Rahul Malkan

CA INTERMEDIATE

ADVANCED ACCOUNTING

COMPILER 4.0

(NEW SYLLABUS)



BY PROF. RAHUL MALKAN

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Rahul Malkan

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It sounds like you're gearing up for a final push in your studies or exams, and you have a great resource in the book you've compiled! Compiling Your Success the Power of Compilation. We've gathered all past RTPs (Revision Test Papers), MTPs (Mock Test Papers), and PYPs (Previous Year Papers) into a single, chapter-wise book. This compilation serves not just as a study guide but as a comprehensive resource to help you review and reinforce your understanding.

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All the best on your journey. You've got this!
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CHAPTER

1

INTRODUTION TO ACCOUNTING STANDARD

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Question 1 : Nov 2018 – Paper

"Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards.

Solution :

Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) **Standardization of alternative accounting treatments** : Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) **Requirements for additional disclosures** : There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) **Comparability of financial statements** : The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Question 2 : Nov 2020 – RTP

What are the issues, with which Accounting Standards deal?

Solution :

Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

Question 3 : Jan 2021 – Paper

List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per The Institute of Chartered Accountants of India.

Solution :

Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:
Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Question 4 : May 2022 – RTP

A company with a turnover of Rs. 225 crores and borrowings of Rs. 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Solution :

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:
"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;

- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was Rs. 225 crores which does not exceed Rs. 250 crores but borrowings of Rs. 51 crore are more than Rs. 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

Question 5 : May 2022 – RTP

An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

Solution :

Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

Question 6 : Nov 2022 – Paper

Explain the objective of 'Accounting Standards' in brief. State the advantages of setting Accounting Standards.

Solution :

Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.
b. Accounting Standards facilitate the preparation of financial statements and make them comparable.
c. Accounting Standards give a sense of faith and reliability to the users.

The main advantages of setting accounting standards are as follows:

a. Accounting Standards make the financial statements of different companies comparable which helps investors in decision making.
b. Accounting Standards prevent any misleading accounting treatment.
c. Accounting Standards prevent manipulation of data by the management.

Question 7 : May 2024 – RTP

What do you mean by Carve outs/ins in Ind AS? Explain

Solution :

Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

Question 8 : May 2025 – Paper

What are Accounting Standards? Explain the objectives of "Accounting Standards" in brief, also state the advantages of setting Accounting Standards.

Solution :

Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.
b. Accounting Standards facilitates the preparation of financial statements and make them comparable.
c. Accounting Standards give a sense of faith and reliability to the users.

The main advantage of setting accounting standards are as follows:

a. Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.
b. Accounting Standards prevent any misleading accounting treatment.
c. Accounting Standards prevent manipulation of data by the management.

Thanks ....

CHAPTER

2

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

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Question 1 : May 2018 – RTP / May 2018 – Paper

Explain main elements of Financial Statements.

Solution :

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Question 2 : Nov 2018 – RTP / Nov 2021 – RTP / Dec 2021 – Paper

Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

Solution :

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized

in the balance sheet or statement of profit and loss. These bases are: (i) Historical Cost; (ii) Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost** : Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost** : Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realizable (Settlement) Value** : As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value** : Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Question 3 : Nov 2018 – RTP / Jan 2021 – Paper

Mohan started a business on 1st April 2017 with Rs.12,00,000 represented by 60,000 units of Rs.20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost.

Solution :

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs.30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x Rs.20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Question 4 : Nov 2018 – Paper

"One of the characteristic of the financial statement is neutrality." Do you agree with this statement? Explain in brief.

Solution :

Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without

attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

Question 5 : May 2019 – RTP / Nov 2020 – RTP / May 2021 – RTP

With regard to financial statements name any four.

(1) Users
(2) Qualitative characteristics
(3) Elements

Solution :

(1) Users of financial statements:
Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:
Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:
Asset, Liability, Equity, Income/Gain and Expense/Loss

Question 6 : Nov 2019 – RTP / May 2021 – RTP

Aman started a business on 1st April 20X1 with Rs.24,00,000 represented by 1,20,000 units of Rs.20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost.

