



# **SUPER** **50** **QUESTIONS**

**Must Solve**  
**Before Your Exam**



CA ZUBAIR KHAN

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# 1

## Financial Statement of Company

1. From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 2021 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

Particulars	Debit ₹	Credit ₹
Equity Capital (Face value of ₹ 100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Inventory :		
Finished Goods	2,00,000	
Raw Materials	50,000	
Provision for Taxation		68,000
Trade receivables	2,00,000	
Advances	42,700	
Dividend Payable		60,000
Profit and Loss Account		86,700
Cash Balance	30,000	
Cash at Bank	2,47,000	
Loans (Unsecured)		1,21,000
Trade payables (For Goods and Expenses)		2,00,000
	18,95,700	18,95,700

The following additional information is also provided:

- (1) 2,000 equity shares were issued for consideration other than cash.
- (2) Trade receivables of ₹ 52,000 are due for more than six months.
- (3) The cost of assets:
 

Building	₹ 4,00,000
Plant and Machinery	₹ 7,00,000

- Furniture ₹ 62,500
- (4) The balance of ₹ 1,50,000 in the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- (5) Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (6) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

**Answer:**

Pioneer Ltd.  
Balance Sheet as on 31st March, 2021

Particulars	Notes	₹
<b>Equity and Liabilities</b>		
1 Shareholders' funds		
a Share capital	1	9,99,000
b Reserves and Surplus	2	2,96,700
2 Non-current liabilities		
a Long-term borrowings	3	2,63,500
3 Current liabilities		
a Trade Payables		2,00,000
b Other current liabilities	4	67,500
c Short-term provisions	5	68,000
<b>Total</b>		<b>18,94,700</b>
<b>Assets</b>		
1 Non-current assets		
a PPE	6	11,25,000
2 Current assets		
a Inventories	7	2,50,000
b Trade receivables	8	2,00,000
c Cash and bank balances	9	2,77,000
d Short-term loans and advances		42,700
<b>Total</b>		<b>18,94,700</b>

#### Notes to accounts

Particulars	₹
1 Share Capital	
Equity share capital	
Issued & subscribed & called up	
10,000 Equity Shares of ₹ 100 each (Of the above	
2,000 shares have been issued for consideration	10,00,000
other than cash)	
Less: Calls in arrears	(1,000)
	<b>9,99,000</b>

		Total	9,99,000
2	Reserves and Surplus		
	General Reserve		2,10,000
	Surplus (Profit & Loss A/c)		86,700
		Total	2,96,700
3	Long-term borrowings		
	Secured Term Loans		
	Loan from State Financial Corporation (1,50,000 - 7,500)		1,42,500
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured loan		1,21,000
		Total	2,63,500
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		7,500
	Dividend Payable		60,000
		Total	67,500
5	Short-term provisions		
	Provision for taxation		
			68,000
		Total	68,000
6	Tangible assets		
	Land		2,00,000
	Buildings	4,00,000	
	Less: Depreciation	(50,000)	3,50,000
		(b.f.)	
	Plant & Machinery	7,00,000	
	Less: Depreciation	(1,75,000)	5,25,000
		(b.f.)	
	Furniture & Fittings	62,500	
	Less: Depreciation	(12,500)	50,000
		(b.f.)	
		Total	11,25,000
7	Inventories		
	Raw Material		50,000
	Finished goods		2,00,000
		Total	2,50,000
8	Trade receivables		
	Debts outstanding for a period exceeding six months		52,000
	Other Debts		1,48,000
		Total	2,00,000
9	Cash and bank balances		
	Cash and cash equivalents		

Cash at bank		
with Scheduled Banks	2,45,000	
with others (Perfect Bank Ltd.)	2,000	2,47,000
Cash in hand		30,000
Other bank balances		Nil
Total		2,77,000

Note: Estimated amount of contract remaining to be executed on capital account and not provided for ₹ 1,50,000.

2. Following is the trial balance of Delta limited as on 31.3.2021. (Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-21)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information :

- The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- The company revalued the land at ₹ 9,60,000
- Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.
- Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
- Depreciation is to be provided on plant and machinery at 10% on cost.
- Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
- Make provision for income tax @30%.
- Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3. 2021 as per Schedule III. Ignore previous year's figures & taxation.

**Answer:**

Delta Limited  
Balance Sheet as at 31st March 2021

Particulars	Note No.	(₹ in '000)
<b>A. Equity and Liabilities</b>		
<b>1. Shareholders' funds</b>		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
<b>2. Non-Current Liabilities</b>		
(a) Long Term Borrowings	3	300.00
<b>3. Current Liabilities</b>		
(a) Trade Payables	4	30.00
(b) Short- term provision		163.80
Total		1,796.00
<b>B. Assets</b>		
<b>1. Non-Current Assets</b>	5	1,550.00
(a) Property, Plant and Equipment		96.00
<b>2. Current Assets</b>		
(a) Inventories	6	120.00
(b) Trade Receivables	7	30.00
(c) Cash and Cash equivalents		1,796.00
Total		

Statement of Profit and Loss for the year ended 31st March 2021

Particulars	Note No.	(₹ in '000)
<b>I. Revenue from Operations</b>		1200.00
<b>II. Other Income</b>	8	6.00
<b>III. Total Income (I +II)</b>		1,206.00
<b>IV. Expenses:</b>		
Purchases (adjusted)		400.00
Finance Costs	9	30.00
Depreciation (10% of 800)		80.00

Other expenses	10	150.00
Total Expenses		660.00
V. Profit / (Loss) for the period before tax (III - IV)		546.00
VI. Tax expenses @30%		163.80
VII Profit for the period		382.20

### Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 - 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings 10%		
	Debentures		300
4.	Short - term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance		
	Add: Revaluation adjustment	800	
	Closing Balance	160	
	Plant and Machinery		960



	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 - 20 + 80)		
	Closing Balance	(210)	
	Total		590
	Trade receivables		1,550
6	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
	Cash and Cash Equivalents		
7	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
	Other Income		
8	Profit on sale of machinery	10	
	Sale value of machinery		6
	Less: Book value of machinery (24 - 20)	(4)	
	Finance Costs		
9	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

3. The following is the Trial Balance of Anmol Limited as on 31st March, 2022:

Debit Balance	Amount (₹)	Credit Balances	Amount (₹)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000	General Reserve	10,00,000
Selling & Distribution Expenses	4,36,000	Surplus (P&L A/c) 01.04.2021	8,75,500
Directors Fees	32,000	Securities Premium	2,50,000
Bad Debts	38,500	Term Loan from Public Sector Bank	1,02,00,000
Interest on Term Loan	8,05,000	Trade Payables	55,08,875
Land	24,00,000	Provision for Depreciation:	
Factory Building	36,80,000	On Plant & Machinery	9,37,500

Plant and Machinery	62,50,000	On Furniture and Fittings	82,500
Furniture and Fittings	8,25,000	On Factory Building	1,84,000
Trade Receivables	64,75,000		
Advance Income Tax Paid	37,500	Provision for Doubtful Debts	25,000
Stock (1st April, 2021)	9,25,000	Bills Payable	1,25,000
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875	Total	3,28,47,875

Following information is provided:

- The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.
- Rent of ₹ 20,000 and Wages of ₹ 1,56,500 are outstanding as on 31st March, 2022.
- Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.
- Closing Stock as on 31st March, 2022 is ₹ 11,37,500.
- Make a provision for Doubtful Debt @ 5% on Debtors.
- Make a provision of 25% for Corporate Income Tax.
- Transfer ₹ 1,00,000 to General Reserve.
- Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹ 17,00,000.
- Trade Receivables of ₹ 85,600 are outstanding for more than six months.
- The Board declared a dividend @10% on Paid up Share Capital on 5 th April, 2022.

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures.

**Answer:** Balance Sheet of Anmol Ltd. as at 31st March, 2022

Particulars	Note No	₹
<b>Equity and Liabilities</b>		
1 Shareholders' funds		
a Share capital	1	10,00,000
b Reserves and Surplus	2	24,76,462
2 Non-current liabilities		
a Long-term borrowings	3	85,00,000
3 Current liabilities		
a Short term borrowings (Installment of term loan falling due in one year)		17,00,000
b Trade Payables	4	56,33,875
c Other current liabilities	5	1,76,500

d	Short term provisions (provision for tax)		1,16,988
	Total		1,96,03,825
<b>ASSETS</b>			
1	Non-current assets		
a	PPE	6	1,11,70,700
2	Current assets		
a	Inventories		11,37,500
b	Trade receivables	7	61,51,250
c	Cash and bank balances	8	11,06,875
d	Short term loans & advances (Advance tax paid)		37,500
			1,96,03,825

Statement of Profit and Loss of Anmol Ltd. for the year ended 31st March, 2022

	Particulars	Notes	Amount
I.	Revenue from operations		1,25,87,000
II.	Other income (Commission income)		72,500
III.	Total Income (I + II)		1,26,59,500
IV.	Expenses:		
	Purchases of Inventory-in-Trade		82,95,000
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	9	(2,12,500)
	Employee benefits expense	10	14,28,500
	Finance costs (interest on term loan)		8,05,000
	Depreciation		7,80,300
	Other operating expenses	11	10,95,250
	Total expenses		1,21,91,550
V.	Profit (Loss) for the period (III - IV)		4,67,950
VI.	(-) Tax (25%)		(1,16,988)
VII.	PAT		3,50,962

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	Authorized	
	2,00,000 equity shares of ₹ 10 each	20,00,000
	Issued & subscribed	
	1,00,000 equity shares of ₹ 10 each	10,00,000
2	Reserves and Surplus	
	General Reserve	10,00,000

	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	
	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	Long-term borrowings		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000
	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	Trade payables		
	Trade payables	55,08,875	
	Bills payable	1,25,000	56,33,875
5	Other current liabilities		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500
6	PPE (Note 2)		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	Trade receivables		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	
	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	Cash and bank balances		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	Changes in Inventories		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)
10	Employee benefit expense		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	Other operating expenses		
	Rent	2,20,000	

Add: outstanding	20,000	2,40,000
Rates and Taxes		50,000
Selling & Distribution expenses		4,36,000
Bad debts		38,500
Provision for Doubtful Debts (3,23,750-25,000)		2,98,750
Director's fee		32,000
Total		10,95,250

Note:

- The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2022. Such dividends will be disclosed in notes only.

- Calculation of depreciation:

	Book value	Accumulated depreciation	WDV	Current year Depreciation	Current year WDV
Land	24,00,000	-	24,00,000	-	24,00,000
Factory building	36,80,000	1,84,000	34,96,000	1,74,800	33,21,200
Plant & Machinery	62,50,000	9,37,500	53,12,500	5,31,250	47,81,250
Furniture & Fittings	8,25,000	82,500	7,42,500	74,250	6,68,250
Total				7,80,300	1,11,70,700

- XYZ Ltd. is having inadequacy of profits in the year ending 31-03-2021 and it proposes to declare 10% dividend out of General Reserves.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules, 2014:

5,00,000 Equity Shares of ₹ 10 each fully paid up	50,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%

**Answer:** Amount that can be drawn from reserves for (10% dividend on ₹ 50,00,000 i.e. ₹ 5,00,000)

Profits available

Current year profit ₹ 1,42,500

Amount which can be utilized from reserves (₹ 5,00,000 - 1,42,500) ₹ 3,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2021:

Condition I Since 10% is lower than the average rate of dividend (12%), 10% dividend can be

declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 7,50,000 [10% of (50,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 21,42,500 (₹ 25,00,000 - ₹ 3,57,500) should not fall below 15 % of its paid up capital ie. ₹ 7,50,000 (15% of ₹ 50,00,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 3,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

5. The following is the Trial Balance of H Ltd., as on 31st March, 2021:

	Dr.	Cr.
Equity Capital (Shares of ₹ 100 each)		8,05,000
5,000, 6% preference shares of ₹ 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2021)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

Additional Information:

- (i) The authorised share capital of the company is : ₹  
5,000, 6% preference shares of ₹ 100 each 5,00,000

10,000, equity shares of ₹ 100 each 10,00,000

Issued equity capital as on 1st April 2020 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares of ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid.

- (ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares , transferring any amount that may be required from General Reserve. Ignore Taxation.
- (iii) The company on the advice of independent valuer wishes to revalue the land at ₹ 36,00,000.
- (iv) Suspense account of ₹ 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹ 1,00,000 and the accumulated depreciation thereon being ₹ 30,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation.

**Answer:**

H Ltd

Balance Sheet as at 31st March 2021

Particulars	Note No	Amount in ₹
<b>Equity and Liabilities</b>		
<b>I. Shareholders' Funds</b>		
a. Share Capital	1	13,00,000
b. Reserves and Surplus	2	53,91,900
<b>II. Non-Current Liabilities</b>		
a. Long Term Borrowings	3	4,00,000
<b>III. Current Liabilities</b>		
a. Trade Payables	4	10,40,000
b. Other Current Liabilities	5	70,000
<b>Total</b>		<b>82,01,900</b>
<b>Assets</b>		
<b>I. Non-Current Assets</b>		
a. Property, Plant and Equipment	6	40,61,000
b. Intangible Assets	7	10,00,000
<b>II. Current Assets</b>		
a. Inventories		9,50,000

b. Trade Receivables		19,60,000
c. Cash and Cash equivalents		2,30,900
Total		82,01,900

Statement of Profit and Loss for the year ended 31st March 2021

Particulars	Note No	Amount in ₹
I. Revenue from operations		60,00,000
Total Revenue		60,00,000
II. Expenses		
Purchases (adjusted)		22,32,100
Finance Costs	8	36,000
Depreciation and Amortization	9	3,17,000
Other Expenses	10	32,30,000
Total Expenses		58,15,100
III. Profit/(Loss) for the period		1,84,900

Notes to Accounts

(Amount in ₹)

1	Share Capital		
a.	Authorized Capital		
	5,000, 6% Preference shares of ₹ 100/- each		5,00,000
	10,000 Equity Shares of ₹ 100/- each		10,00,000
			15,00,000
b.	Issued & Subscribed Capital		
	5,000, 6% Preference shares of ₹ 100/- each		5,00,000
	8,000, Equity shares of ₹ 100/- each		8,00,000
	Total		13,00,000
2	Reserves & Surplus		
	Capital Reserve (100 X (90-40))		5,000
	Revaluation Reserve (36,00,000-24,00,000)		12,00,000
	General Reserve		40,00,000
	Surplus	1,84,900	
	Add: Balance from previous year	72,000	
	Less: Dividends declared	(70,000)	
	Profit/(Loss) carried forward to Balance Sheet		1,86,900
	Total		53,91,900
3	Long-Term Borrowings		
	Secured		
	9% Debentures		4,00,000



4	Trade Payables		10,40,000
5	Other Current Liabilities		
	Dividend Payable		
	Preference Dividend		30,000
	Equity Dividend		40,000
	Total		70,000
6	Property, Plant and Equipment		
	Land		
	Opening balance	24,00,000	
	Add: Revaluation Adjustment	12,00,000	
	Closing Balance		36,00,000
	Plant and Machinery		
	Opening Balance	7,70,000	
	Less: Disposed off	(1,00,000)	
	Depreciation	(2,09,000)	
	Closing Balance		4,61,000
	Total		40,61,000
7	Intangible Assets		
	Goodwill		12,50,000
	Less: Amortized (1/5th)		(2,50,000)
	Total		10,00,000
8	Finance Costs		
	Debenture Interest		36,000
9	Depreciation and Amortization		
	Plant and Machinery		67,000
	Goodwill		2,50,000
	Total		3,17,000
	Other Expenses		
	Factory Expenses		15,00,000
	Selling Expenses		14,00,000
	Administrative Expenses		3,00,000
	Loss on sale of Plant and Machinery		
	Book Value (1,00,000-30,000)	70,000	
	Less: Sale Value	(40,000)	30,000
	Total		32,30,000

Note

1. The financial statements given in the above answer include adjustment for dividend declared on 31st March, 2021, strictly, as per the information given in the question. However, practically dividends are declared in the annual general meetings which take place after the reporting date.

# 2

## Buy Back of Securities

6. M Ltd. furnishes the following Balance Sheet as at 31st March, 2021:

Particulars			Notes	₹ (in 000)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	5,000
	B	Reserves and Surplus	2	6,310
2		Non-current liabilities		
		Long term borrowings	3	400
3		Current liabilities		
	A	Trade Payables		40
		Total		11,750
		Assets		
1		Non-current assets		
	A	Property, plant and Equipment	4	2,750
	B	Non-Current Investments (at cost)		5,000
2		Current assets		
	A	Inventories		1,000
	B	Trade receivables		2,000
	C	Cash and Cash equivalents		1,000
		Total		11,750

Notes to accounts

No.	Particulars		₹ in ('000)
1	Share Capital		
	Authorized, Issued and Subscribed Capital:		
	3,00,000 Equity shares of ₹ 10 each fully paid up		3,000
	20,000 9% Preference Shares of 100 each		2,000
	Total		5,000
2	Reserves and Surplus		
	Capital reserve		10

	Revenue reserve	4,000
	Securities premium	500
	Profit and Loss account	1,800
	Total	6,310
3	Long term borrowings	
	10% Debentures	400
4	Property, Plant and Equipment (PPE)	
	PPE: Cost	3,000
	Less: Provision for depreciation	(250)
	Net carrying value	2,750

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹ 25 lakhs.

You are required to pass necessary Journal entries.

**Answer:**

Journal Entries in the books of M Ltd.

₹ in '000

	Particulars	Dr.	Cr.
1.	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	2,500 500	3,000
2.	Equity shares buy-back A/c Dr. To Bank A/c (Being payment made for buy-back of equity shares)	900	900
3.	Equity share capital A/c Dr. Premium payable on buy-back Dr. To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)	600 300	900
4.	Securities Premium A/c Dr. To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	300	300
5.	Revenue reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back)	600	600

7. Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 2021: (in crores ₹)

Particulars			Notes	₹
1		Equity and Liabilities		
	A	Shareholders' funds		
		Share capital	1	100
	B	Reserves and Surplus	2	300
2	A	Current liabilities		
		Trade Payables		40
		Total		440
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	3	-
	B	Non-Current Investments	4	100
2		Current assets		
	A	Trade receivables		140
	B	Cash and Cash equivalents		200
		Total		440

Notes to accounts:

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed share capital:	
	12% Redeemable preference shares of ₹ 100 each, fully paid up	75
	Equity shares of ₹ 10 each, fully paid up	25
	Total	100
2	Reserves and Surplus	
	Capital reserve	15
	Securities premium	25
	Revenue reserves	260
	Total	300
3	Property, Plant and Equipment	
	PPE Cost	100
	Less: Provision for depreciation	(100)
	Net carrying value	NIL

4	Non-Current Investments	
	Non-current investments at cost (Market value ₹ 400 Cr.)	100

The company redeemed preference shares on 1st April, 2021. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- Pass journal entries to record the above.
- Prepare balance sheet as at 1.4.2021.

