CA INTER

ADVANCED ACCOUNTING

MASTER QUESTIONS FOR EXAM

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INDEX

1. PREPARATION OF FINANCIAL STATEMENTS

Question 1:

The following is the Trial Balance of Holding Ltd., as on 31st March, 20X2:

PARTICULARS	DR.	CR.
Equity Share Capital	-	16,25,000
3000, 9% Cumulative Pref. Share Capital	-	3,00,000
10% Debentures	-	4,80,000
Security Premium	-	1,55,000
General Reserves	-	15,00,000
Profit and Loss A/c (PY)	-	1,50,000
Sales	-	90,00,000
Trade Payables	-	11,50,000
Provision for Depreciation on P&M	-	3,50,000
Suspense A/c	-	1,40,000
Land at Cost	40,00,000	-
Plant and Machine at Cost	12,50,000	-
Sundry Debtors	15,00,000	-
Bills Receivables	4,00,000	-
Inventories Closing (Stock in Trade)	7,50,000	-
Bank Balance	4,30,000	-
Adjusted Purchase of Stock in Trade	21,30,000	-
Factory Expenses	12,00,000	-
Administration Exp	4,00,000	-
Selling Exp	9,00,000	-
Debenture Interest Paid till 30th Sep	35,000	-
Goodwill	10,00,000	-
Interim Dividend Paid	90,000	-
Bad Debts	45,000	-
Provision for Doubtful Debts	-	67,000
Directors Fees	51,000	
Loose Tools	25,000	
Consumables	18,000	
Unclaimed Dividend of Last Year	-	12,000
Long Term Investments (7.5%)	16,00,000	-
Interest received on above Investments	-	90,000
Preliminary Expenses	40,000	-
Opening Raw Material	2,10,000	-
Purchase of Raw Material	8,10,000	-
Long Term Loan from Bank	-	13,20,000
Long Term Laon from Other Parties	-	3,00,000
Short Term Loan from Bank	-	5,00,000
Govt. Grant Received (Revenue Nature)	-	1,75,000
Managerial Remuneration Paid	1,00,000	-
Income Tax Paid	9,50,000	-
Provision for Income Tax (as on 1/04/20X1)	-	5,20,000
Deferred Tax Liability	-	1,00,000
	1,79,34,000	**1,79,34,000**

Additional Information:

1. The authorised share capital of the company is:
   3,000, 9% preference shares of Rs. 100 each 3,00,000
   20,000, Equity shares of Rs. 100 each 20,00,000
2. Issued equity capital as on 1st April 20X1 stood at Rs. 14,40,000, that is 12,000 shares fully paid and 4,000 shares of Rs. 60 paid. The directors made a call of Rs. 40 per share on 1st October. A shareholder could not pay the call on 500 shares and his shares were then forfeited and reissued @ Rs. 90 per share as fully paid.
3. On 31st March 20X2, the Directors declared a dividend of 12% on equity shares, transferring any amount that may be required from General Reserve.
4. The company on the advice of independent valuer wishes to revalue the land by 10%
5. Suspense account of Rs. 1,40,000 represents amount received for the sale of some of the machinery on 1-4-20X1. The cost of the machinery was Rs. 3,00,000 and the accumulated depreciation thereon being Rs. 1,80,000.
6. Depreciation is to be provided on plant and machinery at 10% on diminishing balance.
7. Amortize 1/5th of Goodwill.
8. Rs. 2,00,000 of Debentures were redeemed on 1st Oct at 10% Premium but premium amount not yet debited to Security Premium A/c. Full Amount wrongly debited to Debentures A/c.
9. Maintain a Provision of 7% on Debtors as on 31st March 20X2.
10. Provision for Income Tax as on 31st March should be Rs. 8,00,000
11. Closing Raw Material is Rs. 2,45,000
12. Adjusted Purchase of Stock in Trade includes 16,000 distributed among valued customers
13. Long Term loan from Bank includes Interest Accrued but not due Rs. 50,000 and Rs. 1,20,000 To be payable within 1 Year.
14. Bills receivables discounted not yet matured Rs. 15,000
15. Outstanding expenses Rs. 21,000
16. Transfer 20% of NPAT to General Reserve.

You are required to prepare Holding Limited's Balance Sheet as on 31-3-20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-20X2 as per Schedule III of the Companies Act, 2013.

Solution:

Holding Ltd

Balance Sheet as on 31/03/X2

Particulars	Note no	**Amount**
Equity & Liabilities		
1) Shareholder's Fund		
(i)Share capital	1	19,00,000
(ii) Reserve & Surplus	2	39,30,000
2) Non-current liabilities		
(i)Long term Borrowings	3	19,50,000
(ii) DTL	-	1,00,000
3)Current liabilities		
i)Short term borrowings	4	6,20,000
ii)Trade payables	-	11,50,000
iii)Other current liabilities	5	3,27,000
iv)Short term provisions	6	8,00,000
Total		**1,07,77,000**
ASSETS		

Non-current assets		
(i)PPE	7	51,02,000
(ii)Intangible asset	8	8,00,000
(iii)Non-current investment	9	16,00,000
Currents Assets		
(i)Inventories	10	10,20,000
(ii)Trade Receivable	11	17,95,000
(iii)Cash & Cash eg.	12	4,30,000
(iv) Other current asset	13	30,000
Total		**1,07,77,000**

Statement of profit & loss A/C for the year ended 31/03/×2

Particular	Note no.	Amount
Incomes		
1)Revenue From operation	14	90,00,000
2)Other Incomes	15	3,15,000
Total Incomes (a)		**93,15,000**
Expenditures		
1)Cost of Material consumed	16	7,75,000
2)Purchase of SIT	17	21,14,000
3)Finance cost	18	60,000
4)Depreciation & Amortization	19	2,78,000
5)Other expenses	20	28,29,000
Total Expenditure (b)		**60,56,000**
Net-profit before tax (a-B)		32,59,000
(-)Tax expense (WN-1) (Current tax liabilities)		(12,30,000)
Net profit after tax (Transfer to R&S)		20,29,000

Note to accounts:

1) Share Capital	
(a)Authorised Capital	
9% PSC of 100/-(3,000 no)	3,00,000
Equity share of 100/-(20,000 no)	20,00,000
	23,00,000
(b)Issued/Subscribed/paid-up	
9% Cumulative PSC of 100/-	3,00,000
Equity share capital of 100/- (16000 no)	16,00,000
	19,00,000

2) Reserves & surplus		
a) Capital Reserve		25,000
b) Revaluation reserve		4,00,000
c) Security premium (-) Premium On redeem	1,55,000 (20,000)	1,35,000
d) Gen Reserves opening (+) Transfer From P&L	15,00,000 4,05,800	19,05,800
e) Profit & loss a/c Opening balance (+) NPAT (-) Transfer to GR 20%	 1,50,000 20,29,000 (4,05,800)	

(-) Interim Dividend	(90,000)	
(-) Preference Dividend	(27,000)	
(-) Equity Dividend	(1,92,000)	14,64,200
Total		**39,30,000**