Solution :

Particulars	**Financial Capital Maintenance at Historical Cost (Rs.)**
Closing equity (Rs.30 x 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x Rs.20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

Question 7 : May 2019 – RTP / Nov 2019 – Paper

The following extract of Balance Sheet of Prabhat Ltd. (Non investment Company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	**Rs.**
Issued and subscribed capital:	
30,000, 12% preference shares of Rs.100 each (fully paid)	30,00,000
24,00,000 equity shares of Rs.10 each, Rs.8 paid up	1,92,00,000
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000
Capital reserves (Rs.3,00,000 is revaluation reserve)	3,90,000
Secured loans:	
12% debentures	1,30,00,000
Unsecured loans:	

Public deposits	7,40,000
Current liabilities:	
Trade payables	6,90,000
Cash credit from SBI (short term)	9,30,000
Assets	**Rs.**
Investments in shares, debentures etc.	1,50,00,000
Profit & loss account (Dr. balance)	30,50,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Prabhat Ltd. is an investment company?

Solution :

Computation of effective capital

	Where Prabhat Ltd. Is a non-investment company Rs.	**Where Prabhat Ltd. is an investment company Rs.**
Paid-up share capital —		
30,000, 12% Preference shares	30,00,000	30,00,000
24,00,000 Equity shares of Rs.8 paid up	1,92,00,000	1,92,00,000
Capital reserves (3,90,000 – 3,00,000)	90,000	90,000
Securities premium	1,00,000	1,00,000
12% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
(A)	36,130,000	36,130,000
Investments	1,50,00,000	—
Profit and Loss account (Dr. balance)	30,50,000	30,50,000
(B)	1,80,50,000	30,50,000
Effective capital (A–B)	1,80,80,000	3,30,80,000

Question 8 : Nov 2020 – Paper

What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein?

Solution :

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.
3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 9 : May 2020 – RTP / May 2023 – RTP / Nov 2023 – RTP

X Ltd. has entered into a binding agreement with Alpha Ltd. to buy a custom-made machine Rs. 2,00,000. At the end of 2022-23, before delivery of the machine, X Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 2022-23.

Solution :

A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, X Ltd. should recognise a liability of Rs. 2,00,000 to Alpha Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production method	Dr.	2,00,000	
To Alpha Ltd.			2,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	2,00,000	
To Loss on change in production method			2,00,000
(Loss transferred to profit and loss account)			

Question 10 : Nov 2020 – Paper / May 2022 – RTP

Summarised Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

Equity and Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was Rs. 3,25,000.

(2) Purchases and Sales in 2020-21 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2021 were Rs. 2,00,000 and Rs. 2,50,000 respectively.

(4) Expenses for the year amounted to Rs. 78,000 which includes interest on 10% loan amount for the year.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Trade receivables on 31.03.2021 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing trade payables are Rs. 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2021 is Rs. 4,22,000.

(9) There is an early repayment penalty for the loan of Rs. 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2020-21.

(2) Balance Sheet as on 31st March, 2021.

Solution :

Books of Cloth Trader

Profit and Loss Account for the year ended 2020-21 (not assuming going concern)

Particulars	Amount (Rs.)		Amount (Rs.)
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		**30,07,500**

Balance Sheet as at 31st March, 2021 (not assuming going concern)

Liabilities	Rs.	Assets	Rs.
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		**11,17,000**

Question 11 : Jan 2021 – Paper

The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31st March, 2020:

	Amount (Rs.)		Amount (Rs.)
To Administrative expenses	4,99,200	By Balance B/d	6,27,550
To Advertisement	1,18,200	By Balance from Trading A/c.	38,15,890
To Commission on sales	95,225	By subsidies recd. From Govt.	2,50,000
To Directors Fees	1,35,940	By Profit on sale of forfeited shares	20,000
To Interest on debentures	28,460		
To Managerial remuneration	2,75,550		
To Depreciation on fixed assets	4,82,565		
To Provision of Taxation	11,50,200		
To General Reserve	4,50,000		
To Investment Revaluation Reserve	52,800		
To Balance c/d	14,25,300		
	47,13,440		**47,13,440**

Depreciation on fixed assets as per Schedule II of the Companies act, 2013 was Rs.5,15,675. You are required to calculate the maximum limit of the managerial remuneration as per Companies Act, 2013.

