ INDEPENDENT BRANCH METHOD — LEDGERS
===============================================================================================
=====
(A) HEAD OFFICE ACCOUNT (in Branch Books)
------------------------------------------------------------------------------------------
To Goods Returned to HO                             By Goods Received from HO
To Remittances to HO                                By Cash Received from HO
To Expenses paid by HO                              By Net Profit transferred to HO
------------------------------------------------------------------------------------------

(B) BRANCH ACCOUNT (HO Books - Incorporation)
------------------------------------------------------------------------------------------
To Branch Assets (closing)                          By Branch Liabilities
To Branch P&L (Profit)                              By Goods Sent to Branch
                                                    By Cash Received (Remittances)
(Loss → Dr side)                                     By Opening HO Balance
------------------------------------------------------------------------------------------

===============================================================================================
=====
5️⃣ UNIVERSAL ADJUSTMENT LEDGERS (ALL METHODS)
===============================================================================================
=====
(A) GOODS SENT TO BRANCH ACCOUNT
------------------------------------------------------------------------------------------
To Branch Adjustment (remove loading)               By Purchases / HO Stock
                                                    By Branch Account
------------------------------------------------------------------------------------------

(B) LOADING / STOCK RESERVE ACCOUNT
------------------------------------------------------------------------------------------
To Branch Adjustment (closing loading)              By Branch Adjustment (opening loading)
------------------------------------------------------------------------------------------

(C) BRANCH CASH ACCOUNT
------------------------------------------------------------------------------------------
To Opening Cash                                     By Expenses
To Cash Sales                                       By Remittances to HO
To Debtor Collections                               By Closing Cash
------------------------------------------------------------------------------------------
```

```text
FOREIGN BRANCH - LDR SUMMARY (ONE PAGE)
===========================================================================
=====
1️⃣ STEP 1 — IDENTIFY TYPE OF FOREIGN BRANCH
===========================================================================
=====
(a) NON-INTEGRAL FOREIGN BRANCH  (Most ICAI questions)
(b) INTEGRAL FOREIGN BRANCH       (Less common)

⭐ ICAI RULE → Use different exchange rates depending on type.

---------------------------------------------------------------------------
-----
LOGIC → Decides which exchange rate is applied to each item.
---------------------------------------------------------------------------
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===========================================================================
=====
2️⃣ STEP 2 — EXCHANGE RATES TO USE (CRITICAL EXAM AREA)
===========================================================================
=====
★ NON-INTEGRAL BRANCH (OVERSEAS operations - NORMAL CASE)
---------------------------------------------------------------------------
-----
• Monetary Items → Closing Rate
• Non-Monetary Items → Historical Rate
• Revenue / Expenses → Average Rate
• Depreciation → Rate of the related asset
• Opening Stock → Opening Rate
• Closing Stock → Closing Rate
• Exchange Difference → **FCTR (Foreign Currency Translation Reserve)**

★ INTEGRAL BRANCH (Dependent Operation)
---------------------------------------------------------------------------
-----
• ALL items → Transaction Date Rate
• Closing monetary → Closing Rate
• Exchange Difference → **Profit & Loss A/c**