3) Long Term Borrowings	
(i) 10% Debentures (4,80,000 + 20,000)	5,00,000
ii) Loan from bank (13,20,000 – 50,000 – 1,20,000)	11,50,000
iii) Loan frame other	3,00,000
Total	**19,50,000**

4) Short term Borrowing	
Loans frame bank: -	
a) Short-term loan	5,00,000
b) Current maturity of LT	1,20,000
Total	**6,20,000**

5) Other current liabilities		
i) Unclaimed Div. of LY		12,000
ii) Dividend payable		2,19,000
Preference	27,000	
Equity	1,92,000	
iii) Interest payable		75,000
Debentures interest	25,000	
Interest on Bank loan	50,000	
iv) O/S expenses		21,000
Total		**3,27,000**

6) Short term provision	
Current tax liabilities (provision)	8,00,000

7) Property Plant and Equity

Particulars	Gross value	Prov. for Dep	Net value
a) Land	40,00,000	-	40,00,000
(+) Revaluation	4,00,000	-	4,00,000
	44,00,000	-	44,00,000
b) P&M	12,50,000	3,50,000	9,00,000
(-) Sale	(300000)	(1,80,000)	(1,20,000)
(+/-) Depreciation	-	78,000	(78,000)
	95,000	**2,48,000**	**51,02,000**

8) INTANGIBLE ASSETS

	Gross	Amortisation	Net
Goodwill	10,00,000	2,00,000	8,00,000

9) Non Current Investments	
7.5% investment	16,00,000

10) Inventories	
a) Raw material	24,500
B) Stock in trade	7,50,000
c) Loose Tools	25,000
Total	10,20,000

11) Trade Receivables		
a) Debtors Bal Grass	15,00,000	
(-) Prov for DD @7% (Increase in provision by (10,5000 – 6,7000) = 38,000	(1,05,000)	13,95,000
b) Bills receivable		4,00,000
		17,95,000

12) <u>Cash & Cash equivalents</u>	
Bank Balance	4,30,000

13) Other Current Assets	
a) Interest accrued as investment 16,00,000× 7.5% = 1,20,000 (-) Int. receive = (90,000)	30,000

14) Revenue from operation	
Sales	90,00,000

15) Other Interest	
Gain of sale of machine	20,000
Govt. Grant	1,75,000
Int. on Investment (90,000 + 30,000)	1,20,000
Total	**3,15,000**

16) Cost of material consumed	
Opening RM	2,10,000
(+) Purchase of RM	8,10,000
(-) Closing RM	(2,45,000)
Total	**7,75,000**

17) Purchase of Stock in Trade	
Total adjusted purchase	21,30,000
(-) goods given for sample	(16,000)
Total	**21,14,000**

18) Finance cost	
Debentures Interest (35+25)	**60,000**

19) Depreciation & Amortisation	
a) Depreciation as PPE	78,000
b) Amortisation on goodwill	2,00,000
Total	**2,78,000**

20) Other Expense	
Factory Expense	12,00,000
Administration Expense	4,00,000
Selling Expense	9,00,000
Bad debts	45,000
Consumables	18,000
Preliminary Expense	40,000
Managerial remuneration	1,00,000
Director fees	51,000
Other Misc. Expense	21,000
Provision for DD	38,000
Advertisement Expense	16,000
Total	**28,29,000**

21) Contingent liabilities

Bills discounted for Rs 15,000 but still not yet matured.

Working Note 1

Prov for tax a/c			
To IT paid	9,50,000	By balance b/d	5,20,000
To Bal c/d	8,00,000	By P&L a/c	12,30,000

2. BRANCHES ACCOUNTS

Question 2 (Dependent Branch):

HO Sends goods to Branch at 20% above cost. Branch has been informed to make cash sales at IP & Credit sale at 25% above IP.

However, Some goods were Sold by the Branch at Discount of 10% on SP on Credit.

Opening Stock of Branch (From HO)	75,000
Opening Stock of Branch (Local)	15,000
Goods sent to branch	9,00,000
Local Purchase by Branch on Credit	60,000
Goods Retuned by Branch (at Cost)	50,000

Sales Return:

Credit Sales 60,000 (SP)

Cash Sales 30,000

Sales:

Cash Sales 2,40,000

Credit Sales 6,13,500

(it includes Discounted sales whose cost to HO was 10,000)

Closing Stock (From HO) 2,04,000

(Local Purchase Goods not Sold during the year)

Goods Returned by Debtors Direct to HO (Normal SP) 30,000

Payment to Creditors by HO 50,000

Opening Debtors 1,05,000

Closing Debtors 90,000

Opening Cash 75,000

Closing Cash 5,000

Branch Expenses paid by Branch 12,000

Br. Expenses Outstanding (not yet paid) 6,000

Solve the Question by:

a) Case 1 = S&D method
b) Case 2 = Debtors method
c) Case 3 = Final A/c System (IP Method)

Solution

Cost = 100, IP = 120 and SP = 150

Cash Sale at IP = 120

Credit sale at SP = 150

Discounted SP = 150 – 10% = 135

Total Credit Sales = 613500

At Normal SP - 600000 (at 150)	At Discounted SP - 13500 (at 135)

Case 1 – Stock & Debtors Method

Branch Stock a/c (IP)

To Bal b/d		By GSTB (return)	60000
HO	75000	By Br. Adjustment	12000

Local	15000	By Br. Cash	240000
To Goods sent	900000	By Br. Debtors	600000
To Br. Creditors	60000	By Br. Debtors	13500
To Br. Debtors	60000	**By Br. P&L (cost)**	**47500**
To Br. Cash	30000	**By Br. Adjustment**	**9500**
To Br. Adjustment	120000	By Bal b/d	
To Br. Adjustment	1500	HO	204000
		Local	75000

Branch Adjustment A/c (Margin)

To GSTB (Loading on Return)	10000	By Bal b/d	12500
To Br. Stock	12000	By GSTB	150000
To GSTB	10000	By Br. Stock (1,20,000 + 1,500)	121500
To Br. Stock	9500		
To Br. P & L (b/f)	**208500**		
To Bal c/d	34000		

Goods sent to Branch (Cost)

To Br. Adjust	150000	By Br. Stock	900000
To Br. Stock	60000	By Br. Adjusted	10000
To Br. Debtors	30000	By Br. Adjusted	10000
To Trading a/c	**680000**		

Br. Debtors a/c

To Bal. b/d	105000	By Br. Stock	60000
To Br. Stock	600000	By GSTB	30000
To Br. Stock	13500	By Br. Bad debts	5000
		By Br. Cash (B/F)	**533500**
		By Bal C/d	90000

Branch Cash

To Bal. b/d	75000	By Br. Stock	30000
To Br. Stock	240000	By Br. Exp.	12000
To Br. Debtors	533500	**By Cash (remittance B/F)**	**781500**
		By Bal C/d	25000