Solution :

Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.
Balance from Trading A/c		38,15,890
Add: Subsidies received from Government		2,50,000
		40,65,890
Less: Administrative, selling and distribution expenses (4,99,200 + 1,18,200 + 95,225)	7,12,625	

Director's fees	1,35,940	
Interest on debentures	28,460	
Depreciation on fixed assets as per Schedule II	5,15,675	(13,92,700)
Profit u/s 198		26,73,190

Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs. 26,73,190 = Rs.2,94,051 (rounded off).

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198.
   *Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.

Question 12 : July 2021 – Paper

A trader commenced business on April 1, 2020 with Rs.1,20,000, represented by 6000 units of a certain product at Rs.20 per unit. During the year 2020-21 he sold these units at Rs.30/- per unit and had withdrawn Rs.60,000. The price of the product at the end of financial year was Rs.25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

Solution :

Current cost of opening stock = $\frac{1,20,000}{20} \times 25 = 1,50,000$

Current cost of closing cash = 1,80,000 – 60,000 = 1,20,000

Opening equity at current cost = 6,000 × 25 = 1,50,000

Closing Equity at current cost = 1,20,000

∴Retained profit = 1,20,000 – 150,000 = 30,000

Question 13 : Dec 2021 – Paper / Nov 2022 – Paper

As on 1st April, 2021 opening Balance Sheet of Mr.Mohanty is showing the aggregate value of Assets, Liabilities and Equity at Rs.12 Lakhs, 3 Lakhs and 9 lakhs respectively.

During the accounting period 01/04/2021 to 31/03/2022, Mr.Mohanty has the following transactions :

(1) A liability of Rs.50,000 was finally settled at a discount of 2%.

(2) Dividend earned @15% on 1000 (F.V. Rs.100 each) Equity shares held @ Rs.12,000.

(3) Rent of the premises paid Rs.20,000.

(4) Mr.Mohanty withdrew Rs.10,000 for personal purpose and also withdrew Goods worth Rs.5,000 for personal purposes.

(5) Rs.15,000 were received against Bill Receivables.

You are required to show the effect of the above transactions on Balance Sheet in the form of Asset – Liabilities = Equity equation after each transaction.

Solution :

Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	Assets Rs.lakh	-	Liabilities Rs.lakh	=	Equity Rs.lakh
Opening	12	-	3	=	9
(1) Settlement of Creditors	12 – 0.49	-	3 – 0.50	=	9.0 + 0.01
	11.51		2.5		9.01
(2) Dividend earned	11.51 + 0.15	-	2.5	=	9.01+ 0.15
	11.66				9.16
(3) Rent paid	11.66 -0.20	-	2.5	=	9.16 -0.20
	11.46				8.96
(4) Drawings	11.46 -0.15	-	2.5	=	8.96 -0.15
	11.31				8.81
(5) *Money received against Bills receivables	11.31+0.15 -0.15	-	2.5	=	8.81
	11.31				

*No change as cash received from bills receivable will have impact on individual asset only (will reduce bill receivables with corresponding increase in cash).

Question 14 : Nov 2022 – RTP

Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below:

Equity & Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Property, plant and equipment	3,60,000
Profit & Loss Account	1,25,000	Closing Inventory	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows :

(1) The remaining life of Property, plant and equipment is 8 years. The pattern of use of the asset is even. The net realisable value of Property, plant and equipment on 31.03.2022 was Rs. 3,25,000.

(2) Purchases and Sales in 2021-22 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.