**Answer:**

Journal entries in the books of Anu Ltd.

₹ in crores

	Particulars	Dr.	Cr.
1st April, 2021	12% Preference share capital A/c Dr. To Preference shareholders A/c (Being preference share capital account transferred to shareholders account)	75	75
	Preference shareholders A/c Dr. To Bank A/c (Being payment made to shareholders)	75	75
	Equity Shares buy-back A/c Dr. To Bank A/c (Being 50 lakhs equity shares bought back @ ₹ 50 per share)	25	25
	Equity share capital A/c (50 lakhs x ₹ 10) Dr. Premium on buyback A/c (50 lakhs x ₹ 40) Dr. To Equity Shares buy-back A/c (Being cancellation of shares bought back)	5 20	25
	Securities Premium A/c Dr. To Premium on buyback A/c (50 lakhs x ₹ 40) (Being premium payable on buy-back charged from Securities premium)	20	20
	Revenue Reserve A/c Dr. To Capital Redemption Reserve A/c (75+5) (Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)	80	80

Balance Sheet of Anu Ltd as at 1.4.2021

(in crores ₹)

Particulars			Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	20
	B	Reserves and Surplus	2	280
2		Current liabilities		
	A	Trade Payables		40
		Total		340
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	3	-
	B	Non-Current Investments	4	100
2		Current assets		
	A	Trade receivables		140
	B	Cash and Cash equivalents		100
		Total		340

Notes to accounts:

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed share capital		20
	200 lakhs Equity shares of ₹ 10 each fully paid		
	Total		20
2	Reserves and Surplus		
	Capital reserve		15
	Capital redemption reserve		80
	Securities premium	25	
	Less: Utilization for buy-back of shares	(20)	5
	Revenue Reserve	260	
	Less: transfer to Capital redemption reserve	(80)	180
	Total		280
3	Property, plant and Equipment		
	PPE: cost		100
	Less: Provision for depreciation		(100)

4	Net carrying value		-
	Non-Current Investments		
	Non-current investments at cost		100
	(Market value ₹ 400 Crores)		

8. Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2017:

	₹ In lakhs	₹ In lakhs
Equity & Liabilities		
Shareholders' Funds		
Equity share capital (fully paid up shares of ₹ 10 each)		2,400
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities		
12% Debentures		1,500
Current Liabilities		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
Total		7,400
Assets		
Non-current Assets		
Fixed Assets		4,052
Current Assets		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348
Total		7,400

- On 1st April, 2017, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 150 lakhs.
- On 10th April, 2017 the company achieved the target of buy-back.
- On 30th April, 2017, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.



You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

**Answer:**

In the books of Alpha Limited

Journal Entries

Date 2017	Particulars	Dr. (₹ in lakhs)	Cr.
April 1	Bank A/c Dr. To Investment A/c To Profit on sale of investment (P&L A/c) (Being investment sold on profit)	150	148 2
April 10	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 60 Lakh Equity Shares)	900	900
	Equity share capital A/c Dr. Premium on Buy Back A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	600 300	900
	Security Premium A/c Dr. To Premium on Buy Back A/c [Being Premium on Buy Back adjusted against security Premium A/c.]	300	300
April 10	General reserve A/c Dr. Profit and Loss A/c Dr. To Capital redemption reserve (CRR) A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)	530 70	600
April 30	Capital redemption reserve A/c Dr. To Bonus to Shareholder A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	450	450
	Bonus to Shareholder A/c Dr. To Equity share capital A/c	450	450

	(Being issue of one bonus equity share for every four equity shares held)		
--	---	--	--

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No	Amount (₹ in Lakhs)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
<b>Total</b>		<b>6,502</b>
<b>II. Assets</b>		
(1) Non-current assets		
PPE		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
<b>Total</b>		<b>6,502</b>

Notes to Accounts

			₹ In lakhs
1.	Share Capital		
	Equity share capital (225 lakh fully paid up shares of ₹ 10 each)		2,250
2.	Reserves and Surplus		
	General Reserve	530	
	Less: Transfer to CRR	(530)	-
	Capital Redemption Reserve	400	
	Add: Transfer due to buy-back of shares from P/L	70	

Add: Transfer due to buy-back of shares from Gen. res.	530		
Less: Utilisation for issue of bonus shares	(450)	550	
Securities premium	350		
Less: Adjustment for premium paid on buy back	(300)	50	
Profit & Loss A/c	340		
Add: Profit on sale of investment	2		
Less: Transfer to CRR	(70)	272	872

Working Notes:

- Amount of equity share capital = 2,400 - 600 (buyback) + 450 (Bonus shares) = 2,250
- Cash at bank after issue of bonus shares

	₹ in lakhs
Cash balance as on 1st April, 2017	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

9. Dee Limited (a non-listed company) furnishes the following Balance Sheet as at 31st March, 2021:

(in thousand ₹)

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	2,700
B	Reserves and Surplus	2	9,700
2	Current liabilities		
A	Trade Payables		1,400
	Total		13,800
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		9,300
B	Non-Current Investments		3,000
2	Current assets		
A	Inventories		500
B	Trade receivables		200
C	Cash and Cash equivalents		800
	Total		13,800

Notes to accounts

No.	Particulars		₹
1	Share Capital Authorized, issued and subscribed capital: 2,50,000 Equity shares of ₹ 10 each fully paid up 2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy-back)		2,500 200 <hr/>
	Total		2,700
2	Reserves and Surplus Capital reserve Revenue reserve Securities premium Profit and loss account Total		1,000 3,000 2,200 3,500 9,700

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

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

**Answer:**

Journal Entries in the books of Dee Limited

(in thousand ₹)

	Particulars	Dr.	Cr.
(i)	Bank Account Dr. Profit and Loss Account Dr. To Investment Account (Being the investments sold at loss for the purpose of buy-back)	2,200 800	3,000
(ii)	Equity Share buy-back Account Dr. To Bank Account (Being the payment made on buy-back)	2,500	2,500
(iii)	Equity Share Capital Account Dr. Premium Payable on Buy-Back Account Dr. To Equity Shares Buy-Back Account (Being the buy-back amount allocated to equity share capital)	500 2,000	2,500
(iv)	Securities premium Account Dr. To Premium payable on buy-back Account (Being the premium payable on buy-back adjusted against securities premium account)	2,000	2,000

(v)	Revenue reserve Account	Dr.	300	
	To Capital Redemption Reserve Account			300
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			

Balance Sheet of Dee Limited as at 1st April, 2021 (After buy-back of shares)

(in thousand ₹)

Particulars		Notes	₹
1	Equity and Liabilities		
	Shareholders' funds		
A	Share capital	1	2,200
B	Reserves and Surplus	2	6,900
2	Current liabilities		
A	Trade Payables		1,400
	Total		10,500
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		9,300
2	Current assets		
A	Inventories		500
B	Trade receivables		200
C	Cash and Cash equivalents		500
	Total		10,500

Notes to accounts

Particulars		₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	2,50,000 Equity shares of ₹ 10 each fully paid up	2,000
	2,000, 10% Preference shares of ₹ 100 each	200
	(Issued two months back for the purpose of buy-back)	—
	Total	2,200
2	Reserves and Surplus	
	Capital reserve	1,000
	Capital redemption reserve	300
	Securities Premium	2,200

Less: Premium payable on buy-back of shares	(2,000)	200
Revenue reserve	3,000	
Less: Transfer to Capital redemption reserve	(300)	2,700
Profit and loss A/c	3,500	
Less: Loss on investment	(800)	2,700
Total		6,900

10. Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In ₹
Share Capital	
Equity Shares of ₹ 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	15,50,000
	93,00,000
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	34,50,000
	93,00,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2018 at ₹ 30 per share.

Buy Back of shares is fully authorized by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

**Answer:**

Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

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

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (₹)	45,00,000
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹ 30
Number of shares that can be bought back (shares)	37,500

2. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the paid up capital & free reserve

	Particulars	₹
(a)	Loan funds (₹) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back 50% of Debt	23,25,000
(c)	Present paid up capital and free reserve (₹)	45,00,000
(d)	Maximum permitted buy back of Equity (₹) (WN.1)	16,31,250
(e)	Maximum number of shares that can be bought back @ ₹ 30 per share	54,375 shares
(f)	Actual Buy Back Proposed	35,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Resources Test	37,500
Shares Outstanding Test	42,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2018.

However, company wants to buy-back only 35,000 equity shares @ ₹ 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

**Working Note:**

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

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(45,00,000 - x) - 23,25,000 = y \quad (1)$$

$$(y \times 10) = x \quad \text{Or} \quad 3x = y \quad (2)$$

30

by solving the above equation, we get

$$x = ₹ 5,43,750 \quad y = ₹ 16,31,250$$



# 3

## Investment Accounts

11. ABC Ltd. holds 2,000, 15% Debentures of ₹ 100 each in XYZ Ltd. as on April 1, 2022 at a cost of ₹ 2,50,000.

Interest is payable on June, 30 and December, 31 each year. Following are the details of 15% Debentures purchased and sold during the year 2022-23.

Particulars
On May 1, 2022, 1,000 debentures are purchased cum-interest at ₹ 1,05,000.
On November 1, 2022, 1200 debentures are sold ex-interest at ₹ 1,28,200.
On November 30, 2022, 500 debentures are purchased ex-interest at ₹ 54,500.
On December 31, 2022, 900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on March 31, 2023 at cost, using FIFO Method.

**Answer:**

In the Books of ABC Ltd

### 15% Debentures (Investment) Account

Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)	Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)
1.4.22	To Balance b/d	2,00,000	7,500	2,50,000	30.6.22	By Bank A/c		22,500	
					1.11.22	By Bank A/c	1,20,000	6,000	1,28,200
1.5.22	To Bank A/c	1,00,000	5,000	1,00,000	1.11.22	By P&L A/c			21,800
					31.12.22	By Bank A/c	90,000	6,750	1,11,250
30.11.22	To Bank A/c	50,000	3,125	54,500	31.12.22	By Bank A/c		10,500	
31.12.22	To P&L A/c			1,250	31.3.23	By Balance c/d	1,40,000	5,250	1,44,500
31.3.23	To P&L A/c (Transfer)		35,375						
		3,50,000	51,000	4,05,750			3,50,000	51,000	4,05,750

- Loss on sale of debentures on 1.11.22 Cost =  
 $2,50,000 / 2,000 \times 1,200 = ₹ 1,50,000$   
 Sale proceeds = ₹ 1,28,200

Loss = ₹ 1,50,000 less ₹ 1,28,200 = ₹ 21,800

2. Profit on sale of debentures on 31.12.22

Cost =  $2,50,000/2,000 \times 800 + 1,00,000/1,000 \times 100 = ₹ 1,10,000$  (1,00,000+10,000)

Sale proceeds = ₹ 1,11,250

Loss = ₹ 1,11,250 less ₹ 1,10,000 = ₹ 1,250

3.

Calculation of closing balance:	Units		₹
Debentures in hand remained in hand at 1.4.23			
Purchased on 1st May, 22	900	$1,00,000 \times 9/10$	90,000
Purchased on 30th Nov. 22	500	54,500	54,500
	1,400		1,44,500

12. Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.2021 Opening balance - Nominal value ₹ 1,20,000, Cost ₹ 1,18,000

1.7.2021 100 Debentures purchased ex-interest at ₹98

1.10.2021 Sold 200 Debentures ex-interest at ₹ 100

1.1.2022 Purchased 50 Debentures at ₹ 98 ex-interest

1.2.2022 Sold 200 Debentures ex-interest at ₹99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2022. Brokerage at 1% is to be paid for each transaction (at ex-interest price). Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2022 is ₹ 99.

**Answer:**

Investment A/c of Mr. Purohit  
for the year ending on 31-3-2022

(8% Debentures of P  
Limited)

Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)	Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)
1.4.21	To Opening Bal.	1,20,000	-	1,18,000	30.9.21	By Bank a/c	-	5,200	-
1.7.21	To Bank A/c	10,000	200	9,898	1.10.21	By Bank a/c	20,000	-	19,800
1.10.21	To P & L a/c	-	-	133	1.2.22	By Bank a/c	20,000	533	19,602
1.1.22	To Bank a/c	5,000	100	4,949	1.2.22	By P & L a/c	-	-	64
31.3.22	To P & L a/c	-	9,233	-	31.3.22	By Bank a/c	-	3,800	-
					31.3.22	Closing Bal.	95,000	-	93,514
		1,35,000	9,533	1,32,980			1,35,000	9,533	1,32,980

Working Notes:

1. Purchase of debentures on 1.7.2021  
 Interest element =  $100 \times 100 \times 8\% \times 3/12 = ₹ 200$   
 Investment element =  $(100 \times 98) + [1\% (100 \times 98)] = ₹ 9,898$
2. Purchase of debentures on 1.1.2022  
 Interest element =  $50 \times 100 \times 8\% \times 3/12 = ₹ 100$   
 Investment element =  $\{(50 \times 98) + [1\%(50 \times 98)]\} = ₹ 4,949$
3. Valuation of closing balance as on 31.3.2022: Market value of 950 Debentures at ₹ 99 = ₹ 94,050  

Cost of 800 Debentures cost $(1,18,000/1,20,000) \times 80,000$	78,667
100 Debentures cost =	9,898
50 Debentures cost =	<u>4,949</u>
	93,514
Value at the end =	₹ 93,514, i.e., whichever is less
4. Profit on sale of debentures as on 1.10.2021

	₹
Sales price of debentures $(200 \times ₹ 100)$	20,000
Less: Brokerage @ 1%	(200)
	19,800
Less: Cost of Debentures $(1,18,000/1,20,000) 20,000$	(19,667)
Profit on sale	133

5. Loss on sale of debentures as on 1.2.2022

	₹
Sales price of debentures $(200 \times ₹ 99)$	19,800
Less: Brokerage @ 1%	(198)
	19,602
Less: Cost of Debentures $(1,18,000/1,20,000) 20,000$	(19,666)
Loss on sale	64
Interest element in sale of investment = $200 \times 100 \times 8\% \times 4/12$	₹ 533

13. On 1<sup>st</sup> April, 2010, Rajat has 50,000 equity shares of P Ltd., at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:
  - a) On 20<sup>th</sup> June, 2010 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
  - b) On 1<sup>st</sup> August, 2010, P Ltd. issue one equity bonus share for every six shares held by the shareholders.

- c) On 31<sup>st</sup> October, 2010 the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3<sup>rd</sup> of entitlement to Umang for a consideration of ₹ 2 per share and subscribe the rest on 5<sup>th</sup> November, 2010. You are required to prepare Investment A/c in the books of Rajat for the year ending 31<sup>st</sup> March, 2011.

**Answer:**

In the books of Rajat  
Investment Account Equity shares in P Ltd.

Date	Particulars	No. of Shares	Div. (₹)	Investment (₹)	Date	Particulars	No. of Shares	Div. (₹)	Investment (₹)
1.4.10	To Balance b/d	50,000		7,50,000	31.3.11	By Balance c/d	90,000		12,10,000
20.6.10	To Bank A/c (Purchase)	10,000		1,60,000		(Bal. Figure)			
1.8.10	To Bonus Share (W.N.1)	10,000		-					
5.11.10	To Bank A/c (right Shares) (W.N.4)	20,000		3,00,000					
		90,000	-	12,10,000			90,000	-	12,10,000

**Working Notes:**

- Bonus shares =  $\frac{50,000 + 10,000}{6} \times 1 = 10,000$  Shares
- Number of Right shares =  $\frac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000$  Shares
- Sale of rights = 30,000 Shares  $\times \frac{1}{3}^{\text{rd}} \times ₹ 2 = ₹ 20,000$

Note: - Right sale proceed shall be treated as income to be credited to Profit & Loss account as per AS-13

- Rights subscribed = 30,000 shares  $\times \frac{2}{3} \times ₹ 15 = ₹ 3,00,000$

14. On 1.4.2002, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2003 bonus was declared in the ratio of 1:2. Before and after the records date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.2003 Mr. Krishna Murty sold bonus shares to a broker, who charged 2% brokerage. Show the investment account in the books of Mr. Krishna Murty, who held the shares as current assets and closing value of investments shall be made at cost or market value whichever is lower.

Answer:

Equity Shares in X Ltd. A/c

Date	Particulars	No. of Shares	Div. (₹)	Invest.. (₹)	Date	Particulars	No. of Shares	Div. (₹)	Invest.. (₹)
1.4	To Bank A/c	1000	-	1,23,000	31.3	By Bank A/c	500	-	44,100
31.1	To Bonus Shares	500	-	-	31.3	By Closing Balance	1,000	-	82,000
31.3	To Profit on Sale of Shares A/c (Bal. fig.)	-	-	3,100					
		1,500	-	1,26,100			1,500	-	1,26,100

Working Notes:

1. 1.4.2002 Purchase

Particulars	₹
Purchase price 1,000 share @ 120	1,20,000
+ Brokerage $1,20,000 \times 2\%$	2,400
+ Cost of Share Transfer Stamp $\frac{1,20,000}{100} \times 50$	600
	1,23,000

2. 31.3.2003 Sale

Particulars	₹
Sale Value 500 @ 90	45,000
(-) Brokerage $45,000 \times 2\%$	900
Net Sale Proceeds	44,100
Book Value/ cost $1,23,000 \div 1,50,000 \times 50,000$	41,000
Profit on Sale	3,100

3. Valuation of Closing Balance

$$\text{Cost of Closing Balance} = \frac{1,23,000 \times 1,00,000}{1,50,000} = ₹ 82,000$$

Market Value ₹ 90,000

Cost or Market Value whichever is lower ₹ 82,000

15. On 1<sup>st</sup> April, 2011 Singh had 20,000 equity shares in X Ltd. Face Value of the shares was ₹ 10 each but their book value was ₹ 16 per share. On 1<sup>st</sup> June, 2011, Singh purchased 5,000 more equity shares in the Company at a premium of ₹ 4 per share. On 30<sup>th</sup> June, 2011 the Directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2<sup>nd</sup> August, 2011.

The terms of the rights issue were:

- Rights shares to be issued to the existing holders on 10<sup>th</sup> August, 2011.
- Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹ 15 per share the whole sum being payable by 30<sup>th</sup> September, 2011.
- Existing shareholders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

d) Singh exercised his option under the issue for 50% of his entitlement and the balance of rights, he sold to Ananth for a consideration of ₹ 1.50 per share.