Br. Creditor

To Cash	50000	By Bal b/d	0
To Bal. c/d	10000	By Br. Stock	60000

Br. Expenses A/c

To Bad debts	5000	By Br. P&l	23000
To Br. Cash	12000		
To Br. Exp Payable	6000		

Br. P&L

To Ab. Loss (Shortage)	47500	By Br. adjust	208500
To Br. Exp.	23000		
To NP	**138000**		

Case 2 Debtors Method

Branch A/c (At IP less Loading)

To Bal b/d		By Bal b/d	
Stock (HO)	75000	SR	12500
Stock (Local)	15000	By GSTB (loading)	150000
Debtors	105000	By GSTB (Return by Br.)	60000
Cash	75000	By GSTB (Return by Debtor directly)	30000
To GSTB	900000	By Cash (remittance)	781500
To GSTB (loading)	10000		
To GSTB (loading)	10000		
To Cash (Creditor Payment by HO)	50000		
To NP (transfer to Gen. P&l)	**138000**		
To Bal c/d		By Bal c/d	
SR	34000	Stock (HO)	204000
Br. Creditors	10000	Stock (Local)	75000
Br. Exp O/S	6000	Debtors	90000
		Cash	25000

Case 3 : Final A/c System (at IP)

Memorandum Br. Trading & P&l a/c

To op. stock		By Sales	
HO	75000	Cash 240000	210000
Local	15000	(-) Return 30000	
To Purchase	60000	Credit 613500	523500
To GSTB (Net of Return)	816000	(-) Return 60000	
9,00,000 (-) 60,000 (-) 24,000		(-) Return direct to HO 30000	
To GP	**103500**	By Shortage	57000
		By Clos. Stock	
		HO	204000
		Local	75000
To Shortage	57000	By GP	103500
To Br. Exp.	23000		
To NP	**23500**		

Calculation of SR

	Opening Stock	**Closing Stock**
IP Values	75000	204000
Loading	$\frac{75000}{120} x\ 20$	$\frac{204000}{120} x\ 20$
Stock Reserve	12500	34000

3. CONSOLIDATED FINANCIAL STATEMENT (AS 21)

Question 3:

Following is the Balance sheet of Holding Ltd. and Subsidiary Ltd. as on 31st March 20X3:

PARTICULARS	HOLDING LTD.	SUBSIDIARY LTD.
Equity and Liabilities		
Equity Share Capital (10/- Each)	12,00,000	10,00,000
Preference Share Capital (10/- Each)	5,00,000	3,00,000
Reserves and Surplus		
General Reserve	7,50,000	6,00,000
Profit and Loss A/c	6,00,000	4,50,000
10% Debentures	18,00,000	12,00,000
Trade Creditors	9,00,000	5,00,000
Bills Payables	4,00,000	1,50,000
	61,50,000	**42,00,000**
Assets		
Land and Building	13,50,000	17,00,000
Plant & Machinery	8,20,000	12,00,000
Goodwill	1,00,000	-
Investments:		
Equity Shares of Subsidiary Ltd.	15,00,000	-
10% Debentures of Subsidiary Ltd. (30% Debentures)	3,00,000	-
Trade Debtors	10,00,000	6,00,000
Bills Receivables	2,80,000	2,00,000
Inventory	5,00,000	4,00,000
Cash and Cash Equivalents	3,00,000	1,00,000
	61,50,000	**42,00,000**

Other Relevant Information:

1. Investments were purchased on 1st July of 20X2.
2. Holding Ltd. purchased 75,000 Equity Shares.
3. Balances of Reserves and Surplus of Subsidiary Ltd. on 1st April 20X2 are:
   - General Reserve - 2,10,000
   - Profit and Loss A/c - 1,50,000
4. On 1st August Dividend is Paid by subsidiary @ 12% on Equity Share Capital. Amount received by Holding is correctly recorded in the books
5. There is an Abnormal loss of Rs. 15,000 in the month of October
6. Market Value of Land & Building on 1st July 20X2 was 22,00,000 and Depreciation is 15%.
7. In the month of January 20X3, Goods sold by Holding Ltd. having Cost of Rs. 2,50,000 at Rs. 3,00,000. 60% of such goods are unsold and laying with Subsidiary.
8. In the month of March 20X3, Goods costing Rs. 1,25,000 sold by subsidiary at 20% Profit on Sales. Out of which, goods of 50,000 (sales value) are unsold with Holding.
9. On 31st March, Subsidiary Ltd. has issued Bonus Equity Shares in the ratio of 1:5, whose entry is not yet passed.
10. All Bills Payable of S Ltd. are accepted in favour of H Ltd. However H Ltd. has Already discounted 40% of those Bills from Bank

11. Trade Creditors of S Ltd. includes 40,000 payable to H Ltd. but Trade Debtors of H Ltd. includes 50,000 receivable from S Ltd. The difference can be treated as Cash in Transit.

PREPARE CONSOLIDATED FINANCIAL STATEMENT ALONG WITH PROPER WORKING NOTES

SOLUTION:

Consolidation Master problem

1) Subs Debⁿ issued & Holding Debⁿ Invt

Offset

Difference => Cons. R&S

1/4/x2 — DOA 75% 1/7/x2 — 1/8 — 1/10 — 31/3/x3

GR = 210000
P&L = 150000

Divd paid (PY) (Pre Acq) 120000

A.Loss 15K

GR = 600000
P&L = 450000

MV 2200000
BV 1925000
R.Gain = 275000

Dep: 247500 (MV), 225000 (actual)

Add. Dep. 22500

30000 Unrealised profit → Element Cons. R&S & Stock

10000 Unrealised profit → AOP → Post (after T. adj) & Stock

Bonus ⇒ 20000 → Pre (-) / ESC with Bonus always

Common Debts ⇒ 90000 offset

WN-1 AOP :-

Particulars	Pre Acq.	Post Acq GR	Post Acq P&L	B/S
Bal. of GR	210000	390000	—	600000
Bal of P&L	150000	—	300000	450000
(–) Bonus	(200000)	—	—	
(+) A. Loss	—	—	15000	
(+) Divd	—	—	120000	
Bal.	160000	390000	435000	
(+/–) T. adj 3 month	206250	(97500)	(108750)	
(–) A. Loss	—	—	(15000)	
(–) Divd	(120000)	—	—	
(+/–) Revaluation	275000	—	(22500)	
(–) Unrealised profit (upstream)	—	—	(10000)	
	521250	292500	278750	

H 75% 390938 219375 209062

M/I 25% 130312 73125 69688

WN.2 COC :-

Investments = 1500000

(-) Prop. N.Ass.