(3) The cost and net realizable value of inventory on 31.03.2022 were Rs. 2,00,000 and Rs. 2,50,000 respectively.

(4) Expenses including interest on loan for the year amounted to Rs. 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2022 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are Rs. 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2022 is Rs. 4,22,000.

(9) There is an early repayment penalty for the loan of Rs. 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2021-22.

(2) Balance Sheet as on 31st March, 2022.

Solution :

Profit and Loss Account for the year ended 2021-22(not assuming going concern)

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred expenses	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		**30,07,500**

Balance Sheet as at 31st March, 2022 (not assuming going concern)

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Inventory	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred expenses	Nil
		Bank	4,22,000
	11,17,000		**11,17,000**

Question 15 : May 2024 – RTP

Shiva started a business on 1st April 2022 with Rs. 15,00,000 represented by 80,000 units of Rs.25 each. During the financial year ending on 31st March, 2023, he sold the entire stock for Rs.35 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shiva in the year 2022-23 if Financial Capital is maintained at historical cost.

Solution :

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs. 35 x 80,000 units)	28,00,000 represented by cash
Opening equity	80,000 units x Rs. 25 = 20,00,000
Permissible drawings to keep Capital intact	8,00,000 (28,00,000 – 20,00,000)

Question 16 : Jan 2025 – Paper

Given below is the Balance Sheet of Sky and Associates as on 31st March, 2023 :

Liabilities	Rs.	Assets	Rs.
Capital	1,60,000	Machinery	1,80,000
Profit & Loss Account	93,000	Stock	1,15,000
8% Loan	40,000	Trade Receivables	75,000

Trade Payables	66,000	Deferred Expenditure	9,000
Bank Overdraft	20,000		
	3,79,000		**3,79,000**

Additional Information :

(1) The firm is planning to shut down its business with immediate effect from 1st April, 2024.
(2) The sale and purchase of the firm for the year 2023-24 amounts to Rs.8,20,000 and Rs.6,50,000 respectively.
(3) The value of Closing Stock as on 31-3-2024 was Rs.65,000. The net realizable value is estimated at 120% of cost.
(4) Other expenses for the period amount to Rs.25,000.
(5) Deferred expenditure is getting amortized over 5 years starting from 31-3-2022.
(6) The remaining life of Machinery is expected to be 3 years. The realizable value of Machine is expected at Rs.1,65,000, an expense of Rs.5,000 is to be incurred to realize the same.
(7) Out of trade receivables, Rs.5,000 is expected to be unrealizable due to an ongoing dispute.
(8) Ban has charged a penalty of Rs.2,500 for crossing the overdraft limit.
(9) The lender has agreed to forgo 50% of interest charge for the year.
(10) The firm is expecting a discount of Rs.4,000 from creditors at the time of full and final settlement.

You are required to prepare a profit & Loss A/c. for the year ended 31st March, 2024 to ascertain its Profit/Loss for the period.

Solution :

Profit and Loss Account of Sky & Associate
for the year ended 31st March,2024

Particulars	Rs.	Particulars	Rs.
To Opening Stock	1,15,000	By Sales	8,20,000
To Purchases	6,50,000	By Closing Stock	78,000
To Gross Profit *	1,33,000		
	8,98,000		8,98,000
To Deferred Expense	9,000	By Gross Profit	1,33,000
To Other Expenses	25,000	By Discount	4,000
To Bad Debts	5,000		
To Penalty	2,500		
To Depre. (180 – 160)	20,000		
To Interest on loan	1,600		
To Net Profit	73,900		
	1,37,000		1,37,000

Thanks ....

CHAPTER 3

APPLICABILITY OF ACCOUNTING STANDARDS

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Question 1 : Sept 2024 – RTP

Kirti Ltd. is in the business of manufacturing computers. During the year ended 31st March, 2024, the company manufactured 550 computers. It has the policy of valuing finished stock of goods at a standard cost of Rs. 1.8 lakh per computer. The details of the costs are as under:

	(Rs. in lakh)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (including interest of Rs. 100 lakh)	290

Compute the value cost per computer for the purpose of closing stock.