Dividends for the year ended 31<sup>st</sup> March, 2011 at the rate of 15% were declared by the Company and received by Singh on 20<sup>th</sup> October, 2011.

On 1<sup>st</sup> Nov., 2011 Singh sold 20,000 equity shares at a premium of ₹ 3 per share. The market price of the share on 31-12-2011 was ₹ 14. Show the Investment account as it would appear in Singh's book as on 31-12-2011 and the value of shares held on that date.

**Answer:**

**Equity Shares in X Ltd. A/c**  
**For the year ended 31st December, 2011**

Date	Particulars	No. of Shares	Div. (₹)	Invest.. (₹)	Date	Particulars	No. of Shares	Div. (₹)	Invest.. (₹)
1.4	To Opening Balance	20,000	--	3,20,000					
1.6	To Bank A/c	5,000	--	70,000	20.10	By Bank A/c	--	30,000	7,500
2.8	To Bonus Shares A/c	5,000	--	--	1.11	By Bank A/c	20,000	--	2,60,000
30.9	To Bank A/c	5,000	--	75,000	31.12	By Balance c/f	15,000	--	1,96,071
31.12	To P & L A/c.	--	30,000	--	31.12	By P&L A/c (loss)	--	--	1,429
	Dividend Income								
		35,000	30,000	4,65,000			35,000	30,000	4,65,000

**Working Notes:**

1. No. of Rights =  $\frac{30,000}{3} \times 1 = 10,000$

(-) 50% Subscribed 5,000 @ ₹ 15 per shares = ₹ 75,000

Balance rights sold 5,000 @ ₹ 1.50 per share = ₹ 7,500 (P & L A/c.)

2. Dividend

Particulars	Pre-acquisition	Post-acquisition
On 2,00,000 @ 15%	--	30,000
On 50,000 @ 15%	7,500	--

3. Profit or Loss on sale of 20,000 Shares

= Sales proceeds - Average cost

Sales proceeds = ₹ 2,60,000

Average cost = ₹  $[3,20,000 + 70,000 + 75,000 - 7,500] / 35,000 \times 20,000$

= ₹ 2,61,429

Loss ₹ 2,60,000 - ₹ 2,61,429 = ₹ 1,429

4. Closing Balance Valued on weighted Average

Assuming Investment as current investment, closing balance will be valued at lower of cost or net realizable value.

Net realizable value = ₹ 14 × 15,000 shares = ₹ 2,10,000

Cost = ₹  $[3,20,000 + 70,000 + 75,000 - 7,500] / 35,000 \times 15,000 = ₹ 1,96,071.$

# 4

## Cash Flow Statement

### Classification of Activities

16. Classify the following activities as (a) Operating Activities, (b) Investing Activities, (c) Financing Activities (d) Cash Equivalents.
- (a) Purchase of Machinery.
  - (b) Proceeds from issuance of equity share capital
  - (c) Cash Sales.
  - (d) Proceeds from long-term borrowings.
  - (e) Proceeds from Trade receivables.
  - (f) Cash receipts from Trade receivables.
  - (g) Trading Commission received.
  - (h) Purchase of investment.
  - (i) Redemption of Preference Shares.
  - (j) Cash Purchases.
  - (k) Proceeds from sale of investment
  - (l) Purchase of goodwill.
  - (m) Cash paid to suppliers.
  - (n) Interim Dividend paid on equity shares.
  - (o) Wages and salaries paid.
  - (p) Proceed from sale of patents.
  - (q) Interest received on debentures held as investment.
  - (r) Interest paid on Long-term borrowings.
  - (s) Office and Administration Expenses paid
  - (t) Manufacturing Overheads paid.
  - (u) Dividend received on shares held as investments.
  - (v) Rent Received on property held as investment
  - (w) Selling and distribution expense paid.
  - (x) Income tax paid
  - (y) Dividend paid on Preference shares.
  - (z) Underwritings Commission paid.
  - (aa) Rent paid.
  - (bb) Brokerage paid on purchase of investments.
  - (cc) Bank Overdraft
  - (dd) Cash Credit

- (ee) Short-term Deposits
- (ff) Marketable Securities (having risk of change in value)
- (gg) Refund of Income Tax received.

17. From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2021

	₹ '000		₹ '000
Balance on 1.4.2020	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Asset	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2021	150
	3,250		3,250

Answer:

X Ltd

Cash Flow Statement for the year ended 31st March, 2021 (Direct Method)

	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	



Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the year		50
Cash at the end of the year		150

- 18.** On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024:
- Total Sales for the year were ₹ 380 lakhs out of which Cash Sales amounted to ₹ 262 Lakhs.
  - Receipts from credit customers during the year, total ₹ 134 lakhs.
  - Total Purchases for the year amounted to ₹ 220 lakhs, out of which 80% were credit purchases.
  - Opening balance in creditors ₹ 84 lakhs and Closing balance in creditors ₹ 92 lakhs.
  - Suppliers of other consumables and services were paid ₹ 19 lakhs in cash.
  - Employees of the enterprise were paid ₹ 20 lakhs in cash.
  - Fully-paid preference shares of the face value of ₹ 32 lakhs were redeemed.
  - Issued equity shares of the face value of ₹ 20 lakhs at a premium of 20%.
  - Debenture of ₹ 20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.
  - ₹ 26 lakhs were paid by way of Income Tax.
  - A new machinery costing ₹ 20 lakhs was purchased in a part exchange of an old machinery. The book value of the old machinery was ₹ 13 lakhs but the vendor agreed to take over the old machinery at a higher value of ₹ 15 lakhs. The balance due to vendor was paid in cash.
  - Dividend ₹ 15 lakhs (including dividend distribution tax) of ₹ 2.7 lakhs was also paid on 30th March, 2024.
  - Debenture interest ₹ 3 lakhs was paid.
  - During the year ₹ 8 lakhs rent was received from property held as investment.
  - ₹ 0.50 lakh interest was earned on the advance payments to suppliers of Goods.
  - Cash and cash equivalents on 1st April 2023, ₹ 2 lakhs.

**Answer:**

Cash flow statement  
for the year ended 31st March 2024

	(₹ in lakhs)	(₹ in lakhs)
<b>Cash flow from operating activities</b>		
Cash sales	262.00	
Cash collected from credit customers	134.00	
Interest received on advance payment to suppliers	0.50	

Less: Cash purchases	(44.00)	
Less: Payment to Creditors (84 + 176 - 92)	(168.00)	
Less: Cash paid to suppliers for consumables & services	(19.00)	
Less: Cash paid to employee	(20.00)	
Cash from operations	145.50	
Less: Income tax paid	(26.00)	
Net cash generated from operating activities		119.50
<b>Cash flow from investing activities</b>		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	8.00	
Net cash used in investing activities		3.00
<b>Cash flow from financing activities</b>		
Redemption of Preference shares	(32.00)	
Proceeds from issue of Equity shares	24.00	
Debenture interest paid	(3.00)	
Dividend Paid	(15.00)	
Net cash used in financing activities		(26.00)
Net increase in cash and cash equivalent		96.50
Add: Cash and cash equivalents as on 1.04.2023		2.00
Cash and cash equivalents as on 31.3.2024		98.50

19. The following are the summarized Balance Sheets of Lotus Ltd. as on 31<sup>st</sup> March, 2020 and 2021:

Liabilities	31-3-20 ₹	31-3-21 ₹
Equity Share Capital (₹ 10 each)	10,00,000	12,50,000
Capital Reserve	-	10,000
Profit & Loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Sundry Creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	24,50,000	26,00,000
<b>Assets</b>		
Land and Building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	3,00,000	4,10,000
	24,50,000	26,00,000

Additional Information:

1. Depreciation written off on land and building ₹ 20,000.
2. The company sold some investment at a profit of ₹ 10,000, which was credited to Capital Reserve.
3. Income tax **provided** during the year ₹ 55,000.
4. During the year, the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issue 10,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31<sup>st</sup> March, 2021 as per AS-3, by using indirect method.

**Answer:**

Lotus Ltd.

Cash Flow Statement (Indirect Method)  
For the year ended 31<sup>st</sup> March, 2021

Particulars	₹	₹
<b>(A) Operating Cash Flow</b>		
Profit Before Tax	1,35,000	
+ Depreciation 20,000 + 55,000	75,000	
Operating profit before Working Capital changes	2,10,000	
Decrease in creditor	(1,00,000)	
Decrease in Stock	20,000	
Increase in debtor	(20,000)	
Operating Cash Flow before tax	1,10,000	
(-) Tax paid	(45,000)	
Net operating cash flow		65,000
<b>(B) Cash flow from Investing activity</b>		
Sale of Investment	60,000	
Purchase of plant & Machinery	(1,25,000)	
<b>(C) Cash flow from financing activity</b>		
Loan repaid	(1,00,000)	
Issue of equity share	1,50,000	
Increase (Decrease) during the year		50,000
Opening Balance		5,00,000
Closing Balance		5,50,000

Working Note:

1. Profit & Loss A/c

Particulars	₹	Particulars	₹
-------------	---	-------------	---

To Income tax provision	55,000	By Opening Balance B/f	4,00,000
To Closing Balance c/f	4,80,000	By PBT (bal. fig.)	1,35,000
	5,35,000		5,35,000

2. Plant & Machinery A/c

Particulars	₹	Particulars	₹
To Opening Balance B/f	7,50,000	By Depreciation (bal. fig.)	55,000
To Cash/ Bank (Purchase)	1,25,000	By Closing balance c/f	9,20,000
To Equity Share capital (Purchase)	1,00,000		
	9,75,000		9,75,000

3. Equity Share Capital A/c

Particulars	₹	Particulars	₹
To Closing Balance c/f	12,50,000	By Opening balance B/f	10,00,000
		By Plant & Machinery A/c	1,00,000
		By Cash / Bank A/c (Issue)	1,50,000
	12,50,000		12,50,000

4. Investment A/c

Particulars	₹	Particulars	₹
To Opening Balance	1,00,000	By Cash / Bank (bal. Fig.) (Sale)	60,000
To Capital Reserve (Profit on sale)	10,000	By Closing Balance	50,000
	1,10,000		1,10,000

5. Provision for Tax A/c

Particulars	₹	Particulars	₹
To Cash / Bank A/c	45,000	By Opening balance B/f	50,000
To Closing Balance c/f	60,000	By P&L A/c	55,000
	1,05,000		1,05,000

20. From the following information, prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March, 2019.

Balance Sheet

	Particulars	Note	31.03.2019 (₹)	31.03.2018 (₹)
I	EQUITY AND LIABILITIES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			

II	(3) Current Liabilities	3		
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities		37,000	27,000
	(c) Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
	ASSET S			
	(1) Non-current Assets	4		
	(a) Tangible Assets		2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(₹)	31.03.2018 (₹)
Dividend Payable	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

- ₹ 18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.
- A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.
- A plant was sold for ₹ 12,000 WDV being ₹ 15,000 on the date of sale (after charging depreciation).
- Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.
- An interim dividend of ₹ 10,000 has been paid.
- Non-current investments given in the balance sheet represents investment in shares of other companies.
- Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

Answer:

Cash flow Statement for the year ending 31<sup>st</sup> March, 2019

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Net profit before taxation (W.N. 4)		98,000
Add: Items to be added		
Depreciation	18,000	
Loss on sale of Plant	3,000	
Goodwill written off	<u>13,000</u>	34,000
Less: Dividend Income		<u>(1,500)</u>
Operating profit before working capital changes		1,30,500
Add: Decrease in Current Assets and Increase in Current Liabilities		
Decrease in Inventories	7,000	
Increase in Trade Payables	<u>21,000</u>	28,000
Less: Increase in Trade Receivables		<u>(33,000)</u>
Cash generated from operations		1,25,500
Less: Income taxes paid		<u>(28,000)</u>
Net Cash from (used in) operating activities		<u>97,500</u>
(B) Cash Flows from investing activities:		
Purchase of Plant		(1,34,000)
Sale of Land		50,000
Sale of plant		12,000
Purchase of investments		(25,600)
Dividend Received		<u>2,100</u>
Net cash used in investing activities		<u>(95,500)</u>
(C) Cash Flows from Financing Activities:		

Proceeds from issue of equity share capital	1,00,000
Redemption of preference shares	(50,000)
Interim Dividend paid	(10,000)
Final dividend paid	<u>(27,000)</u>
Net cash from financing activities	<u>13,000</u>
Net increase in cash and cash equivalents (A + B + C)	15,000
Cash and cash equivalents at beginning of period	<u>17,000</u>
Cash and cash equivalents at end of period	<u>32,000</u>

Working Notes:

1. Land and Building Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	<u>1,25,000</u>		<u>1,25,000</u>

2. Plant and Machinery Account

Particulars	₹	Particulars	₹
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	<u>2,24,000</u>		<u>2,24,000</u>

3. Investments Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	25,600	By Balance c/d	35,000
	<u>35,600</u>		<u>35,600</u>

4. Profit & Loss A/c

Particulars	₹	Particulars	₹
To Dividend	37,000	By Opening Balance	18,000
To Interim Dividend	10,000	By Net Profit before Tax (Bal.Fig)	98,000
To Transfer to reserve	10,000		
To Provision for Tax	32,000		
To Closing Balance	27,000		
	<u>1,16,000</u>		<u>1,16,000</u>

21. From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.2021:

Balance Sheets of Mr. Zen

Liabilities	As on 1.4.2020 ₹	As on 1.4.2021 ₹
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000
	18,40,000	19,76,000
Assets	As on 1.4.2020 ₹	As on 1.4.2021 ₹
Land	6,00,000	8,80,000
Plant and Machinery	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000
	18,40,000	19,76,000

Additional information:

A machine costing ₹ 80,000 (accumulated depreciation there on ₹ 24,000) was sold for ₹ 40,000. The provision for depreciation on 1.4.2020 was ₹ 2,00,000 and 31.3.2021 was ₹ 3,20,000. The net profit for the year ended on 31.3.2021 was ₹ 3,60,000.

**Answer:**

Mr. Zen.

Cash Flow Statement (Indirect Method)

For the year ended 31st March, 2011

Particulars	₹
(A) Cash flow from operating activities	
Net Profit (given)	3,60,000
Adjustments for	
Depreciation on Plant & Machinery (W.N.2)	1,44,000
Loss on Sale of Machinery (W.N.1)	16,000
Operating Profit before working capital changes	5,20,000
Decrease in inventories	80,000
Increase in trade receivables	(1,60,000)
Increase in trade payables	32,000
Net cash generated from operating activities	4,72,000
(B) Cash flow from investing activities	



Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 - 6,00,000)	(2,80,000)	
Net cash used in investing activities		(2,40,000)
(C) Cash flow from financing activities		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.2010		80,000
Cash balance as on 31.3.2011		56,000

Working Notes:

1. Plant & Machinery A/c

Particulars	₹	Particulars	₹
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash - Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c -	16,000
		Loss on Sale (80,000 - 64,000)	7,60,000
		By Balance c/d (4,40,000 + 3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

Particulars	₹	Particulars	₹
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

Particulars	₹
Opening Capital	10,00,000
Add: Net Profit	3,60,000
Less: Closing Capital	13,60,000
Drawings	(12,24,000)
	1,36,000

22. The balance sheets of Sun Ltd. for the years ended 31st March 2021 and 2020 were summarised as:

Particulars	2021 ₹	2020 ₹
Equity Share Capital	60,000	50,000
Reserves:		
Profit and Loss Account	5,000	4,000
Current Liabilities:		
Trade payables	4,000	2,500
Taxation	1,500	1,000
dividends payable	2,000	1,000
	72,500	58,500
Fixed Assets (at w.d.v.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current Assets		
Inventory	17,000	14,000
Trade receivables	8,000	6,000
Bank and Cash	6,000	8,500
	72,500	58,500

The profit and loss account for the year ended 31st March, 2021 disclosed

	₹
Profit before tax	4,500
Taxation	(1,500)
Profit after tax	3,000
Declared dividends	(2,000)
Retained profit	1,000

Further information is available

Particulars	Fixtures ₹	Vehicles ₹
Depreciation for year	1,000	2,500
Disposals:		
Proceeds on disposal	—	1,700

Written down value	—	(1,000)
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31st March, 2021.

**Answer:**

Sun Ltd.

Cash Flow Statement (Indirect Method)

For the year ended 31st March, 2011

Particulars	₹	₹
(A) Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 - 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	
Net cash generated from operating activities		2,800
(B) Cash flows from investing activities		
Purchase of Investment	(1,000)	
Sale of vehicles	1,700	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
(C) Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(1,000)	
Net cash from financing activities		9,000
Net decrease in cash and cash equivalents		(2,500)
Cash and cash equivalents at beginning of period (See Note )		8,500
Cash and cash equivalents at end of period (See Note )		6,000
Note to the Cash Flow Statement		
Cash and Cash Equivalents	31.3.2011	31.3.2010
Bank and Cash	6,000	8,500
Cash and cash equivalents	6,000	8,500

Working Notes:

	Particulars	₹	₹
1.	Income taxes paid		
	Income tax expense for the year		1,500
	Add: Income tax liability at the beginning of the year		1,000
			2,500
	Less: Income tax liability at the end of the year		(1,500)
			1,000
2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		(2,000)
			1,000
3.	Fixed assets acquisitions	Fixtures	Vehicles
		₹	₹
	W.D.V. at 31.3.2011	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
	Acquisitions during 2010-2011	7,000	8,000

Note: Current investments may not be readily convertible to a known amount of cash and may not be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

23. Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31<sup>st</sup> March, 2011:

Particulars	(₹ in lakhs)
Net Profit after tax provision	25,000
Dividend (including dividend tax) paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40

Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

Prepare the Cash Flow Statement for the year 2011 in accordance with AS 3. (Make necessary assumptions).

**Answer:**

Star Oils Ltd.

Cash Flow Statement (Indirect Method)

For the year ended 31st March, 2011

Particulars		(₹ in lakhs)
(A) Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	

Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
(B) Cash flows from investing activities		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,634)
(C) Cash flows from financing activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	27,514
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note:

1. Book value of the assets sold	185
Less: Loss on sale of assets	(40)
Proceeds on sale	145

Assumptions:

- Interest income on investments ₹ 2,506 has been received during the year.

24. The following information was provided by PQR Ltd. for the year ended 31<sup>st</sup> March, 2019 :

- Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.
- Company sold goods for cash only.
- Opening inventory was lesser than closing inventory by ₹ 25,000.
- Wages paid during the year ₹ 5,55,000.
- Office expenses paid during the year ₹ 35,000.
- Selling expenses paid during the year ₹ 15,000.
- Dividend paid during the year ₹ 40,000
- Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)
- Trade Payables on 31<sup>st</sup> March, 2018 were ₹ 50,000 and on 31<sup>st</sup> March, 2019 were ₹

35,000.