ESC 75% (900000)

Pre Acq (390938)

Goodwill = 209062

WN.3 M/I

ESC 25% = 300000

pre acq = 130312

Post = 142813

(100%) pref. s. Cap = 300000

873125

WN-4 Cons. R&S

	GR	P&L
Bal. with H	750000	600000
(+) Post acq profit share	219375	209062
(–) Unrealised profit	—	(30000)
(+) Setoff Debn	—	60000
	969375	839062 = 1808437

Cons. B/S

ESC	1200000
PSC	500000
Cons. R&S	1808437
M/I	873125
10% Debn (18+12 – 3.6)	2640000

Creditors	H	900000	1360000
	S	500000	
(-) Offset		(40000)	
B/P	H	400000	460000
	S	150000	
(-) Contra		(90000)	
			8841562
L&B	H	1350000	3302500
	S	1700000	
(+) Gain		275000	
(-) add Dep		(22500)	
P&M			2020000
Goodwill	H	100000	309062
	S	209062	
Debtors	H	1000000	1550000
	S	600000	
(-)		(50000)	

B/R H 280000
S 200000
(-) (90000) | 390000

Inventory H 500000
S 400000
(-) UP (10000)
(30000) | 860000

C&CE 400000
+ 10000 | 410000

8841562

AMALGAMATION OF COMPANIES
(AS 14)

Question 4: (Accounting for Transferee Books – Purchase Method)

Balance Sheet as on 31/3/24

Particulars	Transferee	Transferor
Equity Share Capital (10/-)	12,00,000	8,00,000
9% Preference Share Capital (10/-)	8,00,000	-
8% Preference Share Capital (10/-)	-	6,00,000
General Reserve	5,00,000	3,00,000
Profit & Loss A/c	3,50,000	2,50,000
Export Profit Reserve	-	50,000
7% Debenture (100/-)	7,50,000	-
6% Debenture (100/-)	-	6,00,000
Creditors	4,00,000	4,00,000
	40,00,000	**30,00,000**
PPE	13,00,000	9,00,000
Investments	9,00,000	7,00,000
Inventory	10,00,000	7,00,000
Trade Receivables	5,00,000	6,00,000
Cash & Bank Balance	3,00,000	2,00,000
	40,00,000	**30,00,000**

(1) 8% Preference Shareholders shall be given New 9% Preference Shares at 20% Increase in value (Shares to be issued at Par)

(2) Purchased Consideration to Equity Share Holder shall be discharged as under:
- Equity Shares of Transferee in 3:4
- Sufficient Cash to be discharged is required to adjust the rights of shareholders in accordance with the Net Assets of the company.

(3) Market Value per share of Transferee is 12/-

(4) Market Value of PPE & Investments of Transferor are 11,50,000 & 6,20,000 (trade & non-trade)

(5) Goodwill shall be calculated based on 3 years' purchase of super profit method. For this purpose, super profit shall be calculated based on average of last 4 years of profits which are as under:

Particulars	20-21	21-22	22-23	23-24
	2,30,000	2,45,000	(80,000)	3,20,000

(6) Normal Rate of Return is 7% of capital employed.

(7) 40% of the total investments are non-trade in nature, which generates 6% income every year. Nontrade investments were purchased at the beginning of Year 21-22.

(8) Trade Receivable shall be taken at 2% lesser value.

(9) 6% Debenture Holder will get New 7% Debenture at an adequate amount. So that Interest Amount would be same.

(10) EPR to be maintained for 2 more years.

(11) Transferor company sold goods to transferee before the amalgamation for Rs. 90,000 and these goods are still unsold with Transferee company. Margin is 20% on Cost.

(12) There is unrecorded Liabilities of Transferor towards creditor for goods of ₹ 30,000 which is also assumed by Transferee.

(13) Liquidation Expenses of Transferor company are 35,000 shall be borne by Transferee company.

(14) Sundry creditors of Transferor company includes 10,000 payable to Transferee company.

Required:

(a) Calculate Purchase Consideration.

(b) Pass Journal entries in the Books of Transferee.

(c) Prepare Balance Sheet after takeover of Transferee.

(d) Close the Books of the Transferor company.

SOLUTION:

Working Note 1: Debenture Settlement

Particulars	Amount (₹)
Existing Interest on Debentures @ 6%	36,000
Settled by Issuing New Debentures @ 7%	5,14,286

Working Note 2: Average Profit Calculation

	20-21	21-22	22-23	23-24
Past Profits	2,30,000	2,45,000	(80,000)	3,20,000
(-) Non-Trade Incomes	-	(16,800)	(16,800)	(16,800)
	2,30,000	**2,28,200**	**(96,800)**	**3,03,200**
Average Profit (Adjusted)	**1,66,150**			

Working Note 3: Capital Employed

Particulars	Amount (₹)
PPE	11,50,000
Investments	3,72,000
Inventory	7,00,000
Trade Receivables	6,00,000
Cash/Bank	2,00,000
Less: Provision	(12,000)
Less: Debentures	(6,00,000)
Less: Creditors	(4,00,000)
Less: Unrecorded Liability	(30,000)
Total Capital Employed	**19,80,000**

Working Note 4: Goodwill Calculation

Particular	Amount
Average Profit	1,66,150
Normal Profit (7% of Capital Employed)	1,38,600
Super Profit (Avg. Profit – Normal Profit)	27,550
Goodwill (SP x 3)	**82,650**

Working Note 5: Net Assets

Particulars	Amount (₹)
PPE	11,50,000

Investments	6,20,000
Inventory	7,00,000
Trade Receivables	6,00,000
Cash/Bank	2,00,000
Less: Provision	(12,000)
Less: Debenture Holders	(5,14,286)
Less: Creditors	(4,30,000)
Add: Goodwill	82,650
Less: PC to PSH	(7,20,000)
Net Assets Available for ESH (PC)	**16,76,364**
Value of Equity Shares to be Issued (60,000 x 12)	7,20,000
Balance to be paid in Cash	9,56,364

Working Note 6: Purchase Consideration

Payment to	Mode of Discharge to Shareholders	Amount (₹)
Preference Shareholders	6,00,000 + 20% 72,000 shares	7,20,000
Equity Share holders	60,000 Equity Shares × ₹12 (80,000 x ¾) FV 10/- SP 2/-	7,20,000
Equity Share holders	Cash (WN 5)	9,56,364
	Total Purchase Consideration	**23,96,364**

Journal Entries

S.No.	Particulars	Dr. (₹)	Cr. (₹)
1)	Business Purchase A/c	23,96,364	
	To Liquidator A/c		23,96,364
2)	PPE A/c	11,50,000	
	Investments A/c	6,20,000	
	Inventory A/c	7,00,000	
	Trade Receivables A/c	6,00,000	
	Goodwill A/c	82,650	
	Cash A/c	2,00,000	
	To Provision for Doubtful Debts A/c		12,000
	To Debenture Holders A/c		5,14,286
	To Creditors A/c		4,30,000
	To Business Purchase A/c		23,96,364
3)	Liquidator A/c	23,96,364	
	To 9% Pref Share Capital A/c		7,20,000
	To Equity Share Capital A/c		6,00,000
	To Securities Premium A/c		1,20,000
	To Bank A/c		9,56,364
4)	Creditors A/c Dr.	10,000	

	To Debtors A/c		10,000
5)	Goodwill A/c Dr.	35,000	
	To Bank A/c		35,000
6)	Debenture holders A/c Dr.	5,14,286	
	To 7% Debentures A/c		5,14,286
7)	Amalg. Adjustment Reserve Dr.	50,000	
	To Export Profit Reserve A/c		50,000
8)	Goodwill A/c Dr.	15,000	
	To Stock (90,000 x 20/120)		15,000