Solution :

As per para 9 of AS 2 'Valuation of Inventories', for inclusion in the cost of inventory, allocation of fixed production overheads is based on the normal capacity of the production facilities.

In this, case finished stock has been valued at a standard cost of Rs. 1.8 lakh per computer which incidentally synchronizes with the value computed on the basis of absorption costing as under:

		(Rs.in lakh)
Materials		400
Direct Labour		250
Variable production overheads		150
Fixed production overheads	290	
Less: Interest	(100)	190
Total cost		990

Number of computers produced = 550 computers (Assumed to be normal production)

Cost per computer Rs. 990 lakh / 550 computers = Rs. 1.80 lakh

Question 2 : Sept 2025 – RTP

As per the revised scheme effective from accounting periods commencing on or after April 1, 2024, classify non-company entities for the purpose of applicability of Accounting Standards. Briefly explain the criteria for each category.

Solution :

The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
   (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
   (ii) which is not a bank, financial institution or an insurance company;
   (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
   (iv) which does not have borrowings in excess of fifty crore rupees at any time during the immediately preceding accounting year; and
   (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

   Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

   Large entity is a non-company entity that is not an MSME.

   The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

Thanks ....



CHAPTER

4

AS 1 – DISCLOSURE OF ACCOUNTING POLICIES

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Question 1 : Nov 2018 – Paper / May 2020 – RTP / Dec 2021 – Paper / May 2023 – RTP

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2017. The company now wants to make provision based on technical evaluation during the year ending 31.03.2018.

Total value of stock Rs.120 lakhs

Provision required based on technical evaluation Rs.3.00 lakhs.

Provision required based on 12 months no issues Rs.4.00 lakhs.

You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

Solution :

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

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs.4 lakhs to Rs.3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2017-18 in the following manner:

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

Question 2 : May 2019 – RTP / Nov 2020 – RTP

What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

Solution :

Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) **Going Concern:** The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) **Consistency:** The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (i ii) for more appropriate presentation of financial statements.

(iii) **Accrual basis of accounting:** Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

Question 3 : May 2020 – RTP / May 2022 – Paper

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

1. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
2. If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
3. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
4. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

Solution :

1. False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
2. False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Question 4 : Dec 2021 – Paper / May 2023 – RTP

In the books of Rani Ltd., closing inventory as on 31.03.2022 amounts to Rs. 1,75,000 (valued on the basis of FIFO method).

The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2021-22. On the basis of weighted average method, closing inventory as on 31.03.2022 amounts to Rs. 1,59,000. Realizable value of the inventory as on 31.03.2022 amounts to Rs. 2,07,000.

Discuss disclosure requirements of change in accounting policy as per AS 1.

Solution :

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

"The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2021-22, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000 (1,75,000 – 1,59,000)."

Question 5 : May 2023 – Paper

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

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

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

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

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

Solution :

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

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

transferee and transferor respectively) would in substance represent the transaction entered into.

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

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

Question 6 : Jan 2025 – RTP

ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2023.

The company wants to provide during the year ending 31.3.2024 based on technical evaluation:

Total value of inventory	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Solution :

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2023-24:

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

Question 7 : May 2025 – RTP

What do you mean by 'Accrual' in reference to AS-1? Also, specify any three reasons for 'Accrual Basis of Accounting'.

Solution :

The term "Accrual" has been explained in the AS 1 on Disclosure of Accounting Policies, as "Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate"

Reasons for Accrual Basis of Accounting

1. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.
2. Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.

3. The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.
4. Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in the future.
5. Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.

Question 8 : Sept 2025 – RTP

Lion Ltd., engaged in manufacturing and construction contracts, prepares its financial statements for the year ended 31st March 2025. The company follows historical cost for fixed assets, FIFO for inventory valuation, and percentage of completion method for revenue recognition in construction contracts. During the year, the management changes:

- The inventory valuation method from FIFO to Weighted Average due to volatility in raw material prices.
- The depreciation method from Straight Line Method (SLM) to Written Down Value (WDV) citing better reflection of asset usage.