10. Amount paid to Trade payables during the year ₹ 6,10,000
11. Income Tax paid during the year amounts to ₹ 55,000 (Provision for taxation as on 31<sup>st</sup> March, 2019 ₹ 30,000).
12. Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
13. Depreciation on furniture amounts to ₹ 40,000.
14. Depreciation on other tangible assets amounts to ₹ 20,000.
15. Plant and Machinery purchased on 15<sup>th</sup> November, 2018 for ₹ 3,50,000.
16. On 31<sup>st</sup> March, 2019 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
17. Cash and Cash equivalents on 31<sup>st</sup> March, 2018 ₹ 2,25,000.

- (A) Prepare cash flow statement for the year ended 31<sup>st</sup> March, 2019, using direct method.
- (B) Calculate cash flow from operating activities, using indirect method.

**Answer:**

PQR Ltd.

(A) Cash Flow Statement for the year ended 31<sup>st</sup> March, 2019 (Using direct method)

Particulars	₹	₹
<b>Cash flows from Operating Activities</b>		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
<b>Cash flows from Investing activities</b>		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
<b>Cash flows from financing activities</b>		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(B) Cash Flow from Operating Activities' by indirect method

Particulars	₹	₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	<u>25,000</u>	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

Particulars	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	<u>5,000</u>	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000



# 5

## Amalgamation of Companies

25. Star Limited agreed to take over Moon Limited on 1st April, 2022. The terms and conditions of takeover were as follows:
- Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
  - Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
  - 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

- to give the meaning of 'consideration for the amalgamation' as per AS-14, and
- Calculate the amount of purchase consideration

### Answer:

Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Computation of Purchase consideration	(₹)
For Preference Shareholders of Moon Ltd. (25,000 Preference Shares × ₹ 70)	17,50,000
For equity shareholders of Moon Ltd. (70,000 Equity Shares × ₹ 110)	77,00,000
Cash	1,25,000
Total Purchase consideration	95,75,000

26. On 1<sup>st</sup> April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:
- Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Rina Ltd.
  - Cash payment of ₹ 50,000 was made to equity shareholders of Rina Ltd.
  - Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Rina Ltd.
  - Debentures of Rina Ltd. (₹ 1,20,000) will be converted into equal number and amount of 10%

debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

**Answer:**

Calculation of Purchase Consideration

Particulars	₹
Equity Shares (50,000 × 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Journal entry relating to discharge of consideration  
In the books of Tina Ltd.

Liquidation of Rina Ltd.A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

27. The following are the summarized Balance Sheets of Well Ltd. and Nice Ltd. as at 31st March, 2024 :

	Particulars	Notes	Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Equity and Liabilities			
	Shareholder's funds			
a.	Share capital	1	41,000	14,300
b.	Reserves and Surplus	2	19,500	(7,350)
2.	Non-current liabilities			
a.	Long-term borrowings	3	20,500	5,425
3.	Current Liabilities			
a.	Trade Payables		15,740	4,850
b.	Short-term Borrowings		-	1,975
	Total		96,740	19,200
	Assets			

1.	Non-current Assets			
a.	Property, plant, and equipment	4	62,550	16,380
b.	Non-current Investments		22,500	-
2.	Current assets			
a.	Inventories		300	870
b.	Trade Receivables		6,590	1,950
c.	Cash and Cash equivalents		4,800	-
	Total		96,740	19,200

#### Notes to Accounts

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of ₹ 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of ₹ 100 each	9,500	
	10% Preference Shares of ₹ 100 each		1,800
	Total	41,000	14,300
2.	Reserves and Surplus		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	Long-term borrowings		
	9% Debentures of ₹ 100 each	11,200	
	10% Debentures of ₹ 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Trade receivables		
	Debtors	6,200	1,800

	Bills Receivables	390	150
		6,590	1,950
2.	Trade payables		
	Creditors	14,750	4,400
	Bills Payables	990	450
		15,740	4,850

On 31.03.2024, Nice Ltd. absorbs the business of Well Ltd. on the following terms:

- For every five equity shares held by the equity shareholders of Well Ltd., they receive three equity shares of Nice Ltd. issued at a premium of ₹ 20 per share.
- The 10% debenture-holders of Well Ltd. were to be allotted such 9% debentures in Nice Ltd. as would bring the same amount of interest.
- 10% Preference Shareholders of Well Ltd. are to be paid at 10% discount by issue of 9% Preference Shares at par in Nice Ltd.
- Banks agreed to waive off the loan of ₹ 270 thousand of Well Ltd.
- Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. ₹ 55 thousand.
- Inventory of Well Ltd. is taken over at 10% more than their book value by Nice Ltd.
- Debtors of Nice Ltd. include ₹ 215 thousand receivables from Well Ltd.
- Property, Plant, and Equipment of Well Ltd. are revalued at 20% above their book value.
- The remaining Assets and Liabilities of Well Ltd. are taken over at book value by Nice Ltd.

You are required to :

- Record Journal Entries in the books of Nice Ltd.
- Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024

**Answer:** Journal Entries in the Books of Nice Ltd.

		Dr. ₹ in '000	Cr. ₹ in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of ₹ 16,380)	Dr.	19,656	
Inventory (110% of ₹ 870)	Dr.	957	
Trade receivables	Dr.	1,950	

Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			
Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

	₹	Form
Preference shareholders: 16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders: 1,25,000 × 3/5 × 120	90,00,000	Equity shares
		1,06,20,000
10 % Preference shares		18,00,000
Less: 10% discount		1,80,000
		16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000

Therefore 9% debentures	90,000/9% = 10,00,000	
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Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	₹ in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375
	(b)	Short term borrowing		1,975
		Total		1,19,225
	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
	(i)	Property, plant and equipment		82,206
	(ii)	Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			₹ in '000
1	Share Capital		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of ₹ 100 each		
	(out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		

	1,11,200 9% Preference Shares of ₹ 100 each (9,500 + 1,620)		11,120
	(out of above 16,200 shares are issued for consideration other than cash)		50,120
2	Reserves and Surplus		
	Securities premium	1,500	
	Reserves and surplus	19,500	21,000
3	Long-term borrowings		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	Trade Payable		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375
5	Property, Plant and Equipment and Intangibles		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	Inventories	300	
	Acquired during the year	957	1,257
7	Trade receivables	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	Cash and Cash Equivalents		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

28. P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P ₹	Q ₹	Assets	P ₹	Q ₹
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600

	13,98,500	14,12,600		13,98,500	14,12,600
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Following are the additional information:

- The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.
- Liabilities of P includes ₹ 50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.
- P has goods purchased from Q, cost to him ₹ 10,000. This is included in the Current asset of P as at 31<sup>st</sup> March, 2007.
- The assets of P and Q are to be re-valued as under:

	P ₹	Q ₹
Plant & Machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- The purchase consideration is to be discharged as under:
  - Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years
  - Profits for the preceding 2 years are given below:

	P ₹	Q ₹
1 <sup>st</sup> Year	2,62,800	2,75,125
2 <sup>nd</sup> Year	2,12,200	2,49,875
	4,75,000	5,25,000

- Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

- Compute the amount of equity and preference shares issued to P and Q.
- Prepare the Balance Sheet of PQ Ltd. immediately after amalgamation.

**Answer:**

**(i) Calculation of Purchase Consideration: Payment basis.**

	Particulars	P		Q	Total
1.	Purchase Consideration 24000 shares in the ratio of profitability				
(i)	Equity shares $\frac{24,000}{10,000} \times 4,750$	11,400	$\frac{24,000}{10,000} \times 5,250$	12,600	24,000 Shares
	Amount of Equity share @ 25	2,85,000		3,15,000	6,00,000
(ii)	12% Pref. share to give 8 % return on capital employed.				



	Preference Shares $\frac{8,40,000 \times 8}{12}$	5,60,000	$\frac{9,24,000 \times 8}{12}$	6,16,000	11,76,000
	Purchase Consideration (A)	8,45,000		9,31,000	17,76,000

Working Notes:

1.	Profitability: 2 year total	4,75,000	5,25,000
	Ratio of Profitability 4,750 : 5,250 = 10,000		
2.	Capital Employed:		
	Plant and Machinery	5,25,000	6,75,000
	Building	7,75,000	6,48,000
	Current Asset	1,63,500	1,58,600
		14,63,500	14,81,600
	Less: Current Liability	(6,23,500)	(5,57,600)
	Capital employed	8,40,000	9,24,000

Goodwill on acquisition:

Difference between net assets acquired & Purchase Consideration paid :

		P		Q	Total
Goodwill	[8,40,000 - 8,45,000]	5,000	[9,24,000 - 9,31,000]	7,000	12,000
Stock 10,000 x 20%	(Goodwill Dr & Stock Cr.)				2,000
					14,000

Balance Sheet of M/s PQ Ltd.

As On 31.03.2007

	Particulars		₹
I,	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	Share capital: Equity	6,00,000	
	Preference	<u>11,76,000</u>	17,76,000
2.	Non-current liabilities:		
3.	Current liabilities	11,81,100	
	Less: Mutual debt	(50,000)	11,31,100
	Total		29,07,100
II,	ASSETS		
1.	Non-current assets		
	Fixed assets		
	Tangible: Plant & Machinery	12,00,000	
	Land & Building	<u>14,23,000</u>	26,23,000
	Intangible: Goodwill		14,000
			26,37,000
2.	Current assets	3,22,100	
	Less: Mutual debt	(50,000)	
	Less: Stock reserve	(2,000)	2,70,100
	Total		29,07,100

29. Exe Limited was wound up on 31.3.2004 and its balance sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3.2004

Liabilities	₹	Assets	₹
Share capital	9,64,000	Property Plant & Equipment	9,64,000
120000 Equity shares of ₹ 10 each	12,00,000	Current assets	
Reserve and surplus		Stock	7,75,000
Profit prior to incorporation	42,000	Sundry debtors	1,60,000
Contingency reserve	2,70,000	Less: Provision for	8,000
Profit & Loss A/c	2,52,000	bad & doubtful debts	1,52,000
Current liabilities		Bills receivable	30,000
Bills payable	40,000	Cash at bank	3,29,000
Sundry creditors	2,26,000		
Provision: Provision for income tax	2,20,000		
	22,50,000		12,86,000
			22,50,000

Wye Limited took over the following assets at values shown as under:

Property Plant & Equipment ₹ 12,80,000, Stock ₹ 7,70,000 and Bills Receivable ₹ 30,000.

Purchase consideration was settled by Wye Limited as under:

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹ 100 each. The balance was settled by issuing equity shares of ₹ 10 each at ₹ 8 per share paid up.

Sundry debtors realised ₹ 1,50,000. Bills payable was settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.
- Prepare the Realisation account, Cash/ Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.
- Pass journal entries in the books of Wye Limited.

**Answer:**

(i) Purchase Consideration on Asset Basis

Particulars	₹
Fixed Asset	12,80,000
Stock	7,70,000
Bills Receivable	30,000
Purchase consideration	20,80,000
To be paid as -	
10% preference share	5,10,000
Balance by Equity Share of ₹10 each, ₹8 paid	15,70,000
	20,80,000
Number of shares to be given	

$$\text{No. of Preference Share} = \frac{5,10,000}{100} = 5,100$$

$$\text{No. of Equity Share} = \frac{15,70,000}{8} = 1,96,250$$

Note: Remember this is issue of partly paid share, and not issue at discount.

(ii) In the Books of Vendor Company i.e. Exe Ltd.

Realisation A/c

Liabilities	₹	Assets	₹
To Fixed Asset a/c	9,64,000	By Bills Payable a/c	40,000
To Stock a/c	7,75,000	By Creditors a/c	2,26,000
To Debtors a/c	1,60,000	By Provision for Income tax a/c	2,20,000
To Bills Receivable a/c	30,000	By Provision for Bad Debt a/c	8,000
To Cash/Bank a/c (Bills payable paid)	38,000	By Y Ltd a/c	20,80,000
To Cash/Bank a/c (Income Tax paid)	2,22,000	(Purchase consideration due)	
To Cash/Bank a/c (Expenses paid)	8,000	By Cash/Bank a/c	1,50,000
		(debtors realised)	
To Cash/Bank a/c (Creditors paid)	2,11,000		
To Profit (Balance tr. to Equity shareholder)	3,16,000		
	27,24,000		27,24,000

Equity Shareholders A/c

Particulars	₹	Particulars	₹
To Equity Share of Y a/c	15,70,000	By Equity Share Capital a/c	12,00,000
To Preference share of Y a/c	5,10,000	By Profit prior to incorporation a/c	42,000
		By Contingency reserve a/c	2,70,000
		By Profit and Loss a/c	2,52,000
		By Profit on realisation	3,16,000
	20,80,000		20,80,000

Cash / Bank A/c

Particulars	₹	Particulars	₹
To Balance b/f	3,29,000	By Realisation a/c (Bills payable paid)	38,000
To Realisation a/c	1,50,000	By Realisation a/c (Income Tax paid)	2,22,000
(debtors collected)		By Realisation a/c (Expenses paid)	8,000
		By Realisation a/c	2,11,000
	4,79,000	(Balance cash paid to Creditors)	4,79,000

Wye Ltd A/c

Particulars	₹	Particulars	₹
To Realisation a/c (PC due)	20,80,000	By Equity Share a/c	15,70,000
		By Preference Share a/c	5,10,000
	20,80,000	By Realisation a/c (Expenses paid)	20,80,000

Equity Shares of Wye Ltd A/c

Particulars	₹	Particulars	₹
To Wye a/c (shares received)	15,70,000	By Equity Shareholder a/c (distributed)	15,70,000
	15,70,000		15,70,000

Preference Shares of Wye Ltd A/c

Particulars	₹	Particulars	₹
To Wye a/c (shares received)	5,10,000	By Equity Shareholder a/c (distributed)	5,10,000
	5,10,000		5,10,000

Amalgamation in the nature of Purchase: Accounted by Purchase Method

(iii) In the Books of Purchaser Company i.e. Wye Ltd

	Particulars		Dr.	Cr.
1.	Business Purchase a/c To Liquidator of Exe Ltd. a/c (Purchase consideration due)	Dr.	20,80,000	20,80,000
2.	Fixed Assets a/c Stock a/c Bills Receivable a/c To Business Purchase a/c (Assets acquired recorded)	Dr. Dr. Dr.	12,80,000 7,70,000 30,000	2,08,000
3.	Liquidator of Exe Ltd. a/c To Preference Share Capital a/c To Equity Share Capital a/c (Purchase consideration paid)	Dr.	20,80,000	5,10,000 15,70,000

30. The Balance Sheet of Mars Limited as on 31<sup>st</sup> March, 2011 was as follows:

Liabilities	₹	Assets	₹
Share Capital: 1,00,000 Equity Shares of ₹ 10 each fully	10,00,000	Property Plant & Equipment: Land and Building	7,64,000
Reserves and Surplus:		Current Assets:	
Capital Reserve	42,000	Stock	7,75,000
Contingency Reserve	2,70,000	Sundry Debtors	1,60,000
Profit and Loss A/c	2,52,000	Less: Provision for doubtful debts	8,000
Current Liabilities & Provisions:		Bills Receivable	30,000
Bills Payable	40,000	Cash at Bank	3,29,000
Sundry Creditors	2,26,000		
Provision for Income Tax	2,20,000		
	20,50,000		20,50,000

On 1<sup>st</sup> April, 2011 Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- 1) Jupiter Limited will take over the assets at the following values: Land and Building ₹ 10,80,000; Stock ₹ 7,70,000; Bills Receivable ₹ 30,000.
- 2) Purchase Consideration will be settled by Jupiter Ltd. as under: 4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.
- 3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.
- 4) Sundry Debtors realized ₹ 1,50,000. Bills Payable were settled for ₹ 38,000. Income Tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.
- 5) Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- i. Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration.
- ii. Prepare the Realization A/c, Bank A/c, Equity Shareholders Account and Jupiter Limited's account in the books of Mars Ltd.

**Answer:**

**Purchase Consideration (Asset Basis)**

Land and Building	10,80,000
Stock	7,70,000
Bills Receivable	30,000
	18,80,000

To be paid as follows:

10% Preference Share 4,100 x 100	4,10,000
For Balance Equity Shares	14,70,000
14,70,000 / 8 = 1,83,750 numbers	18,80,000

**In the Books of Vendor (Mars Ltd.)**

**Realization A/c**

Particulars	₹	Particulars	₹
To Land & Building A/c	7,64,000	By Bad Debt Provision A/c	8,000
To Stock A/c	7,75,000	By Bills Payable A/c	40,000
To Debtor A/c	1,60,000	By Sundry Creditor A/c	2,26,000
To Bills Receivable A/c	30,000	By Provision for Tax A/c	2,20,000
To Cash/ Bank A/c	4,84,000	By Jupiter (P.C. due) A/c	18,80,000
To Profit trf. to equity shareholder	3,16,000	By Cash/ Bank A/c (Debtors)	1,50,000
		By Cash/ Bank (reimbursement)	5,000
	25,29,000		25,29,000

**Equity Shareholder A/c**

Particulars	₹	Particulars	₹
To Preference Share	4,10,000	By Equity Share Capital	10,00,000
To Equity Share	14,70,000	By Capital Reserve	42,000
		By Contingency Reserve	2,70,000
		By P&L A/c	2,52,000
		By Realization A/c (profit)	3,16,000
	18,80,000		18,80,000

**Cash/ Bank A/c**

Particulars	₹	Particulars	₹
To Balance b/f	3,29,000	By Realization A/c (Paid):	
To Realization A/c (Debtors realized)	1,50,000	Bills Payable	38,000
To Realization A/c (Expense reimbursed by Juptier)	5,000	Income Tax	2,22,000
		Expenses	8,000
		Creditor	2,16,000
	4,84,000		4,84,000

**Jupiter Ltd. A/c**

Particulars	₹	Particulars	₹
To Realization A/c (P.C. due)	18,80,000	By 10% Preference Share A/c	4,10,000
		By Equity Share A/c	14,70,000
	18,80,000		18,80,000

31. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:

**P Limited**

**Balance Sheet as at 31.03.2024**

	Particulars	Amount ₹
I.	Equity and Liabilities	
1.	Shareholder's Fund	
	(a) Share Capital	1,40,000
	(b) Reserve & Surplus	
	Profit & Loss A/c	30,000
2.	Non Current Liabilities	
	8% Secured Debentures	1,10,000
3.	Current Liabilities	
	Trade Payables	54,000
	<b>Total Liabilities</b>	<b>3,34,000</b>
II.	Assets	
1.	Non-current assets	

	(a) Property Plant & Equipment	
	Building at cost less depreciation	1,00,000
	Plant & Machinery at cost less depreciation	25,000
2.	Current Assets	
	(a) Inventories	1,35,000
	(b) Trade Receivables	44,000
	(c) Cash at Bank	30,000
	<b>Total Assets</b>	<b>3,34,000</b>

Q Limited

Balance Sheet as at 31.03.2014

	Particulars	Amount ₹
I.	Equity and Liabilities	
1.	Shareholder's Fund	
	(a) Share Capital	2,50,000
	(b) Reserve & Surplus	
	General Reserve	1,20,000
	Profit & Loss A/c	35,000
2.	Current Liabilities	
	Trade Payables	1,40,000
	<b>Total Liabilities</b>	<b>5,45,000</b>
II.	Assets	
1.	Non-current assets	
	(a) Property Plant & Equipment	
	Building at cost less depreciation	1,90,000
	Plant & Machinery at cost less depreciation	80,000
	Furniture & Fixture at cost less Depreciation	25,000
2.	Current Assets	
	(a) Inventories	50,000
	(b) Trade Receivables	1,42,000
	(c) Cash at Bank	58,000
	<b>Total Assets</b>	<b>5,45,000</b>

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

- Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.
- Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.
- The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the neptundry creditors are to be paid out of the proceeds thereof.
- The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

- Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.
- Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2024, the date of completion of amalgamation,

(iii) Write up journal entries including bank entries for closing the books of P Ltd.