Balance Sheet After Amalgamation

Liabilities

Particulars	Amount (₹)
Equity Share Capital	18,00,000
9% Preference Share Capital	15,20,000
Profit and Loss A/c	5,00,000
General Reserve	3,50,000
Export Profit Reserve	50,000
Amalgamation Adjustment Reserve	(50,000)
Securities Premium	1,20,000
7% Debentures	12,64,286
Creditors (4,00,000 + 4,30,000 – 10,000)	8,20,000
Bank Overdraft (3,00,000 + 2,00,000 – 9,56,364 – 35,000)	4,91,364
Total	**68,65,650**

Assets

Particulars	Amount (₹)
PPE (13,00,000 + 11,50,000)	24,50,000
Goodwill (82,650 + 35,000 + 15,000)	1,32,650
Investments (9,00,000 + 6,20,000)	15,20,000
Inventory (10,00,000 – 15,000 + 7,00,000)	16,85,000
Trade Receivables less Provisions	10,78,000
Total	**68,65,650**

Question 5: (Amalgamation in the nature of Merger)

Balance Sheet

	X ltd.	Y ltd.
Equity Share Capital (10/-)	15,00,000	12,00,000
General Reserve	3,00,000	2,00,000
Securities Premium	1,00,000	50,000
Revaluation Reserve	50,000	20,000
Liabilities	2,50,000	1,30,000
	22,00,000	**16,00,000**
Property Plant & Equipment	9,00,000	7,00,000
Investments	4,00,000	2,00,000
Current Assets	9,00,000	7,00,000
	22,00,000	**16,00,000**

(1) X Ltd. & Y Ltd. decided to merge their Business & form a New Company XY Ltd.

(2) XY Ltd. shall issue new equity share to Shareholders of X Ltd. & Y Ltd. at 10/- each (at Par)

(3) Exchange Ratio for issue of New shares is 4:5

Required:

(a) Calculate Purchase Consideration

(b) Journal entries in the books of XY Ltd.

SOLUTION:

WN 1 - Calculation of PC

(i) For Shareholders of X Ltd.

Equity Shares in XY Ltd. = 1,50,000/5X4 = 1,20,000 no.

PC Value = 1,20,000 X 10 = 12,00,000

(ii) For Share Holder of Y Ltd.

Equity Shares in XY Ltd. = 1,20,000/5X4

PC Value = 9,60,000

Journal Entries in the Books of XY Ltd. (Transferee)

Business Purchase A/c	Dr.	21,60,000	
To Liquidator of X Ltd. A/c			12,00,000
To Liquidator of Y Ltd A/c			9,60,000
PPE A/c	Dr.	16,00,000	
Investment A/c	Dr.	6,00,000	
Current Asset A/c	Dr.	16,00,000	
To Liabilities			3,80,000
To Business Purchase			21,60,000
To Revaluation Reserve			70,000
To Securities Premium			1,50,000
To General Reserve **(Bal. Fig.)**			10,40,000
Liquidator of X Ltd.	Dr.	12,00,000	
Liquidator of Y Ltd.	Dr.	9,60,000	
To Equity Share Capital			21,60,000

Balance of XY Ltd.

Equity Share Capital 10/- each	21,60,000
General Reserve	10,40,000
Securities Premium	1,50,000
Revenue Reserve	70,000
Liabilities	3,80,000

	38,00,000
PPE	16,00,000
Investment	6,00,000
Current Asset	16,00,000
	38,00,000

Alternate Situation:

Consider above Question, But Exchange Ratio is 9:8 for calculation of PC
Calculate Purchase Consideration & Pass Journal entries in the Books of XY Ltd. (Pooling of Interest Method)

SOLUTION:

WN 1 - Calculation of PC

For Shareholders of X Ltd.

Equity Shares in XY Ltd. = 1,50,000 x 9/8 = 1,68,750 no.

PC Value = 1,68,750 X 10 = 16,87,500

For Share Holder of Y Ltd.

Equity Shares in XY Ltd. = 1,20,000 x 9/8 = 1,35,000

PC Value = 1,35,000 X 10 = 13,50,000

PPE A/c	Dr.	16,00,000	
Investment A/c	Dr.	6,00,000	
Current Asset A/c	Dr.	16,00,000	
General Reserve **(Bal. Fig.)**	Dr.	3,37,500	
To Liabilities			3,80,000
To B/P			30,37,500
To Revaluation Reserve			70,000
To Securities Premium Reserve			1,50,000
To General Reserve			5,00,000

5. BUYBACK OF SECURITIES

Question 6 (on Maximum Permissible Buyback):

The Buyback Price is Rs. 25/-

Outstanding Equity Share Capital (10/- each)	35,00,000
General Reserve	25,00,000
Profit & Loss Balance	11,50,000
Securities Premium	17,50,000
Debentures	60,00,000
Bank Loan (Non-Current Liability)	70,00,000
Current Maturity of Bank Loan	15,00,000
Sundry Creditors	25,00,000
Investment allowance Reserve	10,00,000

SOLUTION:

(1) **Shares outstanding Test: -**

Total Outstanding No. of Equity Shares x 25%

3,50,000 x 25% = **87,500 No.**

(2) **Resources Test: -**

(Total Paid-up Capital + Free Reserve) x 25% = Maximum Amount of Buyback

89,00,000 x 25% = 22,25,000/-

Therefore, Maximum No. of Buyback = 22,25,000/25 = **89,000 no.**

(3) **Debt Equity Test: -**

Debt Equity Ratio should not exceed 2:1 after Buyback

Debt (after buyback) = 1,45,00,000

Equity after Buyback Should be = 1,45,00,000 / 2 = 72,50,000

Current Equity – Buyback effect = Equity after Buyback

Assume No. of shares to be bought back is X

Therefore, Buyback Effect = Face Value (10X) + Premium on BB (15x) + CRR to be Created equal to FV out of FR (10X) = 35X

89,00,000 – 35x = 72,50,000

X = 47,142 No.

Note: for the purpose of this chapter, equity means Share Capital + Free reserves + Securities Premium

(Capital Redemption Reserve will not be a part of Equity)

Conclusion: Hence Final No. of Shares to be bought back should not be more than 47142 No. (whichever is lower in above three tests)

Alternate situation:

Continuing with above Question with additional information:

There are preference share Capital also of Rs. 30,00,000 (100/- each)

SOLUTION:

(1) **Shares outstanding Test: -**

Total Outstanding No. of Equity Shares x 25%

3,50,000 x 25% = 87,500 No.

(2) Resources Test: -

(Total Paid-up Capital + Free Reserve + Preference Share Capital) x 25% = Maximum Amount of Buyback
1,19,00,000 x 25% = 29,75,000/-
Therefore, Maximum No. of Buyback = 29,75,000/25 = 1,19,000 no.