The company discloses the change in inventory method in notes, but does not disclose the change in depreciation method, stating that it is not material.

Additionally, the company has not disclosed its accounting policy on recognition of government grants, though it has received a significant subsidy this year.

You are required to:

(a) Identify and explain violations (if any) of AS 1 in the above case.

(b) Critically evaluate whether "materiality" can be used as a justification for non-disclosure of a change in accounting policy.

(c) Justify, would the change from FIFO to Weighted Average be treated as a change in accounting estimate or accounting policy under AS 1?

Solution :

As per AS 1 "Disclosure of Accounting Policies", the following requirements are relevant:

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- Any change in an accounting policy which has a material effect should be disclosed along with the nature and reasons for such change.
- If the effect of such change is not ascertainable wholly or in part, the fact should be indicated.

Application to Lion Ltd.:

(a) 1. Change in Inventory Valuation Method (FIFO to Weighted Average): This is a change in accounting policy. The company has disclosed the change in the notes to accounts along with justification, which is in line with the disclosure requirements of AS 1, provided the impact of the change is also disclosed or indicated as unascertainable if applicable.

2. **Change in Depreciation Method (SLM to WDV):** As per AS 10 (Revised), a change in the method of depreciation is considered a change in accounting estimate. However,

AS 1 also requires disclosure of material items affecting financial statements. Depreciation affects key financial figures such as profit, asset value, and return ratios. Even if the change is classified as an estimate, if it has a material effect, disclosure is warranted. The company's decision not to disclose the change on the grounds of immateriality may not be appropriate unless supported by clear quantitative evidence.

3. **Non-Disclosure of Accounting Policy for Government Grants:** Lion Ltd. has received a significant subsidy during the year but has not disclosed its accounting policy for government grants. As per AS 1, all significant accounting policies, including those for government grants, should be disclosed. Hence, non-disclosure amounts to a violation of AS 1.

(b) Evaluation of "Materiality" as Justification for Non-Disclosure

AS 1 emphasizes that accounting policies that are significant and changes that materially affect the financial statements should be disclosed.

- Materiality is assessed in terms of the potential of an item or change to influence economic decisions of users.
- Change in the method of depreciation affects not only profit and loss but also asset values and tax liabilities. Thus, even if the quantitative impact appears small, its qualitative impact (e.g., on comparability and trend analysis) may be significant.
- Therefore, the company's reliance on "materiality" as a justification for non-disclosure is not valid unless there is concrete evidence showing the impact is indeed immaterial both quantitatively and qualitatively.

(c) Nature of Change from FIFO to Weighted Average

The change from FIFO to Weighted Average should be treated as a change in accounting policy and not a change in accounting estimate under AS 1, and its nature and financial impact should be properly disclosed in the financial statements.

Thanks ....



CHAPTER 5

AS 2 – VALUATION OF INVENTORY

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Question 1 : May 2018 – RTP

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to advise the company on the valuation of the inventories in line with the provisions of AS 2.

Solution :

Accounting standard 2 "Valuation of Inventory" states that inventories should be valued at cost or net realisable value whichever is lower.

Accordingly, the practice of the company to value at inventory at net relisable value which includes profit and export incentive is wrong. The inventory should be valued at cost.

Also export incentive should be recorded when sales takes place. So policy adopted by company is wrong. The inventory is not yet transferred as to ownership so closing inventory should be recorded in books of company.