**Answer:**

Calculation of Purchase Consideration

	P Ltd. (₹)	Q Ltd. (₹)
<b>Assets taken over:</b>		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000
<b>Less :Liabilities taken over</b>		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
<b>Net Assets taken over</b>	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited

Balance Sheet as at 1st April, 2024

Particulars	Note No.	Amount (₹)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus		
(2) Non-current Liabilities	2	1,21,000
(a) Long term borrowings		
(3) Current Liabilities		1,40,000
(a) Trade Payables		
		10,15,000
<b>II. Assets</b>		
<b>Total</b>		
(1) Non-current assets		
(a) PPE	3	4,30,000
(b) Intangible	4	2,00,000
(2) Current Assets		
a) Inventories		1,85,000
b) Trade Receivables		1,42,000
c) Cash at Bank		58,000



Total	10,15,000
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Notes to Account:

		₹
1	Share Capital	
	Authorized	10,00,000
	1,00,000 shares of ₹ 10 each	
	Issued, Subscribed and Paid up	7,54,000
	75,400 shares of ₹ 10 each	
	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)	
2	Long term borrowings -	1,21,000
	8 % Debentures Tangible	
3	Fixed Assets Building	
	P Ltd. 1,00,000	
	Q Ltd. 1,90,000	2,90,000
	Plant & Machinery	
	P Ltd. 25,000	
	Q Ltd. 80,000	1,05,000
	Furniture & Fixture Q Ltd.	35,000
		4,30,000
4	Intangible Asset	
	Goodwill	
	P Ltd. 50,000	
	Q. Ltd. 1,50,000	2,00,000

In the books of P Ltd. (Journal Entries)

		₹	₹
1	Realization Account Dr.	3,04,000	
	To Building		1,00,000
	To Plant & Machinery		25,000
	To Inventories		1,35,000
	To Trade Receivables		44,000
	(Being all assets except cash transferred to Realization Account)		
2	8% Debentures Account Dr.	1,10,000	
	Trade Payables Dr.	54,000	
	To Realization Account		1,64,000
	(Being all liabilities transferred to Realization Account)		

3	Equity Share Capital Profit & Loss Account To Equity Shareholder's Account (Being Equity transferred to Equity Shareholders' Account)	Dr. Dr.	1,40,000 30,000	1,70,000
4	PQ Ltd To Realization Account (Being Purchase consideration due)	Dr.	1,89,000	1,89,000
5	Bank Account To Realization Account (Being Cash received from trade receivables in full)	Dr.	44,000	44,000
6	Realization Account To Bank Account (Being payment made to Trade Payables)	Dr.	54,000	54,000
7	Shares in PQ Ltd. To PQ Ltd. (Being purchase consideration received in the form of Equity Shares of PQ Ltd.)	Dr.	1,89,000	1,89,000
8	Realization Account (balancing figure) To Equity Shareholders' Account (Being profit on realization transferred to Equity Shareholders' Account)	Dr.	39,000	39,000
9	Equity Shareholders' Account To Shares in PQ Ltd. To Bank Account (Being final payment made to shareholders)	Dr.	2,09,000	1,89,000 20,000

32. The following are the summarized Balance Sheets of X Ltd. and Y Ltd.:

	X Ltd. (₹)	Y Ltd. (₹)
<b>Liabilities:</b>		
Share Capital	1,00,000	50,000
Profit & Loss A/c	10,000	--
Creditors	25,000	5,000
Loan X Ltd.	--	15,000
	1,35,000	70,000
<b>Assets:</b>		
Sundry Assets	1,20,000	60,000
Loan Y Ltd.	15,000	--
Profit & Loss A/c	--	10,000
	1,35,000	70,000

A new company XY Ltd. is formed to acquire the sundry assets and creditors of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at ₹ 1,00,000. The debt due to X Ltd. is also to be discharge in shares of XY Ltd.

Show the ledger accounts to close the books of X Ltd.

**Answer:**

**In the Books of X Ltd. (Vendor)**

**Realization A/c**

Particulars	₹	Particulars	₹
To Sundry Assets A/c	1,20,000	By Creditor A/c	25,000
To Loan to Y	15,000	By XY Ltd. (P.C. due) A/c	75,000
		By Share in XY Ltd A/c (Received against loan)	15,000
		By Shareholder A/c (Loss transferred)	20,000
	1,35,000		1,35,000

**Shareholders A/c**

Particulars	₹	Particulars	₹
To Realization A/c	20,000	By Equity Share Capital A/c	1,00,000
To Share in XY Ltd A/c	90,000	By P&L A/c	10,000
	1,10,000		1,10,000

**XY A/c (Purchasing Co.)**

Particulars	₹	Particulars	₹
To Realization A/c	75,000	By Shares in XY Ltd A/c	75,000
	75,000		75,000

**Share in XY Ltd. A/c**

Particulars	₹	Particulars	₹
To XY Ltd A/c	75,000	By Shareholders A/c	90,000
To Realisation A/c	15,000		
	90,000		90,000

**In the Books of Y Ltd (Vendor)**

**Realization A/c**

Particulars	₹	Particulars	₹
To Sundry Assets A/c	60,000	By Loan from X A/c	15,000
To Shares in XY Ltd A/c (paid against loan)	15,000	By Creditor A/c	5,000
		By XY Ltd. (P.C. due) A/c	55,000
	75,000		75,000

**Shareholders A/c**

Particulars	₹	Particulars	₹
To Profit & Loss A/c	10,000	By Equity Share Capital A/c	50,000
To Share in XY Ltd A/c	40,000		
	50,000		50,000

**XY A/c (Purchasing Co.)**

Particulars	₹	Particulars	₹
To Realization A/c	55,000	By Shares in XY Ltd A/c	55,000
	55,000		55,000

**Share in XY Ltd. A/c**

Particulars	₹	Particulars	₹
To XY Ltd A/c	55,000	By Realization A/c	15,000
		By Shareholders A/c	40,000
	55,000		55,000

**Balance Sheet of M/s XY Ltd.**

AS On ....

	Particulars	₹
<b>I.</b>	<b>EQUITY AND LIABILITIES</b>	
(1)	<b>Shareholders' Funds</b>	
	Share Capital	1,30,000
(2)	Share application money against pending allotment	--
(3)	<b>Non-Current Liabilities</b>	--
(4)	<b>Current Liabilities</b>	
	Creditor	30,000
	<b>TOTAL</b>	1,60,000
<b>II.</b>	<b>ASSETS</b>	
(1)	<b>Non-Current Assets</b>	
	Sundry Assets	1,60,000
(2)	<b>Current Assets</b>	
	<b>TOTAL</b>	1,60,000

**Calculation of Purchase Consideration**

	X	Y
Sundry Assets	1,00,000	60,000
(-) Creditors	25,000	5,000
Purchase Consideration	75,000	55,000

33. Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The balance sheets of both the companies were as under:

		Particulars	Notes	Super Express Ltd. ₹	Fast Express Ltd. ₹
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital	1	20,00,000	10,00,000
	B	Reserves and Surplus	2	1,00,000	2,60,000
2		Non-current liabilities			
	A	Long term provisions	3	1,00,000	--
2		Current liabilities			
	A	Trade Payables		60,000	40,000
		Total		22,60,000	13,00,000
		Assets			
1		Non-current assets			
	A	Property, Plant and Equipment	4	14,00,000	11,00,000
	B	Intangible assets	5	--	1,00,000
2		Current assets			
	A	Inventories		3,00,000	40,000
	B	Trade receivables		2,40,000	40,000
	C	Cash and Cash equivalents	6	3,20,000	20,000
		Total		22,60,000	13,00,000

Notes to accounts

		Super Express Ltd. ₹	Fast Express Ltd. ₹
1	Share Capital		
	Equity shares of ₹ 100 each	20,00,000	10,00,000
2	Reserves and Surplus		
	Insurance reserve	1,00,000	--
	Employee profit sharing reserve	--	60,000
	Reserve account	--	1,00,000
	Surplus	--	1,00,000
		1,00,000	2,60,000
3	Long term provisions		

	Provident fund	1,00,000	--
	Total	1,00,000	--
4	Property, Plant and Equipment		
	Land and Building	10,00,000	6,00,000
	Plant and machinery	4,00,000	5,00,000
		14,00,000	11,00,000
5	Intangible assets		
	Goodwill	--	1,00,000
		--	1,00,000
6.	Cash and Cash Equivalents		
	Cash at Bank	2,20,000	10,000
	Cash in hand	1,00,000	10,000
		3,20,000	20,000

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to ₹ 30,000 (20,000 for Super- Fast Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd. considering pooling method

**Answer:**

Balance Sheet of Super Fast Express Ltd

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	3,60,000
2	Non-current liabilities		
a	Long-term provisions	3	1,00,000
3	Current liabilities		
a	Trade Payables		1,00,000
	Total		35,60,000
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	4	25,00,000
b	Intangible assets	5	1,00,000
2	Current assets		
	Inventories		3,40,000
	Trade receivables		2,80,000
	Cash and cash equivalents	6	3,40,000
	Total		35,60,000

Notes to Accounts:

	₹
1 Share Capital	
Equity share capital	
Issued, subscribed and paid up	
30,000 Equity shares of ₹ 100 each	30,00,000
Total	30,00,000
2 Reserves and Surplus	
Reserve account	1,00,000
Surplus	1,00,000
Insurance reserve	1,00,000
Employees profit sharing account	60,000
Total	3,60,000
3 Long-term provisions	
Provident fund	1,00,000
Total	1,00,000
4 Property, Plant and Equipment	
Buildings	16,00,000
Machinery	9,00,000
Total	25,00,000
5 Intangible assets	
Goodwill	1,00,000
Total	1,00,000
6 Cash and cash equivalents	
Balances with banks	2,30,000
Cash on hand	1,10,000
Total	3,40,000

34. The following were the Balance Sheet of P Ltd. and V Ltd. as at 31<sup>st</sup> March, 2024

Liabilities	P Ltd. (₹ in Lakhs)	V Ltd. (₹ in Lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	15,000	6,000
Securities Premium	3,000	--
Foreign Projects Reserve	--	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	--	1,000
Bills Payable	120	--
Sundry Creditors	1,080	463
Sundry Provisions	1,830	702
	33,400	12,500

Assets:		
Land and Buildings	6,000	--
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,750
Stock	7,862	4,041
Debtors	2,120	1,020
Cash at Bank	1,114	609
Bills Receivable	--	80
	33,400	12,500

All the Bills Receivable held by V Ltd. were P Ltd's acceptances.

On 1<sup>st</sup> April, 2024 P Ltd. took over V Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debenture in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:

- Pass journal entries in the books of P Ltd. and
- Prepare P Ltd's Balance Sheet immediately after the merger.

**Answer:** Amalgamation treated as Merger in the Books of P Ltd. (Purchaser Co.)  
(Pooling of Interest Method)

1.	Business Purchase A/c Dr. To Liquidator of V Ltd. A/c (Purchase consideration due)	9,000	9,000
2.	Plant and Machinery A/c Dr. Furniture A/c Dr. Stock A/c Dr. Debtors A/c Dr. Bank A/c Dr. Bill Receivable A/c Dr. To B.P A/c To 13% Debentures A/c To Creditors A/c To Foreign Project Reserve A/c To Sundry Provision A/c To P&L A/c To General Reserve A/c (3,200-3,000) (Asset, Liabilities and Profit, Reserves of Vendor Co. recorded)	5,000 1,750 4,041 1,020 609 80	9,000 1,000 463 310 702 825 200
3.	Liquidator of V Ltd. A/c Dr.	9,000	



4.	To Equity Share Capital A/c (Purchase Consideration paid)		9,000
	Bills Payable A/c Dr. To Bills Receivable A/c (Mutual Debt cancelled)	80	80
5.	General Reserve A/c Dr. To Cash A/c (Amalgamation expenses paid)	1	1

**Balance Sheet of M/s P Ltd.**

**As On 01.04.2024**

	Particulars	Notes		₹ in Lacs
I.	<b>EQUITY AND LIABILITIES</b>			
(1)	<b>Shareholders' Funds</b>			
	Share Capital: Equity			24,000
	Reserves and Surplus:			
	Security Premium 3,000			
	Foreign Project Reserve 310			
	General Reserve 9,699			
	Profit & Loss A/c (2,870 + 825) 3,695			16,704
(2)	Share application money pending allotment			--
(3)	<b>Non-Current Liabilities:</b>			
	Long-term Borrowings: 13% Debenture			1,000
(4)	<b>Current Liabilities:</b>			
	Trade Payables (1543+40)		1,543	
	Short term Provisions		2,532	4,115
	<b>TOTAL</b>			45,819
II.	<b>ASSETS</b>			
(1)	<b>Non-current Assets</b>			
	Fixed Assets: Tangible			
	Land & Building 6,000			
	Machine 19,000			
	Furniture 4,054			29,054
	Other Non Current Asset:			
(2)	<b>Current Assets</b>			
	Stock in trade		11,903	
	Trade Receivables		3,140	
	Cash and Cash Equivalents		1,722	16,765
	<b>Total</b>			45,819

**Calculation of Purchase Consideration:**

$$\text{Purchase Consideration} = \frac{3}{2} \times 6,000 = 9,000 \text{ (in lakhs)}$$

# 6

## Internal Reconstruction

35. The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	Amount in ₹
<b>Share Capital:</b>	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
<b>Reserves and Surplus:</b>	
Profit and Loss Account	(14,60,000)
<b>Non-Current Liabilities:</b>	
10% Secured Debentures	16,00,000
<b>Current Liabilities:</b>	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
<b>Total</b>	<b>81,00,000</b>
<b>Assets:</b>	
<b>Non-Current Assets:</b>	
(a) Property Plant & Equipment :	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
<b>Current Assets:</b>	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
<b>Total</b>	<b>81,00,000</b>

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

- (i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.
- (ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.
- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.
- (vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid ₹ 15,000.
- (ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.
- (x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

**Answer:**

**Journal Entries in the Books of Z Ltd.**

		₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c Dr. To Equity Share Capital (₹ 5 each) A/c To Reconstruction A/c (Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)	50,00,000	25,00,000 25,00,000
(ii)	9% Preference Share Capital (₹ 100 each) A/c Dr. To 10% Preference Share Capital (₹ 50 each) A/c	20,00,000	10,00,000

	To Reconstruction A/c (Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			10,00,000
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c (Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			5,78,000
	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures outstanding A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c (Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			3,82,000
(iv)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c (Being remaining trade payables sacrificed 50% of their claim.)			1,70,000
(v)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			60,000
(vi)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c (Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			15,000
(vii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000

	(Being refund of fees by directors credited to reconstruction A/c)			
(viii)	Reconstruction A/c To Bank A/c (Being payment of reconstruction expenses)	Dr.	15,000	15,000
(ix)	Provision for Tax A/c To Bank A/c To Reconstruction A/c (Being payment of tax liability in full settlement against provision for tax)	Dr.	1,00,000	75,000 25,000
(x)	Land and Building A/c To Reconstruction A/c (Being appreciation in value of Land & Building recorded)	Dr.	2,00,000	2,00,000
(xi)	Reconstruction A/c To Goodwill A/c To Patent A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Trade Investment A/c To Inventory A/c To Trade Receivables A/c To Capital Reserve (bal. fig.) (Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)	Dr.	49,85,000	10,00,000 5,00,000 14,60,000 1,00,000 6,50,000 1,00,000 50,000 2,50,000 1,00,000 7,75,000

**Bank Account**

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share	
To Bank(reconstruction expenses)	15,000	Capital A/c	25,00,000
To Goodwill	10,00,000	By 9% Pref. Share	
To Patent	5,00,000	Capital A/c	10,00,000
To P & L A/c	14,60,000	By Mr. Y (Settlement)	5,78,000
To Discount on issue of debentures	1,00,000	By Mr. Z (Settlement)	3,82,000
To P & M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

36. Following is the Balance Sheet of ABC Ltd. as at 31st March, 2021:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	26,00,000
	B	Reserves and Surplus	2	(4,05,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	12,00,000
3		Current liabilities		
	A	Trade Payables		5,92,000
	B	Short term borrowings - Bank overdraft		1,50,000
		Total		41,37,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	11,50,000
	B	Intangible assets	5	70,000
	C	Non-current investment	6	68,000
2		Current assets		
	A	Inventory		14,00,000
	B	Trade receivables		14,39,000

C	Cash and cash equivalents		10,000
	Total		41,37,000

Notes to accounts:

		₹
1	Share Capital	
	Equity share capital:	
	2,00,000 Equity Shares of ₹ 10 each	20,00,000
	6,000, 8% Preference shares of ₹ 100 each	6,00,000
		26,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss A/c	(4,05,000)
		(4,05,000)
3	Long-term borrowings	
	9% debentures	12,00,000
		12,00,000
4	Property, Plant and Equipment	
	Plant and machinery	9,00,000
	Furniture and fixtures	2,50,000
		11,50,000
5	Intangible assets	
	Patents and copyrights	70,000
		70,000
6	Non-current investments	
	Investments (market value of ₹ 55,000)	68,000
		68,000

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.

- (v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

**Answer:**

In the Books of ABC Ltd.