---------------------------------------------------------------------------
-----
LOGIC → Non-integral = treated like a foreign sub.
        Integral = treated as an extension of HO.
---------------------------------------------------------------------------
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===========================================================================
```

3️⃣ STEP 3 — CONVERT FOREIGN BRANCH TRIAL BALANCE INTO REPORTING CURRENCY

STEP A → Convert Assets & Liabilities
STEP B → Convert Income & Expenses
STEP C → Compute Branch Profit
STEP D → Transfer to HO P&L (Integral) OR FCTR (Non-integral)

Conversion Guide Table:

| ITEM | INTEGRAL BRANCH | NON-INTEGRAL BRANCH |
|---|---|---|
| Opening Assets | Historical Rate | Historical Rate |
| Closing Assets (Monetary) | Closing Rate | Closing Rate |
| Closing Assets (Non-Monetary) | Historical Rate | Historical Rate |
| Revenue / Expenses | Actual/Average Rate | Average Rate |
| Depreciation | Rate of related asset | Rate of related asset |
| Exchange Differences | P&L | FCTR (Equity) |

LOGIC → This step generates the "Converted Trial Balance" needed for consolidation.

4️⃣ STEP 4 — INCORPORATE FOREIGN BRANCH RESULTS INTO HEAD OFFICE BOOKS

★ FOR INTEGRAL BRANCH:

- Branch Profit → HO P&L
- Branch Assets → Dr Branch A/c
- Branch Liabilities → Cr Branch A/c
- Exchange Difference → P&L

★ FOR NON-INTEGRAL BRANCH:

- Convert TB → Prepare separate financials → Combine
- Exchange Difference → **Foreign Currency Translation Reserve (FCTR)**
- Report Branch Net Assets at closing rates

LOGIC → Integral = merge into HO; Non-integral = translate like foreign subsidiary.

5️⃣ STEP 5 — JOURNAL ENTRY FLOW (EXAM-READY)
==========================================================================================

(A) For INTEGRAL BRANCH:
------------------------------------------------------------------------------------------

1. For Branch profit:
   Branch P&L A/c Dr
        To HO P&L A/c

2. For Assets & Liabilities incorporation:
   Branch Assets A/c Dr
        To Branch Liabilities A/c
        To Branch A/c

3. For Exchange difference:
   Exchange Difference A/c Dr / Cr
        To HO P&L A/c

(B) For NON-INTEGRAL BRANCH:
------------------------------------------------------------------------------------------

1. Exchange differences:
   Exchange Difference A/c Dr / Cr
        To FCTR

2. Net Assets Transfer:
   Branch Net Assets A/c Dr
        To Investment / Branch A/c

------------------------------------------------------------------------------------------

LOGIC → Non-integral branch exchange difference NEVER hits P&L.
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6️⃣ STEP 6 — COMMON ICAI ADJUSTMENTS (ONE-LINE LDR)
==========================================================================================

• Goods-in-transit → Convert at transaction rate → Add to Purchases / Stock
• Cash-in-transit → Convert at closing rate
• Unrealised Profit on HO or Branch transfers → Remove (Stock Reserve)
• Outstanding Expenses / Prepaid → Convert using expense rate
• Depreciation → Convert at historical rate of Asset
• Head Office Expenses charged to Branch → Convert at average rate
• Branch sends remittances → Convert at actual rate on date of remittance

------------------------------------------------------------------------------------------

LOGIC → Apply proper rate for nature of each item — key scoring area.
------------------------------------------------------------------------------------------

==========================================================================================

7️⃣ STEP 7 — FINAL PRESENTATION (IN FINANCIAL STATEMENTS)
==========================================================================================

NON-INTEGRAL BRANCH →
• ALL exchange differences → “Foreign Currency Translation Reserve” (Equity)

INTEGRAL BRANCH →
• Exchange differences → Profit & Loss A/c

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FINANCIAL STATEMENTS - LDR (NEW SCHEME)

==========================================================================================

1️⃣ STEP 1 – CLASSIFY ALL ADJUSTMENTS INTO:

==========================================================================================

✔ Revenue from operations
✔ Other income
✔ Cost of materials / Purchases
✔ Changes in inventories
✔ Employee benefits
✔ Finance costs
✔ Depreciation
✔ Other expenses
✔ Tax expenses
✔ OCI (not applicable for CA Inter AS course)

➡️ Trading + P&L + P&L Appropriation = NOW MERGED INTO SoPL.

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2️⃣ STEP 2 – STATEMENT OF PROFIT & LOSS (SoPL) STRUCTURE

==========================================================================================

SECTION A - Revenue
• Revenue from Operations (Sales - Returns)
• Other Income (Interest, Rent, Commission, Discount received, etc.)

SECTION B - Expenses
• Purchases of Stock-in-Trade
• Cost of Materials Consumed
• Changes in Inventories
    (Opening Stock - Closing Stock)
• Employee Benefits (Salary, Wages)
• Finance Cost (Interest)
• Depreciation & Amortization
• Other Expenses (Selling, Admin, Bad Debts, Losses, Charity, Advertisement etc.)

= Profit Before Tax (PBT)

SECTION C - Tax
• Current Tax
• Deferred Tax (rarely tested)

= Profit After Tax (PAT)

SECTION D - Appropriations
• Transfer to Reserves
• Proposed Dividend
• Interim Dividend
• Balance transferred to Capital A/c (sole proprietor)

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3️⃣ STEP 3 – BALANCE SHEET (AS PER SCHEDULE III)
==========================================================================================

ASSETS
Non-current Assets
• PPE (WDV after depreciation)
• Intangible Assets
• Long-term Loans & Advances

Current Assets
• Inventory
• Trade Receivables (Net of provision)
• Cash & Cash Equivalents
• Prepaid Expenses
• Accrued Income
• Insurance Claim Receivable
• GIT (Goods-in-transit)

EQUITY & LIABILITIES
Equity
• Capital (Adjusted for drawings, interest, share of profit)
• Reserves & Surplus

Non-Current Liabilities
• Long-term Loans

Current Liabilities
• Creditors
• Outstanding Expenses
• Income Received in Advance
• Provision for Tax
• Proposed Dividend

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LOGIC → Proprietor business follows modified Schedule III.

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4️⃣ STEP 4 – COMMON ADJUSTMENTS AS PER ICAI SM (NEW FORMAT)
=====================================================================================================

✔ Closing Stock → Reduce "Changes in inventories" + Shown as current asset
✔ Outstanding Expense → Add to expense + current liability
✔ Prepaid Expense → Deduct from expense + current asset
✔ Accrued Income → Add to income + current asset
✔ Income in Advance → Deduct from income + liability
✔ Depreciation → Expense + reduce PPE
✔ Bad Debts → Expense; PDD = New - Old
✔ Goods withdrawn → Deduct from purchases + reduce capital
✔ Goods for charity → Deduct purchases + show under "Other expenses"
✔ Goods-in-transit → Add to Purchases/Inventory
✔ Abnormal Loss → Show under "Other expenses"
✔ Manager's Commission → Expense, deduct before tax

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5️⃣ STEP 5 – SPECIAL / RARE ADJUSTMENTS (MAY 2024 → JAN 2026 RTP • MTP • PYQ)
=====================================================================================================

⭐ Goods sent on approval
• Reverse sale
• Add to closing stock
• Deduct from receivables

⭐ Stock destroyed by fire
• Recognize loss in "Other Expenses"
• Insurance claim → Current Asset
• Uninsured portion → Expense

⭐ Provision for Discount on Debtors / Creditors
• On Debtors → Expense
• On Creditors → Other Income

⭐ Goods-in-transit
• Purchase GIT → Add purchases + asset
• Sales GIT → Add sales + receivable

⭐ Goods purchased but not recorded
• Add purchases + creditors

⭐ Unrecorded sale
• Add sales + debtors

⭐ Interest on Capital & Drawings (NEW SYLLABUS RULE)
• Not an expense → Appropriation only

⭐ Depreciation on revalued asset
• Use appropriate historical rate

⭐ Manager's Commission (After Commission)
Commission = Rate/(1+Rate) × NP before commission

⭐ Advertisement using goods
→ Deduct purchases
→ Add to "Other expenses"

⭐ Bad debts + additional provision
• Show bad debts expense + provision adjustment

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