(3) Debt Equity Ratio:-

Debt (after buyback) = 1,45,00,000
Equity after Buyback Should be = 1,45,00,000 / 2 = 72,50,000
Current Equity – Buyback effect = Equity after Buyback
1,19,00,000 – 35x = 72,50,000
X = 1,32,857 no.

Note: Current Equity here should include the Preference Share Capital also.

6. CASH FLOW STATEMENT (AS 3)

Question 7:

Master Problem on Cash Flow Statement (Prepare by CA. Jai Chawla) Covering Maximum Adjustments in Single Questions

Mr. Shubham provides us his Balance sheet as on 31/03/20X2 along with additional information:

		(₹ in Cr.)
EQUITY AND LIABILITIES	**Opening Balances**	**Closing Balances**
Equity Share Capital	50,00,000	69,00,000
8% pref. Sh. Capital	15,00,000	10,00,000
P&L Account	23,00,000	30,00,000
General Reserve	7,00,000	9,00,000
CRR	-	3,00,000
9% Bank Loan	70,00,000	76,00,000
Loan From Nidhi (Interest free)	9,00,000	-
Creditors	32,00,000	37,00,000
Bills Payable	5,00,000	6,00,000
Tax provision	17,00,000	21,50,000
O/s expenses	2,50,000	1,20,000
Dividend payable	5,50,000	7,00,000
	2,36,00,000	**2,69,70,000**

ASSETS		
Residential property	-	1,00,00,000
P&M (Gross Value)	12,00,000	15,00,000
(-) Provision For Dep	(3,50,000)	(4,75,000)
Investments	50,00,000	10,00,000
Loan to Mr. Jai	5,00,000	3,00,000
Goodwill	30,00,000	15,00,000
Trade Receivable	60,00,000	35,00,000
Inventory	40,00,000	50,00,000
Advance Tax	16,00,000	24,00,000
Prepaid Expenses	7,00,000	8,00,000
Advertisement Exp (Deferred)	13,00,000	10,00,000
Cash & Cash Equivalent	6,50,000	4,45,000
	2,36,00,000	**2,69,70,000**

Additional Information:-

1) Grant received for Business purpose Rs.7,50,000 & Charged to P&L.
2) Dividend received ₹ 6,00,000 out of which 1,50,000 is Pre-Acquisition.
3) Preferece Shares were redeemed at 10% premium & Premium is w/f in P&L.
4) Tax paid during the year 30,00,000.
5) Interim Dividend paid 4,00,000.
6) P&M of Org. Cost of 4,00,000 with Accumulated Depreciation of 2,50,000 was sold at 25% Profit.
7) New P&M purchased, 60% payment in Cash & remaining in the form of Issue of ESC.
8) Depreciation on P&M is 3,75,000.
9) Opening Inventory is measured at Cost less 50%. Closing Inventory is measured at cost + 25%
10) Advertisement Expenditure of 5,00,000 W/off directly from GR.
11) Bad-debts during the year charged to Profit and Loss A/c 3,00,000.
12) Exchange Loss due to Remeasurement of creditors as per AS 11 - 1,00,000 transfer to P&L.
13) Other Incomes includes Income from Instagram & YouTube 2,50,000 (considered as Extraordinary)
14) Investments were sold at 5% Profit.
15) Other incomes includes total Interest Earned 2,00,000 on which TDS is deducted. TDS 20,000 is a part of Closing Prepaid Expense in Balance Sheet.
16) Loss due to theft = 15,000 cash (Extraordinary)
17) Tax Refund = 50,000

Prepare Statement of Cash Flows as per Indirect Method.

SOLUTION:

Statement of Cash Flows

1) Cash Flows from Operating Activities:

Particulars	**Amount**
Difference of P&L	7,00,000
(+) Transfer to GR	10,00,000
(+) Interim Dividend declared and Paid	4,00,000
(+) Final Dividend Declared in CY	7,00,000
(+) Premium on Redemption w/o in Profit and Loss A/c	5,000
Net Profit After Tax (NPAT)	**28,50,000**
(-) Stock adjustment	
Opening Stock adjustment	(40,00,000)
Closing Stock adjustement	(10,00,000)
(+) Tax provision	26,50,000
Net Profit Before Tax	**5,00,000**
(+/-) Adjustment for:-	
(+) Depreciation	3,75,000
(-) Gain on sale of P&M	(37,500)
(-) Advertisement Expenses Paid	(2,00,000)
(-) Gain on sale of Investment	(1,92,500)
(-) Post Acquisition Dividend Received	(4,50,000)

(+) Loss due to theft (extra-ordinary)	15,000
(+) Bad debts (Non-Cash)	3,00,000
(+) Ex. Loss on Creditors	1,00,000
(-) Insta & YT Income (Extra-ordinary)	(2,50,000)
(-) Interest on Investment Earned	(2,00,000)
(-) Tax Refund	(50,000)
(+) Interest on Bank Loan	6,84,000
(+) Amortisation of Goodwill	15,00,000
(+/-) Working Capital Adjustment	
(+) Creditors	4,00,000
(+) Bills Payable	1,00,000
(-) O/s Exp.	(1,30,000)
(+) Trade Receivable	2,00,000
(+) Inventory	40,00,000
(-) Prepaid exp.	(80,000)
Net Cash before Tax & Extra ordinary items	**85,84,000**
(-) Tax paid	(30,00,000)
(-) Loss due to theft	(15,000)
(+) Insta & YT	2,50,000
(+) Tax Refund	50,000
Net Cash generated from Operating Activity (a)	**5,869,000**

2) Cash Flow from Investing Activity:

Sale of P&M	1,87,500
(-) Payment for purchase for P&M	(4,20,000)
(+) Sale of Investments	4,042,500
(+) Dividend received	
Pre-acquisition	1,50,000
Post-acquisition	4,50,000
(+) Interest Collected	1,80,000
(-) Investment in Residential Property	(1,00,00,000)
(+) Loan repaid by Mr. Jai	2,00,000
Net Cash used in Investing Activity (b)	**(52,10,000)**

3) Cash Flow from Financing Activity:

(-) Interim Dividend Paid	(4,00,000)
(-) Final Dividend of PY Paid in CY	(5,50,000)
(-) Redemption of PSC	(5,50,000)
(+) Issue of ESC	16,20,000
(+) Bank Loan raised	6,00,000
(-) Interest on Bank Loan	(6,84,000)

(-) Loan Repaid to Nidhi	9,00,000
Net Cash used in Financing Activity (c)	**86,4,000**
Net cash outflow during the Year (a+b+c)	**2,05,000**
(+) Opening balance of Cash & CE	6,50,000
Closing balance of Cash & CE	**4,45,000**

Working Note - 1 **Tax a/c**

To Balance bld	16,00,000	By Balance b/d	17,00,000
To Bank (tax paid)	30,00,000	**By P&L (balancing fig.)**	**26,50,000**
To Balance c/f	21,50,000	By Balance c/f	24,00,000