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c Dr.		6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c Dr.		4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c Dr.		12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c Dr.		12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c Dr.		5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c Dr.		3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c Dr.		1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c Dr.		5,72,000	



To Investment A/c	13,000
To Profit and loss A/c	4,05,000
To Capital reserve A/c	1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]	

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference shareholders A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture	3,00,000
To Capital reserve A/c	1,54,000	By Trade payables	92,000
	5,72,000		5,72,000

Balance Sheet of ABC Ltd. (And Reduced)

As on 31st March 2021

Particulars	Note No	₹
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant Equipment	4	2,50,000
(a) Intangible assets		70,000
(c) Non-current investments	5	55,000
(2) Current assets		
(a) Current investments		
(b) Inventories (₹ 14,00,000 - ₹ 5,00,000)		9,00,000
(c) Trade receivables		14,39,000
(d) Cash and cash equivalents		
Cash at Bank (W. N.)		1,60,000
Total		28,74,000

Notes to Accounts

		₹
1.	Share Capital 2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
2.	Reserve and Surplus Capital Reserve	1,54,000
3.	Long Term Borrowings 11% Debentures (₹ 4,20,000 + ₹ 3,00,000)	7,20,000
4.	Property Plant & Equipment (i) Tangible assets Plant & machinery 9,00,000 Less: Adjustment on scheme of reconstruction 9,00,000 Furniture & fixtures 70,000 (ii) Intangible assets Patents & copyrights 3,20,000 55,000 Non Current Investments	- 2,50,000 70,000 3,20,000 55,000
5.	Investments (₹ 68,000 - ₹ 13,000)	

Working Note:

Cash at bank = Opening balance + 11% Debentures issued - Bank overdraft paid = ₹ 10,000 + ₹ 3,00,000 - ₹ 1,50,000 = ₹ 1,60,000

37. The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

		Particulars	Notes	₹
1		Equity and Liabilities Shareholders' funds		
	A	Share capital	1	1,50,00,000
	B	Reserves and Surplus	2	(6,00,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	40,00,000
3		Current liabilities		
	A	Trade Payables		50,00,000
	B	Short term provisions	4	1,00,000
		Total		2,35,00,000

		Assets		
1		Non-current assets		
	A	Property, plant and equipment		1,25,00,000
	B	Non-current investment	5	10,00,000
2		Current assets		1,00,00,000
		Total		2,35,00,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
	50,000, 12% Cumulative Preference shares of ₹ 100 each	50,00,000
		1,50,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	Long-term borrowings	
	40,000, 10% debentures of ₹100 each	40,00,000
		40,00,000
4	Short term provisions	
	Provision for taxation	1,00,000
		1,00,000
5	Non-current investments	
	Investments (market value of ₹ 9,50,000)	10,00,000
		10,00,000

The following scheme of reorganization is sanctioned:

- All the existing equity shares are reduced to ₹ 40 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
- Property, plant and equipment are to be written down by 30%.

- (vi) Current assets are to be revalued at ₹ 45,00,000.
- (vii) The taxation liability of the company is settled at ₹ 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

**Answer:**

Journal Entries in the books of Weak Ltd.

			₹	₹
(i)	Equity share capital (₹ 100) A/c To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹ 100 each into ₹ 40 each as per reconstruction scheme)	Dr.	1,00,00,000	40,00,000 60,00,000
(ii)	12% Cumulative Preference Share capital (₹ 100) A/c Dr. To 12% Cumulative Preference Share Capital (₹ 60) A/c To Capital Reduction A/c (Being conversion of 12% cumulative preference share capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)	Dr.	50,00,000	30,00,000 20,00,000
(iii)	10% Debentures A/c To 12% Debentures A/c To Capital Reduction A/c (Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)	Dr.	40,00,000	28,00,000 12,00,000
(iv)	Trade payables A/c To Equity Share Capital A/c To Capital Reduction A/c	Dr.	20,00,000	12,00,000 8,00,000

	(Being a creditor of ₹ 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	1,00,000	
	Capital Reduction A/c	Dr.	50,000	
	To current assets(bank A/c) A/c			1,50,000
	(Being liability for taxation settled)			
(vi)	Capital Reduction A/c	Dr.	99,00,000	
	To P & L A/c			6,00,000
	To Property, plant and equipment A/c			37,50,000
	To Current Assets A/c			55,00,000
	To Investments A/c			50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Property, plant and equipment, Current Assets, Investments through capital reduction account)			
(vii)	Capital Reduction A/c	Dr.	50,000	
	To capital Reserve A/c			50,000
	(Being balance in capital reduction account transferred to capital reserve account)			

Balance Sheet of Weak Ltd. (and reduced) as at 31.3.20X1

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	82,00,000
b Reserves and Surplus	2	50,000
2 Non-current liabilities		
a Long-term borrowings	3	28,00,000
3 Current liabilities		
a Trade Payables		30,00,000
Total		1,40,50,000
Assets		
1 Non-current assets		

a	Property, plant and equipment	4	87,50,000
b	Investments	5	9,50,000
2	Current assets	6	43,50,000
	Total		1,40,50,000

Notes to accounts

	₹	₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
1,30,000 equity shares of ₹ 40 each		52,00,000
Preference share capital		
Issued, subscribed and paid up		
50,000 12% Cumulative Preference shares of ₹ 60 each		30,00,000
Total		82,00,000
2. Reserves and Surplus		
Capital Reserve		50,000
3. Long-term borrowings		
Secured		
12% Debentures		28,00,000
4. Property, plant and Equipment		
Total PPE	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5. Investments	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
6. Current assets	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative	
To Property, plant		preference share capital	20,00,000

and equipment	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

38. Vaibhav Ltd. gives the following ledger balances as at 31st March 2021:

	₹
Property, Plant and Equipment	2,50,00,000
Investments (Market-value ₹ 19,00,000)	20,00,000
Current Assets	2,00,00,000
P & L A/c (Dr. balance)	12,00,000
Share Capital: Equity Shares of ₹ 100 each	2,00,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000
5% Debentures of ₹ 100 each	80,00,000
Creditors	1,00,00,000
Provision for taxation	2,00,000

The following scheme of Internal Reconstruction is sanctioned:

- All the existing equity shares are reduced to ₹ 40 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- Property, Plant and Equipment is to be written down by 20%.
- Current assets are to be revalued at ₹ 90,00,000.
- Investments are to be brought to their market value.
- One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
- The taxation liability is to be settled at ₹ 3,00,000.
- It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

**Answer:**

Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr. To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)	2,00,00,000	80,00,000 1,20,00,000
(ii)	6% Cumulative Preference Share capital (₹ 100) Dr. To 6% Cumulative Preference Share Capital (₹ 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)	1,00,00,000	60,00,000 40,00,000
(iii)	5% Debentures (₹ 100) A/c Dr. To 6% Debentures (₹ 70) A/c To Capital Reduction A/c (Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)	80,00,000	56,00,000 24,00,000
(iv)	Capital Reduction A/c Dr. To Property Plant & Equipment A/c (Being Property Plant & Equipment depreciated)	50,00,000	50,00,000
(v)	Capital Reduction A/c Dr. To Current Assets A/c (Being Current Asset revalued)	110,00,000	110,00,000
(vi)	Capital Reduction A/c Dr. To Investments A/c (Being investment brought to their market value)	1,00,000	1,00,000
(vii)	Sundry Creditors A/c Dr. To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)	40,00,000	24,00,000 16,00,000



(viii)	Provision for Taxation A/c	Dr.	2,00,000	
	Capital Reduction A/c	Dr.	1,00,000	
	To Liability for Taxation A/c			3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
	Liability for Taxation A/c	Dr.	3,00,000	
	To Current Assets (Bank A/c)			3,00,000
	(Being the payment of tax liability)			
(ix)	Capital Reduction A/c	Dr.	12,00,000	
	To P & L A/c			12,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr))			
(x)	Capital Reduction A/c	Dr.	26,00,000	
	To Capital Reserve A/c (Bal. fig.)			26,00,000
	(Being the Balance transferred to Capital Reserve)			

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31st March, 2021

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
	a Share capital	1	164,00,000
	b Reserves and Surplus	2	26,00,000
2	Non-current liabilities		
	Long-term borrowings	3	56,00,000
3	Current liabilities		
	Trade Payables (1,00,00,000 less 40,00,000)		60,00,000
	Total		3,06,00,000
Assets			
1	Non-current assets		
	a Property, Plant Equipment		
	Tangible assets	4	200,00,000
	b Investments	5	19,00,000
2	Current assets	6	87,00,000
	Total		3,06,00,000

Notes to accounts

		₹
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1.	Share Capital		
	Equity share capital		
	Issued, subscribed and paid up		
	2,60,000 equity shares of ₹ 40 each		
	(of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
	Total		1,64,00,000
2.	Reserves and Surplus		
	Capital Reserve		26,00,000
3.	Long-term borrowings		
	Secured		
	6% Debentures		56,00,000
4.	Tangible assets		
	Property Plant & Equipment	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	Investments	20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	Current assets		
	Adjustment under scheme of reconstruction	2,00,00,000	
		110,00,000	
	Taxation liability paid	90,00,000	
		(3,00,000)	87,00,000

Working Note:

Capital Reduction Account

	₹		₹
To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences	40,00,000
To Property Plant & Equipment	50,00,000	Share capital	24,00,000
To Current assets	1,10,00,000	By 5% Debentures	16,00,000
To Investment	1,00,000	By Sundry creditors	
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

# 7

## Consolidated Financial Statement

35. Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31 March, 2021 from the following information:

	H Ltd. ₹	S Ltd. ₹
PPE	5,00,000	3,00,000
Investments (2,000 equity shares of S Ltd.)	2,20,000	
Current Assets	1,55,000	1,00,000
Share capital (Fully paid equity shares of ₹ 10 each)	5,00,000	2,50,000
Profit and loss account	2,00,000	1,00,000
Trade Payables	1,75,000	50,000

H Ltd. acquired the shares of S Ltd. on 31<sup>st</sup> March, 2021

**Answer:**

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021

		Note No	Amount (₹)
1	I EQUITY AND LIABILITIES		
	Shareholder's Fund		
	(a) Share Capital	1	5,00,000
	(b) Reserve and Surplus	2	2,60,000
2	Minority interest	3	
3	Current Liabilities		70,000
	(a) Trade payables	4	
			2,25,000
	Total		10,55,000

II ASSETS			
1.	Non-Current Assets		
	PPE	5	8,00,000
2.	Current Assets	6	2,55,000
	Total		10,55,000

Notes to Accounts

		Amounts (₹)
1	Share capital	
	50,000 Equity Shares @ ₹10 each	5,00,000
2	Reserve and Surplus	
	Capital Reserve (W.N. )	60,000
	Profit and loss account	2,00,000
		2,60,000
3	Minority Interest	
	Paid up value of shares 50,000	
	Add: Share in Profit and loss account 20,000	70,000
4	Trade payables	
	H Ltd.	1,75,000
	S Ltd.	50,000
		2,25,000
5	PPE	
	H Ltd.	5,00,000
	S Ltd.	3,00,000
		8,00,000
6	Current Assets	
	H Ltd.	1,55,000
	S Ltd.	1,00,000
		2,55,000

Notes to Account:

1. Share Capital

Particulars	₹
Authorised ..... Equity Share Capital of ₹ ..... each. Issued Subscribed & Paid up Capital 50,000 Equity Shares of ₹..... each.	5,00,000

2. Reserve & Surplus

Particulars	₹
Capital Reserve (W.N.3)	60,000
Profit & Loss A/c (W.N 4)	2,00,000
Total	2,60,000

3. Minority Interest

Particulars	₹
a) Share in Share Capital ( $₹2,50,000 \times 20\%$ )	50,000
b) Share in Pre-Acquisition Profit (W.N 2)	20,000
c) Share in Post-Acquisition Profit (W.N 2)	-
Total	70,000

4. Trade payables

	Amounts (₹)
Trade payables	
H Ltd.	1,75,000
S Ltd.	50,000
	2,25,000

5. PPE

	Amounts (₹)
PPE	
H Ltd.	5,00,000
S Ltd.	3,00,000
	8,00,000

6. Current Asset

	Amounts (₹)
Current Assets	
H Ltd.	1,55,000

S Ltd.	1,00,000
	2,55,000

Working Notes:

1. Shareholding Pattern

Particulars	Number of Shares	%
a) Parent	20,000	80%
b) Minority	5,000	20%
Total (a + b)	25,000	100%

2. Analysis of Profit of S Ltd.

Particulars	Pre	Post
Profit & Loss A/c	1,00,000	-
Total	1,00,000	-
Holding Co. 80%	80,000	-
Minority Interest 20%	20,000	-

3. Goodwill or Capital Reserve

Particulars	₹	₹
a) Cost of acquisition	2,20,000	
Less: Dividend out of Pre acquisition Profit	-	
Net Cost of acquisition		2,20,000
b) Less : Share in Net Assets of Subsidiary as on the date of acquisition		
▪ Share in Share Capital (₹2,50,000 × 80%)	2,00,000	
▪ Pre-acquisition Profit (WN 2)	80,000	2,80,000
Goodwill/(Capital Reserve) A-B		(60,000)

4. Adjusted Profit & Loss A/c (Holding Company)

Particulars	₹	Particulars	₹
To Balance c/d (NTA 2)	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

36. White Ltd. acquired 2,250 shares of Black Ltd. on 1st October, 2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
--	----------------	----------------

(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus	60,000	30,000
General Reserve	1,50,000	90,000
Profit and loss account		
(2) Current Liabilities	1,15,000	75,000
Trade payables	-	30,000
Due to White Ltd.		
Total	9,75,000	5,25,000
(II) Assets:		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
Total	9,75,000	5,25,000

Other information:

- During the year, Black Limited fabricated a machine, which is sold to White Ltd. For ₹ 39,000, the transaction being completed on 30th March, 2021.
- Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March, 2021.
- Profits during the year 2020-2021 were earned evenly
- The balances of Reserve and Profit and Loss account as on 1st April, 2020 were as follows:

	Reserves	Profit and Loss A/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

**Answer:** Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.

as at 31st March, 2021

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
<b>Total</b>		<b>12,00,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	9,31,000
(2) Current assets		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
<b>Total</b>		<b>12,00,000</b>

Notes to Account:

1. Share Capital

Particulars	₹
Authorised ..... Equity Share Capital of ₹ ..... each.	
Issued Subscribed & Paid up Capital	
6,500 Equity Shares of ₹100 each.	6,50,000

2. Reserve & Surplus

Particulars	₹
General Reserve	60,000
Capital Reserve (WN 3)	7,500
Profit & Loss A/c (WN 4)	1,87,500
<b>Total</b>	<b>2,55,000</b>

3. Minority Interest

Particulars	₹
a) Share in Share Capital (₹3,00,000 × 25%)	75,000
b) Share in Pre-Acquisition Profit (W.N 2)	17,500
c) Share in Post-Acquisition Profit (W.N 2)	12,500
<b>Total</b>	<b>1,05,000</b>

4. Trade payables



	Amounts (₹)
White Ltd.	1,15,000
Black Ltd.	75,000
	1,90,000

5. PPE

	Amounts (₹)
White Ltd.	5,80,000
Black Ltd.	3,51,000
	9,31,000

6. Inventory

	Amounts (₹)
White Ltd.	50,000
Black Ltd.	1,20,000
	1,70,000

7. Cash & Cash Equivalent

	Amounts (₹)
White Ltd.	39,000
Black Ltd.	54,000
Cash in Transit	6,000
	99,000

Working Notes:

1. Shareholding Pattern

Particulars	Number of Shares	%
a) Parent	2,250	75%
b) Minority	750	25%
Total (a + b)	3,000	100%

2. Analysis of Profit of S Ltd.

Particulars	Pre	Post
General Reserve:	30,000	-

Profit & Loss A/c	(10,000)	-
Profit during the year (90,000 + 10,000) in 3:9 ratio	50,000	50,000
Total	70,000	50,000
Holding Co. 75%	52,500	37,500
Minority Interest 25%	17,500	12,500

3. Goodwill or Capital Reserve

Particulars	₹	₹
a) Cost of acquisition	2,70,000	
Less: Dividend out of Pre acquisition Profit	-	
Net Cost of acquisition		2,70,000
b) Less : Share in Net Assets of Subsidiary as on the date of acquisition		
▪ Share in Share Capital (₹3,00,000 × 75%)	2,25,000	
▪ Pre-acquisition Profit (WN 2)	52,500	2,77,500
Goodwill/(Capital Reserve) A-B		(7,500)

4. Adjusted Profit & Loss A/c (Holding Company)

Particulars	₹	Particulars	₹
To Balance c/d (NTA 2)	1,87,500	By Balance b/d	1,50,000
		By Share in subsidiary (WN.2)	37,500
	1,87,500		1,87,500

37. From the following balance sheets of H Ltd. And its subsidiary S Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date, having regard to the following:

- Reserves and Profit and Loss Account of S Ltd. stood at ₹ 25,000 and ₹ 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2020.
- Machinery (Book-value ₹ 1,00,000) and Furniture (Book value ₹ 20,000) S Ltd. were revalued at ₹ 1,50,000 and ₹ 15,000 respectively on 1<sup>st</sup> April, 2020 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Balance Sheet of H Ltd. and S Ltd. as at 31<sup>st</sup> March, 2021

Particulars	Note No.	H Ltd. (₹)	S Ltd. (₹)
<b>I. Equity and Liabilities</b>			
(1) Shareholder's Funds			
(a) Share Capital	1	6,00,000	1,00,000

(b) Reserves and Surplus	2	3,00,000	1,00,000
<b>(2) Current Liabilities</b>			
(a) Trade Payables		1,50,000	57,000
Total		10,50,000	2,57,000
<b>II. Assets</b>			
<b>(1) Non-current assets</b>	3	4,50,000	1,07,000
(a) Property, Plant and Equipment			
(b) Other non-current investments	4	6,00,000	1,50,000
Total		10,50,000	2,57,000

**Notes to Accounts**

	H Ltd. (₹)	S Ltd. (₹)
<b>1. Share capital</b>		
6,000 equity shares of ₹ 100 each, fully paid up	6,00,000	--
1,000 equity shares of ₹ 100 each, fully paid up		
Total	<u>6,00,000</u>	<u>1,00,000</u>
<b>2. Reserves and Surplus</b>		
General reserves	2,00,000	75,000
Profit and loss account		<u>25,000</u>
Total	<u>3,00,000</u>	<u>1,00,000</u>
<b>3. Property, Plant and Equipment</b>		
Machinery	3,00,000	90,000
Furniture		<u>17,000</u>
Total	<u>4,50,000</u>	<u>1,07,000</u>
<b>4. Other Non-current investments</b>		
Non-current Investments	4,40,000	1,50,000
Shares in S Ltd. (800 shares at ₹200 each)	<u>1,60,000</u>	--
Total	<u>6,00,000</u>	<u>1,50,000</u>