Question 2 : Nov 2018 – RTP / Nov 2020 – RTP / Nov 2022 – Paper

Following information of Sarah Limited is given :

Sarah Limited uses Raw Material 'A' for production of Finished Goods 'B'

Closing balances of Raw Material 'A' in units on 31st March, 2022	750
	Price Per Unit in Rs.
Cost Price	150
Freight inward	10
Replacement Cost	152
Closing balance of Finished Goods 'B' in units on 31st March, 2022	1600
	Price Per Unit in Rs.
Material Consumed	225

Direct Labour	75
Direct variable overhead	60

Total fixed Overheads amounts to Rs.1,00,000 on normal capacity of 20,000 units.
Your are required to calculate the value of Closing Stock of Raw materials and Closing Stock of Finished Goods, as on 31st March, 2022, as per AS 2, when selling price of Finished Goods 'B' is Rs.360 per unit.

Solution :

Raw Material A	**Rs.**
Cost Price	150
Add: Freight Inward	10
Cost per unit	160
Replacement cost per unit of raw material	152

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Materials and other supplies held for use in the production of inventories are written down below cost if the selling price of finished product containing the material does not exceed the cost of the finished product. In the given case, net realizable value of the Product 'B' (Finished Goods) is Rs. 360 per unit which is less than its cost Rs. 365 per unit. Raw Material is to be valued at replacement cost.
Value of the closing stock of raw material on 31/03/2022 would be Rs. 1,14,000 (750 units X Rs.152 per unit).

Finished Goods B	**Rs.**
Materials consumed	225
Direct Labour	75
Direct Variable overheads	60
Fixed overheads (Rs. 1,00,000/20,000 units)	5
Cost per unit	365
Net realizable value per unit	360

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Hence, Finished Goods are to be valued at NRV since NRV is less than the cost.
Value of the closing stock of Finished goods as on 31/03/2022 would be Rs. 5,76,000 (1,600 units X Rs. 360 per unit).

Question 3 : May 2019 – RTP / Nov 2021 – RTP

On 31st March 2020, a business firm finds that cost of a partly finished unit on that date is Rs. 430. The unit can be finished in 2020-21 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of 2% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2020 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

Solution :

As per AS 2 "Valuation of inventory" closing stock of work in progress should be valued at lower of cost or net reliable value.

A) Cost of work in progress Rs.430

B) Net realisable value

Estimated selling price of Finished goods	750
- Estimated cost of sale (2%)	15
- Estimated cost of completion	310
Total	Rs.425

∴ Closing stock of work in progress should be valued at Rs.425/unit

Question 4 : Nov 2019 – RTP

Hello Ltd. purchased goods at the cost of Rs.20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at Rs.5 lakhs. The expected sale value is Rs.5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?

Solution :

As per AS 2 "Valuation of Inventory" closing stock should be valued at cost or net relisable value whichever is lower.

Accordingly

a) Cost of closing stock = 20 25% = 5 lakh

b) Net Realisable value

Estimated selling price	5.5
-Estimated cost to sale (5.5 × 10%)	0.55
Total	4.95

∴ Closing stocks should be valued at 4.95 lakh

Question 5 : Nov 2019 – Paper / Jan 2021 – Paper

Mr.Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2019. His enterprise produces product P using Raw Material X.

(i) 900 units of Raw Material X (purchased @ Rs.100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is Rs.80 per unit.

(ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is Rs.245 per unit. These units can be finished next year by incurring additional cost of Rs.50 per unit.

(iii) 800 unit of Finished goods P and total cost incurrent is Rs.295 per unit.
Expected selling price of product P is Rs.280 per unit, subject to a payment of 5% brokerage on selling price.
Determine how each item of inventory will be valued as on 31.03.2019.

Also calculate the value of total in Inventory as on 31.03.2019.

Solution :

As per AS 2 "Valuation of Inventories".