Working Note – 2 **Plant & Machine (Gross)**

To Balance b/d	12,00,000	By Provision for Depreciation	2,50,000
To P&L (Gain)	37,500	By Bank	1,87,500
To Bank (bal. fig.)	**4,20,000**		
To ESC (bal. fig.)	**2,80,000**	By Balance c/d	15,00,000

Provision for Depreciation

To P&M	2,50,000	By Balance b/d	3,50,000
To Balance c/d	4,75,000	By Depreciation	3,75,000

Working Note - 3

ESC Opening	50 lacs
ESC Closing	69 lacs
Issued during the year	**19 lacs**
(-) issued for P&M (Non Cash)	2.8 lacs
Issued against Cash (bal. fig.)	**16.20 lacs**

Working Note - 4

Advertisement Expense (Asset)

To Balance b/d	13,00,000	BY GR	5,00,000
To Bank (bal. fig.)	**2,00,000**	By Balance c/d	10,00,000

WN-5 **General Reserve**

To Advertisement Exp.	5,00,000	By Balance b/d	7,00,000
To CRR	3,00,000	**By P&L (b/f)**	**10,00,000**
To Balance c/d	9,00,000		

Working Note – 6 **Investment A/c**

To Balance b/d	50,00,000	By Bank	1,50,000
To Gain (P&L)	192500	**By Bank (bal. fig.)**	**40,42,500**
		By Balance c/d	10,00,000

Working Note – 7

Trade Receivables	
Closing Balance as per B/s	35,00,000
Add: Bad-debts	3,00,000
Closing Trade Receivables before Bad-debts for the purpose of cash flow (since Bad-debt is a non-cash item)	38,00,000
Opening Trade Receivables	60,00,000
Working Capital change due to Trade Receivables	**22,00,000**
Creditors	
Closing Balance as per B/s	37,00,000
less: Exchange Loss	1,00,000
Closing Creditors before Exchange Loss for the purpose of cash flow (since Ex. loss is a non-cash item)	36,00,000
Opening Creditors Balance	32,00,000
Working Capital change due to Trade Payables	**4,00,000**
Prepaid Expenses	
Closing Balance as per B/s	8,00,000
less: TDS included in Closing balance	20,000
Net Closing balance of Prepaid Exp.	7,80,000
Opening Balance	7,00,000
Working Capital change due to Prepaid Expenses	80,000

7. AS 10 – PROPERTY PLANT AND EQUIPMENT

Question 8:

On 1 April 20X1, Sun Ltd purchased some Land for Rs.10000 (including legal costs of Rs 1000) in order to construct a new factory. Construction work commenced on 1st May 20X1. Sun ltd incurred the following costs in relation with its construction:

- Preparation and levelling of the land – Rs. 300
- Purchase of materials for the construction – Rs. 6080 in total.
- Employment costs of the construction workers – Rs. 200 per month.
- Overhead costs incurred directly on the construction of the factory – Rs. 100 per month.
- Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – Rs. 50 per month.
- Income received during the temporary use of the factory premises as a car park during the construction period – Rs. 50.
- Costs of relocating employees to work at the new factory – Rs. 300
- Costs of the opening ceremony on 31st January 20X1 – Rs. 150

The factory was completed on 30th November 20X1 and production began on 1 February 20X2. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Sun Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be Rs 20000. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs 1 payable in 40 years' time at an annual discount rate of 8% is Rs. 0.046

The construction of the factory was partly financed by a loan of Rs. 17500 taken out on 1 April 20X1. The loan was at an annual rate of interest of 6%. During the period 1 April 20X1 to 31 August 20X1 (when the loan proceeds had been fully utilised to finance the construction), Sun Ltd received an investment income of Rs 100 on the temporary investment of the proceeds.

Required:

Compute the carrying amount of the factory in the Balance Sheet of Sun Ltd on 31st March 20X2. You should explain your treatment of all the amounts referred to in this part in your answer.

SOLUTION:

Computation of the cost of the factory

Description	Included in P.P.E.	Explanation
Purchase of land	10,000	Both the purchase of the land and the associated legal costs are direct costs of constructing the factory.
Preparation and leveling	300	A direct cost of constructing the factory
Materials	6,080	A direct cost of constructing the factory
Employment costs of construction workers	1,400	A direct cost of constructing the factory for a seven-month period
Direct overhead costs	700	A direct cost of constructing the factory for a seven-month period
Allocated overhead costs	Nil	Not a direct cost of construction
Income from use as a car park	Nil	Not essential to the construction so recognised directly in profit or loss
Relocation costs	Nil	Not a direct cost of construction

Opening ceremony	Nil	Not a direct cost of construction
Finance costs	612.50	Capitalise the interest cost incurred in as even month period (purchase of land would not trigger off capitalisation since land is not a qualifying asset and it is separate from building. Construction started from 1st May)
Investment income on temporary investment of the loan proceeds	(100)	offset against the amount capitalized
Demolition cost recognised as a provision	920	Where an obligation must recognise as part of the initial cost at PV.
Total cost of Land & Building	**19,912.50**	
Computation of accumulated depreciation		
Total depreciable amount	9,912.50	All of the net finance cost of 512.50 (612.50 – 100) has been allocated to the depreciable amount. Also acceptable to reduce by allocating a portion to the non- depreciable land element principle
Depreciation must be in two parts: Depreciation of roof component Depreciation of remainder	49.56 57.82	9,912.50x 30% x 1/20 x 4/12 9,912.50x 70% x 1/40 x 4/12
Total depreciation	107.38	
Computation of carrying amount	**19,805.12**	**19,912.50 – 107.38**

Question 9:

Flywing Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	**Amount Rs.'000**
Costs of the basic materials (list price Rs.12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months (April to June)	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included

an abnormal cost of Rs. 3,00,000 caused by a major electrical fault.
The production line is expected to have a useful economic life of eight years. At the end of that time Flywing Airways Ltd was legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs.2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0·68.
Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs.3 million.
The Company computes its depreciation charge on a monthly basis. No impairment of the plant had occurred by 31 March 20X2.
Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2.