**Answer:** Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.  
as at 31st March, 2021

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	3,44,600
<b>(2) Minority Interest</b>	3	48,150
<b>(3) Current Liabilities</b> <span style="float: right;">Total</span>		
(a) Trade Payables		2,07,000
		11,99,750
<b>II. Assets</b>		
<b>(1) Non-current assets</b> <span style="float: right;">Total</span>	4	5,97,750
(a) Property, Plant and Equipment		
(b) Intangible assets Goodwill (WN 3)		12,000
(c) Other non-current investments	5	5,90,000
		11,99,750

Notes to Account:

1. Share Capital

Particulars	₹
Authorised ..... Equity Share Capital of ₹ 100 each.	
Issued Subscribed & Paid up Capital	
6,000 Equity Shares of ₹100 each.	6.00,000

2. Reserve & Surplus

Particulars	₹
General Reserve ₹2,00,000 + ₹40,000 (WN.2)	2,40,000
Profit & Loss A/c (W.N 4)	1,04,600
<b>Total</b>	<b>3,44,600</b>

3. Minority Interest

Particulars	₹
a) Share in Share Capital (₹1,00,000 × 20%)	20,000
b) Share in Pre-Acquisition Profit (W.N 2)	17,000
c) Share in Post-Acquisition Profit (W.N 2) (10,000 + 1,150)	11,150
<b>Total</b>	<b>48,150</b>

4. PPE

		Amounts (₹)
<b>Machinery</b>		
H Ltd.	3,00,000	
S Ltd. (WN 5)	1,35,000	4,35,000
<b>Furniture</b>		
H Ltd.	1,50,000	
S Ltd. (WN 5)	12,750	1,62,750
		5,97,750

5. Other Current Asset

	Amounts (₹)
H Ltd.	4,40,000
S Ltd.	1,50,000
	5,90,000

Working Notes:

1. Shareholding Pattern

Particulars	Number of Shares	%
a) Parent	800	80%
b) Minority	200	20%
Total (a + b)	1,000	100%

2. Analysis of Profit of S Ltd.

Particulars	Pre	Post	
		Gen. Res.	P & L
General Reserve	25,000	50,000	-
Profit & Loss A/c	15,000	-	10,000
Revaluation Reserve on Machinery (WN.,5)	50,000	-	-
Short depreciation on Machinery (WN. 5)	-	-	(5,000)
Revaluation Loss on Furniture (WN.5)	(5,000)	-	-
Excess depreciation on furniture (WN 5)	-	-	750
Total	85,000	50,000	5,750
Holding Co. 80%	68,000	40,000	4,600
Minority Interest 20%	17,000	10,000	1,150

3. Goodwill or Capital Reserve

Particulars	₹	₹
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a) Cost of acquisition	1,60,000	
Less: Dividend out of Pre acquisition Profit	-	
Net Cost of acquisition		1,60,000
b) Less : Share in Net Assets of Subsidiary as on the date of acquisition		
▪ Share in Share Capital (₹1.00,000 × 80%)	80,000	
▪ Pre-acquisition Profit (WN 2)	68,000	1,48,000
Goodwill/(Capital Reserve) A-B		12,000

4. Adjusted Profit & Loss A/c (Holding Company)

Particulars	₹	Particulars	₹
To Balance c/d (NTA 2)	1,04,600	By Balance b/d	1,00,000
		By Share in subsidiary (WN.2)	4,600
	1,04,600		1,04,600

5. Property Plant & Equipment (Revised Value)

		Machinery	Furniture
a.	Book value as on 31.3.2021	90,000	17,000
b.	Book value on 1.4.2020	1,00,000	20,000
c.	Revalued amount as on 14.2020	1,50,000	15,000
d.	Revaluation gain/Loss (c-b)	50,000	(5,000)
e.	(Short) or excess depreciation	(5,000)	750
f.	Revised PPE balance as on 31.03.2021	1,35,000	12,750

38. A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 2021. On 31st December, 2021, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 2021

Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
<b>I. Equity and Liabilities</b>			
<b>(1) Shareholder's Funds</b>			
(a) Share Capital	1	5,00,000	2,00,000
(b) Reserves and Surplus	2	2,97,200	1,82,000
<b>(2) Current Liabilities</b>			
(a) Trade Payables		47,100	17,400
(b) Short term borrowings	3	80,000	
<b>Total</b>		9,24,300	3,99,400
<b>II. Assets</b>			

<b>(1) Non-current assets</b>			
(d) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
<b>(2) Current assets</b>			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
<b>Total</b>		<b>9,24,300</b>	<b>3,99,400</b>

Notes to Accounts

		A Ltd. ₹	B Ltd. ₹
<b>1. Share Capital</b>			
5,000 shares of ₹ 100 each, fully paid up		5,00,000	-
2,000 shares of ₹ 100 each, fully paid up		<u>-</u>	<u>2,00,000</u>
Total		<u>5,00,000</u>	<u>2,00,000</u>
<b>2. Reserves and Surplus</b>			
General Reserves		2,40,000	1,00,000
Profit & loss		<u>57,200</u>	<u>82,000</u>
Total		<u>2,97,200</u>	<u>1,82,000</u>
<b>3. Short term borrowings</b>			
Bank overdraft		<u>80,000</u>	<u>--</u>
<b>4. Property plant and equipment</b>			
Land and building		1,50,000	1,80,000
Plant & Machinery		<u>2,40,000</u>	<u>1,35,000</u>
Total		<u>3,90,000</u>	<u>3,15,000</u>
<b>5. Non-current Investments</b>			
Investment in B Ltd (at cost)		<u>3,40,000</u>	<u>--</u>
<b>6. Cash &amp; Cash equivalents</b>			
Cash		<u>14,500</u>	<u>8,000</u>

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 2021 out of which a dividend of 10% was paid on 1st August, 2021; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 2021 was considered as worth ₹1,80,000 on 1st July, 2021; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31<sup>st</sup> December, 2021

**Answer:** Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd as at 31st December, 2021

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	3,08,800
(2) Minority Interest	3	83,600
(3) Current Liabilities		
(a) Trade Payables	4	64,500
(b) Short term borrowings	5	80,000
<b>Total</b>		<b>10,36,900</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant Equipment	6	7,41,000
(b) Intangible assets	7	17,200
(2) Current assets		
(a) Inventories	8	1,56,400
(b) Trade receivables	9	99,800
(c) Cash & Cash equivalents	10	22,500
<b>Total</b>		<b>10,36,900</b>

Notes to Accounts

			₹
1.	Share Capital		5,00,000
	5,000 shares of ₹ 100 each		
2.	Reserves and Surplus		
	Reserves	2,40,000	
	Profit & loss (Refer to W.N 4)	68,800	
	<b>Total</b>		<b>3,08,800</b>
3.	Minority Interest		
	Share in Share Capital (₹2,00,000 × 20%)	40,000	
	Share in Pre-Acquisition Profit (W.N 2)	36,700	
	Share in Post-Acquisition Profit (W.N 2)	6,900	83,600
4.	Trade Payables		



	A Ltd.	47,100		
	Add: B Ltd	17,400		
	Total			64,500
5.	Short term borrowings			
	Bank overdraft			80,000
6.	Property, plant and equipment			
	Land and building- A Ltd	1,50,000		
	Add: Land and building- B Ltd	1,80,000	3,30,000	
	Plant & Machinery (Refer to W.N 5)		4,11,000	
	Total			7,41,000
7.	Intangible assets			
	Goodwill (refer to W.N 3)			17,200
8.	Inventories			
	A Ltd.		1,20,000	
	B Ltd.		36,400	
	Total			1,56,400
9	Trade Receivables			
	A Ltd.	59,800		
	B Ltd.	40,000		
	Total			99,800
10	Cash & Cash equivalents			
	Cash of A Ltd		14,500	
	Add: cash of B Ltd.		8,000	
	Total			22,500

Working Notes:

1. Shareholding Pattern

Particulars	Number of Shares	%
a) Parent	1,600	80%
b) Minority	400	20%
Total (a + b)	2,000	100%

2. Analysis of Profit of B Ltd.

Particulars	Pre	Post
-------------	-----	------

		P & L
Profit & Loss A/c		
▪ Opening Balance	30,000	
- Dividend Paid	(20,000)	10,000
▪ Profit during the Year (82,000 - 10,000) 6:6	36,000	36,000
General reserve (Assumed there is no movement in reserves during the year and hence balance as on 1st January 2021 is same as of 31st December 2021)	1,00,000	-
Revaluation Gain (WN 5)	37,500	
Short Depreciation (WN 5)		(1,500)
Total	1,83,500	34,500
Holding Co. 80%	1,46,800	27,600
Minority Interest 20%	36,700	6,900

3. Goodwill or Capital Reserve

Particulars	₹	₹
a) Cost of acquisition	3,40,000	
Less: Dividend out of Pre acquisition Profit	16,000	
Net Cost of acquisition		3,24,000
b) Less : Share in Net Assets of Subsidiary as on the date of acquisition		
▪ Share in Share Capital (₹2,00,000 × 80%)	1,60,000	
▪ Pre-acquisition Profit (WN 2)	1,46,800	3,06,800
Goodwill/(Capital Reserve) A-B		17,200

4. Adjusted Profit & Loss A/c (Holding Company)

Particulars	₹	Particulars	₹
To Investment A/c	16,000	By Balance b/d	57,200
(Rectification) 20,000 × 80%		By Share in subsidiary (WN.2)	27,600
To Balance c/d (NTA 2)	68,800		
	84,800		84,800

5. Property Plant & Equipment (Revised Value)

		Plant & Machinery
a.	Book value as on 31.12.2021	1,35,000
b.	Book value on 1.1.2021	1,50,000
c.	Depreciation Provided	15,000
d.	Rate of Depreciation	10%
e.	Book value of PPE on 1.7.2021 (1,50,000 - 7,500)	1,42,500
f.	Revalued Amount on 1.7.2021	1,80,000
g.	Revaluation Gain (1,80,000 - 1,42,500)	37,500 (Pre)

h.	Short Depreciation	
	Depreciation on revalued amount for 6 months (1,80,000 × 10% × 6/12)	9,000
	Depreciation already provided	7,500
	Short Depreciation	1,500 (Post)
I	Revised Value on 31.12.2021 (1,35,000 + 37,500 - 1,500)	1,71,000

39. H Ltd and its subsidiary S Ltd provide the following information for the year ended 31st March, 2013:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Sales and other income	5,000	1,000
Increase in Inventory (closing less opening)	1,000	200
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2021-2022. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2021-2022.

Prepare a consolidated statement of profit and loss

**Answer:** Consolidated statement of profit and loss of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 20X3

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	5,865

II. Total Income		5,865
III. Expenses		
Cost of material purchased/consumed	2	1,180
Changes of inventories of finished goods	3	(1,196)
Employee benefit expense	4	950
Finance cost	5	150
Depreciation and amortization expense	6	150
Other expenses	7	535
Total expenses		1,769
IV. Profit before tax (II-III)		4,096

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from operationsSales and other income		
	H Ltd.	5,000	
	S Ltd.	<u>1,000</u>	
		6,000	
	Less: Inter-company sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	<u>(10)</u>	5,865
2.	Cost of material purchased/consumed		
	H Ltd.	800	
	S Ltd.	<u>200</u>	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	<u>(120)</u>	880
	Direct expenses (Production)		
	H Ltd.	200	
	S Ltd.	<u>100</u>	<u>300</u>
			<u>1,180</u>
3.	Changes of inventories of finished goodsH		

	Ltd.	1,000	
	S Ltd.	<u>200</u>	
	Less: Unrealized profits ₹24 lacs × $\frac{20}{120}$	(4)	<u>1,196</u>
4.	Employee benefits and expenses		
	Wages and salaries:		
	H Ltd.	800	
	S Ltd.	<u>150</u>	<u>950</u>
5.	Finance cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
6.	Depreciation		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
7.	Other expenses		
	Administrative expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	
	Less: Consultancy fees received by H Ltd. from S Ltd.	<u>(5)</u>	295
	Selling and distribution Expenses:		
	H Ltd.	200	
	S Ltd.	<u>50</u>	
	Less: Commission received by S Ltd. from H Ltd.	<u>(10)</u>	<u>240</u>
			<u>535</u>

40. Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

	2022-23	2023-24
	Amount in ₹	Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		

Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
<b>Assets</b>		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
<b>Current Assets</b>		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

- (1) MNT Ltd. is a subsidiary of LTC Ltd.
- (2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2022-2023 and increased by ₹ 12,000 at the end of 2023-2024. (Inventory of 2022-23 has been sold out during the year 2023-24)
- (3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- (4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2022-23 and ₹ 12,500 in 2023-24 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2022-23, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2022-23.

Restate the balance sheet of MNT Ltd. as on 31st March, 2024 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

**Answer:** Restated Balance Sheet of MNT Ltd. as at 31st December, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		

(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables $3,43,000 \times \frac{100}{98}$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

#### Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
2.	Short term borrowings		
	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500
5.	Inventories	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	Other current assets		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 - 12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts $[3,43,000 \times 2/98]$	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500



# 8

## Branch Accounts

41. Shanti Limited situated at Chennai was incorporated on 1st April 2024. It opened two branches at Madurai and Tiruchi during the year. All goods sold to the Branches by Head Office are invoiced at Cost plus 25%. All expenses relating to branches are paid by the Head Office. Each Branch has its own Sales Ledger and sends weekly statements to Head Office. All cash collections are remitted daily to Head Office by the Branches. The following particulars relating to the year ended 31st March 2025 are extracted from the weekly statements sent by the Branches:

Particulars	Madurai (₹ in Lakhs)	Tiruchi (₹ in Lakhs)
Credit Sales	1,25,200	1,10,000
Cash Sales	78,600	85,200
Sales Returns	2,300	1,200
Trade Receivable	34,500	23,600
Rent and Taxes	3,200	4,500
Bad Debts	6,000	-
Salaries	16,000	18,000
General Expenses	2,600	1,500
Goods Received from Head Office	1,50,000	1,25,000
Advertisement	7,500	5,200
Stock as on 31st March 2025	45,000	35,000

You are required to prepare the Branch Accounts, as they would appear in the Books of the Head Office following Debtor's method for the year ended 31st March 2025.

**Answer:**

In the Books of Head Office  
Branch Account (For the year ended 31st March, 2025)

Particulars	Madurai	Tiruchi	Particulars	Madurai	Tiruchi
To Goods sent to Branch A/c (at invoice price)	1,50,000	1,25,000	By Cash Account		
			- Cash Sales	78,600	85,200
			- Collection from Debtors (W.N.-1)	82,400	85,200

To Rent & Taxes A/c	3,200	4,500	By Debtors	34,500	23,600
To Salaries A/c	16,000	18,000	By Closing Stock (at invoice price)	45,000	35,000
To General Expenses	2,600	1,500	By Goods sent to Branch (Stock reserve)	30,000	25,000
To Advertisement A/c	7,500	5,200			
To Stock reserve A/c	9,000	7,000			
To Net profit transferred to General P&L A/c	82,200	92,800			
Total	2,70,500	2,54,000	Total	2,70,500	2,54,000

Note: Head Office invoices goods to the Branch at cost + 25% (i.e., 1/4th of the cost).

Thus, loading = 1/4th on cost, which equivalent to 1/5th on invoice price.

Working Note

#### Memorandum Branch Debtors Account

Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs	Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs
To sales	1,25,200	1,10,000	By sales return	2,300	1,200
			By bad debt	6,000	--
			By Cash sales	82,400	85,200
			By balance C/d	34,500	23,600
	1,25,200	1,10,000		1,25,200	1,10,000

42. Pawan & Co. of Delhi has a branch in Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts everyday in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the branch. From the following information, you are required to prepare Branch Account in the books of Head Office.

Particulars	₹
Stock at invoice price on 1.4.08	1,64,000
Stock at invoice price on 31.3.09	1,92,000
Debtors as on 1.4.08	63,400
Debtors as on 31.3.09	84,300
Furniture & fixtures as on 1.4.08	46,800
Cash Sales	8,02,600
Credit Sales	7,44,200
Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900

Furniture acquired by the branch on 1.10.08 (payment was made by the branch from cash sales and collection from debtors)	5,000
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Depreciation to be provided on branch furniture & fixtures @ 10% p.a on WDV basis.

**Answer:**

In the Books of Pawan & Co. Delhi (Head Office)

Jaipur Branch Account

Particulars	₹	Particulars	₹
To Opening Balances:		By Opening stock reserve	32,800
Stock A/c	1,64,000	By HO Bank A/c (W.N.3)	15,00,000
Debtors A/c	63,400	By Goods sent to branch (Loading)	2,51,200
Furniture A/c	46,800	By Closing Balances:	
To goods sent to branch	12,56,000	Stock A/c	1,92,000
To Bank A/c (branch expenses)	2,64,000	Debtors A/c	84,300
To Closing stock reserve A/c	38,400	Furniture A/c (W.N.1)	46,870
To Profit & loss A/c (Bal. fig.)	2,74,570		
	21,07,170		21,07,170

Working Notes:

1. Branch Furniture A/c.

Particulars	₹	Particulars	₹
To Balance b/d	46,800	By Branch Expenses (Depreciation)	
To Branch Cash A/c	5,000	10% p.a. on ₹ 46,800	4,680
		10% p.a. for 6 months on ₹ 5,000	250
		By Balance c/d (Bal. fig.)	46,870
	51,800		51,800

2. Collection from branch debtors

Branch Debtors A/c.

Particulars	₹	Particulars	₹
To Balance b/d	63,400	By Branch Cash A/c (Bal. fig.)	7,23,300
To Sales A/c	7,44,200	By Balance c/d	84,300
	8,07,600		8,07,600

3. Branch Cash A/c.

Particulars	₹	Particulars	₹
To Branch Stock A/c	8,02,600	By Branch Expenses A/c	20,900
To Branch Debtors A/c. (W.N.2)	7,23,300	By Branch Furniture A/c	5,000
		By HO Bank A/c (Bal. fig.)	15,00,000
	15,25,900		15,25,900

43. Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the Head Office Bank Account at Nagpur.