SOLUTION

Statement showing Cost of production line:

Particulars	Amount Rs.'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	**13,260**

Carrying value of production line as on 31st March, 20X2:

Particulars	Amount Rs. '000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	**11,566**

Provision for dismantling cost:

Particulars	Amount Rs. '000
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	**1,417**

Extract of Statement of Profit & Loss

Particulars	Amount Rs. '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	**1,751**

Extract of Balance Sheet

Particulars	Amount Rs. '000
Assets	

Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities	
Non-current liabilities Other liabilities	
Provision for dismantling cost	1417

Working Notes:

1. **Calculation of depreciation charge**

Particulars	Amount Rs. '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years (3,000 x ¼ x 10/12). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life of eight years will be : 10,260 x 1/8 x 10/12	1,069
Total (To Statement of Profit & Loss for the year ended 31stMarch 20X2)	1,694

2. **Finance costs**

Particulars	Amount Rs. '000
Unwinding of discount (Statement of Profit and Loss – finance cost) 1,360 x 5% x 10/12	57

8. AS 20 – EARNINGS PER SHARE

Question 10:

EBIT	25,00,000
1st April	Ordinary Shares 80,000
1st June	Public Issue of Ordinary Shares – 25,000
1st July	Share Warrant issued 12,000 no. converted into ordinary shares on 1st Nov.
1st April	Opening Convertible debentures of 18,00,000/- @ 11% interest Converted on 1st Feb of Current year into 36,000 ordinary shares
1st December	Issued New ESOPs of 40,000 no. at Exercise price of 75/- each and Market Price was 120/- each
Calculate Basic and Diluted Earnings Per Share	

9. AS 23 – INVESTMENT IN ASSOCIATES

Question 11:

On 1/7/24 B Ltd. acquired 20% Equity interest in A Ltd. at a cost of 2,40,000/-

On 1/4/24 Equity Share Capital of A Ltd was 8,00,000 and Reserves & Surplus of A Ltd. was 3,00,000

On 31/3/25 Reserves & Surplus of A Ltd. was 5,00,000

During 24-25, Dividend Paid by A Ltd. to its Share Holders 15% on 1st December.

On 1st July 2024, Market Value of PPE of A Ltd. was 12,00,000 but Book Value was 10,00,000 (Depreciation Rate was 10%)

What would be the value of Investment in SFS as per AS 13 and as per AS 23 under Consolidated Financial Statements both on DOA & Balance Sheet Date.

10. AS 7 - "CONSTRUCTION CONTRACTS"

Question 12:
An Entity entered into the contract to construct a Building for Customer.
Initial agreed price was 80,00,000.
Expected to complete in 3 yrs.
Following additional Information is given:-

Particulars	**1st Year**	**2nd Year**	**3rd Year**
Material Purchased	16,00,000	15,00,000	13,00,000
Labour Paid	7,00,000	12,00,000	8,00,000
Lab our Payable	1,00,000	-	1,50,000
Supervisor Salary attributable	50,000	50,000	50,000
Sub Constrictor cost	90,000	60,000	1,00,000
Ab. Loss	10,000	-	30,000
Cost of Hiring PPE	2,00,000	2,00,000	2,00,000
Further Cost to be incurred	40,10,000	25,00,000	-
Unused Material	2,50,000	-	-
Variations (Increase in Revenue)	-	1,00,000	-
Incentives	-	-	1,00,000
Progress Payment received	20,00,000	41,00,000	-
Progress Payment to be received	5,00,000	3,00,000	-

Note: Material unused in First year was actually used in 2nd yr. & not included in purchase of 2nd Year.

11. AS 28 - IMPAIRMENT OF ASSETS

Question 13: (Reversal of Impairment Loss along with revaluation effect)

As on 1/4/16 Original Cost of PPE = 30,00,000; Estimated Life = 12 years; Depreciation is charged under SLM Method. Therefore, Original Depreciation = 2,50,000 pa.

On 1/4/19, Fair Value of PPE was 27,00,000 (PPE is under Revaluation Model)

Carrying Amt. (CA) as on 1/4/19 = 30,00,000/12 X 9 = 22,50,000

Therefore, Revaluation Surplus = 4,50,000

Revised CA as on 1/4/19 = 27,00,000

Remaining Life = 9 years

Revised Depreciation = 3,00,000 P.a.

Assuming entity opted to transfer partial revaluation surplus to GR equal to excess depreciation i.e. 50,000 p.a.

On 31/3/21, PPE tested for impairment & Recoverable amount is 16,00,000

CA as on 31/3/21	= 21,00,000
Recoverable Amount	= 16,00,000
Impairment Loss	= 5,00,000
Setoff out of Revaluation Surplus	= 3,50,000
Remaining Transfer to P&L	= 1,50,000
Revised CA as on 31/3/21	= 16,00,000
Balance of Revaluation Surplus	= Nil

Depreciation = 2,28,571 (P.A.) with useful life of 7 years

On 31/3/24, Indicators of Reversal of Impairment arise,

Recoverable Amount is: -

Case 1 = 11,00,000

Case 2 = 15,00,000

Current CA (as on 31/3/24) = 9,14,286

Reversal (Case 1)

Recoverable Amt. = 11,00,000

CA had there been no Impairment earlier = 27,00,000/9 X 4 = 12,00,000

Whichever is less, i.e. 11,00,000

CA of PPE should be increased to 11,00,000

Reversal of I/L = 1,85,714 (11,00,000 – 9,14,286)

What could be the revaluation surplus Balance had there been no impairment earlier?

4,50,000/9 X 4 = 2,00,000 (Hence entire reversal shall be made through Revaluation Surplus)

PPE A/c	Dr.	1,85,714	
To Revaluation Surplus			1,85,714

Reversal (Case 2)

Recoverable amount = 15,00,000

CA had there been no Impairment earlier = 12,00,000

Whichever is lower i.e. CA shall be increased to ₹ 12,00,000

Reversal = 2,85,714

Maximum Revaluation Surplus that could be increased (had there been no impairment) = 2,00,000

Profit & Loss = 85,714

PPE A/c Dr.	2,85,714	
To Revaluation Surplus		2,00,000
To P & L A/c		85,714

12. AS 22 – ACCOUNTING FOR TAXES ON INCOME

Question 14:

Joy Ltd. wishes to calculate deferred tax as on 31st March 20X5. The Balance Sheet has been adjusted by current tax expense.

Summarised Balance Sheet as on 31st March 20X5:

ASSETS	**₹**
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets-Product Development Costs	60,000
Investment in Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**
EQUITY & LIABILITIES	**₹**
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Non-current Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	**30,18,000**

Notes:

(a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is ₹ 2,06,000. Accounting depreciation included in operating costs is ₹ 1,70,000. Cost of PPE is ₹ 16,00,000 and Joy Ltd has deducted expenses of ₹ 4,16,000 in its tax returns prior to the financial year 20X4-20X5.

(b) In 20X1-20X2, Joy Ltd incurred product development costs of ₹ 1,00,000. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

(c) Trading investments were acquired in 20X3-20X4 with cost of ₹ 2,30,000. These investments are marked to market through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

(d) Bad debt provision amounts to ₹ 1,30,000 recognised during the year and Tax law allows deduction in the year of actual bad debts. Actual bad debts have not occurred in the current year.

(e) Joy Ltd accounts for inventory obsolescence provision. New provision created in 20X4-20X5 was ₹ 10,800 (total provision: ₹ 18,000). This provision is not tax deductible, as it is a general provision.

(f) Government grants are not taxable. Government grant received in 20X4-20X5 is appearing in the balance sheet.

(g) In 20X4-20X5, Joy Ltd made a further provision for product warranty of ₹ 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid/settled for ₹ 6,200.

(h) During the year 20X4-20X5, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Assume the tax rate is 32%.

13. AS 15 – EMPLOYEE BENEFITS

Question 15:

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 this question, 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 16:

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		(1,49,000)
Contributions received	49,000	**1,000**
		19,000
Add: Benefits paid		**20,000**
Actual return on plan assets		

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