Particulars	₹
Goods received from Head Office at invoice price	1,20,000
Returns of Head Office at invoice price	2,400

Stock in Nagpur Branch on 1.1.2009	12,000
Sales during the year - Cash	40,000
Credit	72,000
Debtors at Nagpur Branch	14,400
Cash received from Debtors	64,000
Discounts allowed to Debtors	1,200
Bad Debts during the year	800
Sales Returns at Nagpur Branch	1,600
Salaries and Wages at Branch	12,000
Rent, Rates and Taxes at Branch	3,600
Office expenses at Nagpur Branch	1,200
Stock at Branch on 31.12.2009 at invoice price	24,000

**Answer:**

Stock Debtor Method

Branch Stock A/c

Particulars	₹	Particulars	₹
To Opening Stock b/f	12,000	By Goods sent to Branch A/c (Return)	2,400
To Goods sent to Branch A/c	1,20,000	By Head Office Bank A/c (Cash Sale)	40,000
To Branch Debtors A/c	1,600	By Branch Debtors A/c (Credit Sale)	72,000
(Sales Return)	4,800	By Closing stock c/f	24,000
To Branch Adjustment A/c			
(profit above invoice price)	1,38,400		1,38,400

Branch Adjustment A/c (Loading)

Particulars	₹	Particulars	₹
To Goods sent to Branch (2,400/125 * 25) (on return)	480	By Opening Stock Reserve (12,000/125*25)	2,400
To Closing Stock Reserve (24,000/125 * 25)	4,800	By Goods sent to Branch (1,20,000/125*25)	24,000
To Gross Profit transferred to Branch Profit & Loss A/c (Selling Price - Cost)	25,920	By Branch Stock A/c (Excess of selling price over Invoice price)	4,800
	31,200		31,200

Branch Debtor A/c

Particulars	₹	Particulars	₹
To Opening Balance b/f	14,400	By Head Office Bank A/c (Collection)	64,000
To Branch Stock A/c (Credit Sale)	72,000	By Branch Expenses A/c (Discount)	1,200
		By Branch Expenses A/c (Bad Debts)	800
		By Branch Stock (Sales Return)	1,600
		By Closing Balance (Bal. figure)	18,800
	86,400		86,400

Branch Expenses A/c

Particulars	₹	Particulars	₹
To Branch Debtor A/c (Discount)	1,200	By Branch Profit & Loss A/c	18,800
To Branch Debtor A/c (Bad Debt)	800		
To Head Office Cash/Bank A/c	12,000		

Salaries & Wages	3,600		
Rent	1,200		
Office Expenses	16,800		
	18,800		18,800

Branch Profit & Loss A/c

Particulars	₹	Particulars	₹
To Branch Expenses A/c	18,800	By Branch Adjustment A/c	25,920
To Net Profit (Transferred to Head Office Profit & Loss A/c)	7,120		
	25,920		25,920

44. N Limited has a retail branch at Noida. Goods are sold to customers at cost to HO plus 100%. The wholesale price is cost plus 80%. Goods are invoice to Noida at wholesale price.

Particulars	Head Office	Noida
Stock on April 1, 2019	50,000	
Purchases	3,00,000	-
Goods sent to Branch (at invoice value)	1,08,000	-
Sales	3,06,000	1,00,000
Expenses	90,000	4,000

Sales at Head Office are made only on wholesale basis and sales at branch are made only to customers. Stock at branch is valued at invoice price.

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31<sup>st</sup> March, 2020.

**Answer:**

Cost Price Relationship

Cost	100	Cost	100
(+) Profit 100%	100	(+) Profit 80%	80
Selling Price (Retail Price)	200	Wholesale Selling Price (Invoice Price)	180

Trading & Profit & Loss A/c

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock	50,000	-	By Goods sent to Branch	1,08,000	-
To Purchases A/c	3,00,000	-	A/c	3,06,000	1,00,000
To Goods Received from H.O. A/c	-	1,08,000	By Sales A/c	1,20,000	18,000
To Gross Profit c/d	*1,84,000	**10,000	By Closing Stock A/c (WN. 1 & 2)		
	5,34,000	1,18,000		5,34,000	1,18,000
To Expenses A/c	90,000	4,000	By Gross Profit b/d	1,84,000	10,000
To Closing Stock Res. (WN. 3)	8,000	-			
	86,000	6,000			
To Net Profit	1,84,000	10,000		1,84,000	10,000

Working Note:

(1)	Calculation of closing stock of head office:	₹
	Opening Stock of head office	50,000
	Goods purchased by head office	3,00,000
		3,50,000
(2)	Less: Cost of goods sold $[1,08,000 + 3,06,000 \times 100/180]$	(2,30,000)
		1,20,000
(3)	Calculation of closing stock of branch:	₹
	Goods received from head office [At invoice value]	1,08,000
	Less: Invoice value of goods sold $[1,00,000 \times 180/200]$	(90,000)
		18,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock at Invoice Price ₹18,000	
	Profit included 80% of cost	
	Hence, unrealized profit would be = ₹18,000 $\times 80/180$	₹8,000

Alternatively:

$$\text{Gross Profit Head Office} = \frac{1,08,000 + 3,06,000 \times 80}{180} = 1,84,000$$

$$\text{Gross Profit Branch} = \frac{1,00,000 \times 20}{200} = 10,000$$

45. Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:
- Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
  - A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
  - Branch assets accounts retained at head office, depreciation charged for the year ₹ 15,000 not recorded by Branch.
  - Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.
  - Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.
  - Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date of reconciliation.
  - Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch
  - Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books

**Answer:**

In the Books of Branch  
Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
(a)	Head Office Account Dr. To Salaries Account (Being rectification of salary paid on behalf of Head Office)	5,000	5,000
(b)	No entry in Branch Books is required.		
(c)	Depreciation A/c Dr. To Head Office Account (Being depreciation of assets accounted for)	15,000	15,000
(d)	Expenses Account Dr. To Head Office Account (Being allocated expenses of Head Office recorded)	75,000	75,000
(e)	Head Office Account Dr. To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	60,000	60,000
(f)	Goods in-transit Account Dr. To Head Office Account (Being goods sent by Head Office still in-transit)	50,000	50,000
(g)	Head Office Account Dr. To Bank A/c. (Being expenditure incurred, recorded in books)	10,000	10,000
(h)	Purchases account A/c Dr. To Head Office Account (Being purchases booked)	16,000	16,000

46. Give Journal Entries in the books of Branch A to rectify or adjust the following:
- Head Office expenses ₹ 3,500 allowed the Branch, but not recorded in the Branch Books.
  - Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.
  - Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.
  - H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.
  - A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.
  - Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

**Answer:**

In the Books of Branch A



Particulars	Dr. ₹	Cr. ₹
i. Share in Head Office Expense a/c - Dr. To Head Office a/c (Head Office expenses allocated to the Branch)	3,500	3,500
ii. Depreciation A/c - Dr. To Head Office a/c (Depreciation of Branch assets, whose accounts are kept by the Head Office)	1,500	1,500
iii. Head Office a/c - Dr. To Salary a/c (Being paid salary to a H.O. Inspector, but debited to Salaries account now rectified)	2,000	2,000
iv. Head Office a/c - Dr. To Debtor a/c (giver of cash) (H.O. collected directly from a customer on behalf of the Branch)	10,000	10,000
v. No Entry		
vi. Head Office a/c Dr. To Cash a/c (Branch A incurred advertisement expenses on behalf of branch B)	3,000	3,000

47. Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 2021.

Head office Trial Balance

Particulars	₹	₹
Authorized Shares Capital of ₹ 100 each 10,000 Equity		
Issued 8,000 Equity Shares		8,00,000
Profit & Loss Account - 1-1-2021		25,310
General Reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	
Profit for 2011		21,900
Cash Balance	62,730	52,200
Branch Current Account	1,33,710	
	9,99,410	9,99,410



Branch Trial Balance

Particulars	₹	₹
Fixed Assets	95,000	
Profit for 2011		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	1,71,110

The difference between the balances of the Current Account in the two sets of books is accounted for as follows:

- Cash remitted by the Branch on 31st December, 2021, but received by the Head Office on 1st January 2012 - ₹ 3,000.
- Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance) - ₹ 1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

**Answer:**

The Branch current account in the head office books and head office current account in the branch books do not show the same balances. Therefore in order to reconcile them, the following journal entries will be passed in the head office books:

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
2011 31st Dec.	Cash in Transit A/c. Dr. To Branch Current A/c. (Being cash sent by the branch on 31st Dec. 2011 but received at H.O on 1st Jan. 2012)	3,000	3,000
	Loss by Theft A/c. Dr. To Branch Current A/c. (Being Stock lost in transit from H.O to Branch)	1,700	1,700

In order to incorporate in the H.O books, the given Branch Trial Balance which has been drawn up after preparing the branch Profit & Loss Account, the following journal entries will be necessary:

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
2011 31st Dec.	Branch Current A/c. Dr. To Profit & Loss A/c. (Being Branch profit for the year)	31,700	31,700
	Branch Fixed Asset A/c. Dr. Branch Stock A/c. Dr. Branch Debtors A/c. Dr. Branch Cash A/c. Dr. To Branch Current A/c. (Being Branch asset brought into H.O Books)	95,000 50,460 19,100 6,550	1,71,110
	Branch Current A/c. Dr. Branch Creditors A/c. (Branch Creditors brought into H.O Books)	10,400	10,400

Branch Current Account

Particulars	₹	Particulars	₹
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	1,75,810		1,75,810

Profit and Loss Account for 2021

Particulars	₹	Particulars	₹
To Loss by Theft	1,700	By Balance b/d	25,310
To Balance c/d	1,07,510	By Year's Profit : H.O.	52,200
		Branch	31,700
	1,09,210		1,09,210

48. DM Ltd., Delhi has a branch in London, London Branch is an integral foreign operation of DM Ltd. At the end of the year 31<sup>st</sup> March, 2009, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£ (Dr.)	£ (Cr.)
Fixed Assets (Acquired on 1 <sup>st</sup> April, 2005)	24,000	-
Stock as on 1 <sup>st</sup> April, 2008	11,200	-
Goods from Head Office	64,000	-
Expenses	4,800	-
Debtors	4,800	-
Creditors	-	3,200
Cash at Bank	1,200	-
Head Office Account	-	22,800

Purchases	12,000	-
Sales	-	96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch Account

Particulars	₹	Particulars	₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to Branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.

(b) On 31<sup>st</sup> March, 2008:

Expenses Outstanding £ 400

Prepaid Expenses £ 200

Closing Stock £ 8,000

(c) Rate of Exchange:

1<sup>st</sup> April, 2005 Rs. 70 to £ 1

1<sup>st</sup> April, 2008 Rs. 76 to £ 1

31<sup>st</sup> March, 2009 Rs. 77 to £ 1

Average Rs. 75 to £ 1

You are required to prepare:

(i) Trial Balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K Pound into Indian rupees.

(ii) Trading and Profit and Loss A/c for the year ended 31<sup>st</sup> March, 2009 and

(iii) the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM Ltd.

**Answer:**

(i)

Trial Balance of London Branch as on 31<sup>st</sup> March, 2009

Particulars	U.K Pound	Rate per U.K Pound	Dr. (₹)	Cr. (₹)
Fixed Assets	24,000	70	16,80,000	
Stock (as on 1 <sup>st</sup> April, 2008)	11,200	76	8,51,200	
Goods from head office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 - 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid Expenses	200	77	15,400	

Cash at bank	1,200	77	92,400	
Head Office Account				17,20,000
Difference in foreign exchange translation				12,400
			92,09,600	92,09,600

Closing Stock will be (£ 8,000 × ₹ 77) = ₹ 6,16,000

(ii)

Branch Trading and Profit & Loss Account  
For the year ended 31<sup>st</sup> March, 2009

Particulars	₹	Particulars	₹
To Opening Stock	8,51,200	By Sales	72,00,000
To Purchases	9,00,000	By Closing Stock	6,16,000
To Goods from head office	49,26,000		
To Gross Profit	11,38,800		
	78,16,000		78,16,000
To Expenses	3,75,000	By Gross Profit	11,38,800
To Depreciation	1,68,000	By Profit due to foreign exchange difference	12,400
To Net Profit	6,08,200		
	11,51,200		11,51,200

**Note:** Depreciation = (£ 24,000 × 10%) × ₹ 70 = ₹ 1,68,000.

(iii)

Branch Balance Sheet as on 31<sup>st</sup> March, 2009

Liabilities	₹	₹	Assets	₹	₹
Head Office			Fixed Assets	16,80,000	
Balance	17,20,000		Less: Depreciation	1,68,000	15,12,000
Add: Net Profit	6,08,200	23,28,200	Debtors		3,69,600
Outstanding Expenses		30,800	Prepaid expenses		15,400
Creditors		2,46,400	Closing Stock		6,16,000
		26,05,400	Cash at bank		92,400
					26,05,400

49. An Indian company has a branch at Washington. Its Balance Sheet as at 30<sup>th</sup> September, 2021 is as follows:

Particulars	US \$ (Dr.)	US \$ (Cr.)
Plant and Machinery	1,20,000	-
Furniture and Fixtures	8,000	-
Stock, Oct 1, 2020	56,000	-
Purchases	2,40,000	-
Sales	-	4,16,000
Goods from Indian Co. H.O.	80,000	-
Wages	2,000	-
Carriages Inward	1,000	-

Salaries	6,000	-
Rent, Rates & Taxes	2,000	-
Insurance	1,000	-
Trade Expenses	1,000	-
Head Office a/c	-	1,14,000
Trade Debtors	24,000	-
Trade Creditors	-	17,000
Cash at bank	5,000	-
Cash in hand	1,000	-
	5,47,000	5,47,000

The following further information is given:

- (1) Wages Outstanding - \$ 1,000.
- (2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10% p.a.
- (3) The Head Office sent goods to Branch for ₹ 39,40,000.
- (4) The Head Office shows an amount of ₹ 43,00,000 due from branch.
- (5) Stock on 30<sup>th</sup> September, 2021 - \$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.
- (7) On September 1, 2019, when fixed assets were purchased, the rate of exchange was ₹ 38 to 1 \$.  
On October 1, 2020, the rate was ₹ 39 to 1 \$.  
On September 30, 2021, the rate was ₹ 41 to 1 \$.  
Average rate during the year was ₹ 40 to 1 \$.

You are asked to prepare:

- (a) Trial Balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees;
- (b) Trading and Profit and Loss Account for the year ended 30<sup>th</sup> September, 2021 and the balance sheet as on that date depicting the profitability and net position of the branch as would appear in India for the purpose for incorporating in the main Balance Sheet.

**Answer:**

Branch Trial Balance

Particulars	\$		Exc. Rate	₹	
	Dr.	Cr.		Dr.	Cr.
Plant and Machinery	1,08,000		38	41,04,000	
Depreciation on P & M	12,000		38	4,56,000	
Furniture	7,200		38	2,73,600	
Depreciation on Furniture	800		38	30,400	
Opening Stock	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from HO	80,000		Actual	39,40,000	
Wages	3,000		40	1,20,000	
Carriage inward	1,000		40	40,000	
Wages Outstanding		1,000	41		41,000
Salaries	6,000		40	2,40,000	

Rent rates	2,000		40	80,000	
Insurance	1,000		40	40,000	
Trade Expenses	1,000		40	40,000	
HO A/c		1,14,000	Actual		43,00,000
Debtors / Creditors	24,000	17,000	41	9,84,000	6,97,000
Bank	5,000		41	2,05,000	
Cash	1,000		41	41,000	
Exch. Diff. Gain (Bal. fig.)					7,00,000
	5,48,000	5,48,000		2,23,78,000	2,23,78,000

Adjustment to be made: Closing Stock = \$ 52,000 = (52,000 × 41) = ₹ 21,32,000

Branch Trading Profit & Loss A/c

Particulars	₹	Particulars	₹
To Opening Stock	21,84,000	By Sales a/c	1,66,40,000
To Purchases a/c	96,00,000	By Closing Stock a/c	21,32,000
To Goods from HO	39,40,000		
To Carriage inward a/c	40,000		
To Wages a/c	1,20,000		
To Gross Profit c/f	28,88,000		
	1,87,72,000		1,87,72,000
To Depreciation (4,56,000 + 30,400)	4,86,400	By Gross Profit c/f	28,88,000
To Salaries a/c	2,40,000	By Exchange Difference Gain a/c	7,00,000
To Rent & Rates a/c	80,000		
To Insurance a/c	40,000		
To Trade Expenses a/c	40,000		
To Net Profit (transferred to HO a/c)	27,01,600		
	35,88,000		35,88,000

Branch Balance Sheet

Liabilities	₹	Assets	₹
HO a/c. 43,00,000		Plant & Machinery	41,04,000
(+) Net Profit 27,01,600	70,01,600	Furniture	2,73,600
		Debtors	9,84,000
Creditors	6,97,000	Bank	2,05,000
Wages	41,000	Cash	41,000
		Closing Stock	21,32,000
	77,39,600		77,39,600

50. M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31 March, 2019 and the additional information thereafter:

Particulars	Dr.	Cr.
	Rupees in thousands	

Stock on 1 <sup>st</sup> April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office A/c	-	<u>3,040</u>
Total	<u>6,520</u>	<u>6,520</u>

Additional information:

- Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.
- Closing Stock of Delhi branch was ₹ 15,60,000 on 31 March, 2019.
- The Rates of Exchange may be taken as follows :
  - on 1.4.2018 @ ₹ 50 per Singapore Dollar
  - on 31.3.2019 @ ₹ 52 per Singapore Dollar
  - Average Exchange Rate for the year @ ₹ 51 per Singapore Dollar.
  - Conversion in Singapore Dollar shall be made upto two decimal accuracy.
- Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare:

- Revenue statement for the year ended 31<sup>st</sup> March, 2019 (in Singapore Dollar)
- Balance Sheet as on that date. (in Singapore Dollar)

**Answer:**

(a)

Revenue Statement  
for the year ended 31<sup>st</sup> March, 2019

Particulars	Singapore dollar	Particulars	Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	<u>77,058.82</u>		<u>77,058.82</u>
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers			

(Singapore dollar 12,000 × 0.4)	4,800.00		
	25,192.16		25,192.16

Balance Sheet of Delhi Branch as on 31<sup>st</sup> March, 2019

Liabilities	Singapore dollar	Singapore dollar	Assets	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	Less: Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			67,199.99

Working Note:

M/s Rani & Co

Delhi Branch Trial Balance in (Singapore \$) as on 31<sup>st</sup> March, 2019

Particulars	(₹)		Exc. Rate	Singapore dollar	
	Dr.	Cr.		Dr.	Cr.
Stock on 1.4.18	6,00,000.00		50	12,000.00	-
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	-
Rent, rates and taxes	7,20,000.00		51	14,117.65	-
Sundry Expenses	3,20,000.00		51	6,274.51	-
Computers	6,00,000.00		-	12,000.00	-
Bank balance	5,20,000.00		52	10,000.00	-
Singapore office A/c		30,40,000.00	-		59,897.43
	65,20,000.00	65,20,000.00		1,27,725.48	1,27,725.48