1) Raw material should be valued at cost. If SP of FY < CP of FY raw material should be valued at replacement cost.
2) WIP and finished goods should be valued at lower of cost or net realisable value

Valuation of inventory

	Units	Cost	RL/NRV	Valued At	Amt.
Raw material	900	100	80	80	72,000
Work in progress	400	245	216	216	86,400
Finished goods	800	295	266	266	2,12,800
					3,71,200

Notes :

1) NRV of Finished goods =

Estimated Selling price	280
Estimated cost of sale (5%)	14
Total	266

2) NRV of Work in Progress =

Estimated SP of Finished goods	280
Estimated cost to Sale (5%)	14
Estimated cost of completion	50
Total	216

Question 6 : May 2020 – RTP / July 2021 – Paper

Joy Ltd. purchased 20,000 kilograms of Raw Material @ Rs.20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	Units	Amount (Rs.)
Opening Inventory :		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory :		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 Units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 Units. Due to a fall in the market demand, the price of the finished goods in which the raw materials has been utilized is expected to be sold @ Rs.40 per unit. The replacement cost of the raw material was Rs.19 per kilogram.

You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.

Solution :

As per AS 2 "Valuation of Inventory" closing stocks should be valued at lower of cost or net realisable value.

1) Raw material should be valued at cost if SP of FY < CP of FY the raw material should be valued at replacement cost.

Cost of raw material = Rs.20/unit

Replacement cost = Rs.19/unit

2) Finished goods should be valued at cost or net realisable value whichever is lower.

Cost of finished goods

Raw material consumed (units) = 2,200 + 20,000 – 1,800 = 20,400

Cost of RM (20,400 × 20)	4,08,000
Direct labour	3,06,000
Fixed overhead (3,00,000/30,000 × 20,400)	2,04,000
Total	9,18,000

Net $\therefore$ CPU = $\frac{9,18,000}{20,400}$ = Rs.45/unit

NRV = Rs.40/unit

3) Valuation of Inventory

	Units	CPU	Amt.
Raw material	1,800	19	34,200
Finished goods	2,400	40	96,000
			1,30,200

Question 7 : May 2021 – RTP

The inventory of Rich Ltd. as on 31st March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at Rs. 70.

You are requested to value closing inventory according to AS 2 after considering the above.

Solution :

As per AS 2 "Valuation of Inventory" should be at lower of cost or net realisable value.

1) **Product A**

Cost :			**NRV :**	
Raw material	40		Estimate SP	110
Wages	30		- Cost to sales (10%)	11

Overhead	20			
	90			99

2) Product B

Cost :			**NRV :**	
Raw material	45		Estimate SP	70
Wages cost	35			
	80			70

3) Valuation of inventory

	Units	**CPU**	**Amt.**
Product A	200	90	18,000
Product B	800	70	56,000
			74,000

Question 8 : May 2022 – RTP

"In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

Solution :

As per AS 2 "Valuation of Inventories", certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are: (a) abnormal amount of wasted materials, labour, or other production costs; (b) storage costs, unless those costs are necessary in the production process prior to a further production stage; (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and (d) selling and distribution costs.

Question 9 : May 2022 – RTP

On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2021 on weighted Average Basis.

Details of Purchases:

Date of purchase	**Unit (Nos.)**	**Purchase cost per unit (Rs.)**
01-03-2021	20	108
08-03-2021	15	107
17-03-2021	30	109
25-03-2021	15	107

Details of issue of Inventory:

Date of purchase	**Unit (Nos.)**
03-03-2021	10
12-03-2021	20
18-03-2021	10

24-03-2021 20

Net realizable value of inventory as on 31st March, 2021 is Rs. 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

Solution :

Net Realisable Value of Inventory as on 31st March, 2021

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2021	Rs. 108 x 20 units = Rs. 2160
08.3.2021	Rs. 107 x 15 units = Rs. 1605
17.03.2021	Rs. 109 x 30 units = Rs. 3270
25.03.2021	Rs. 107 x 15 units = Rs. 1605
Total	80 units = Rs. 8640
Weighted Average Cost	= Rs. 8640/80 units = Rs.108
Total cost	= Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2021 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

Question 10 : May 2022 – RTP

Rohan Pvt. Ltd., a wholesaler in agriculture products, has valued the inventory on Net Realizable Value on the ground that AS 2 does not apply to inventory of agriculture products.

Solution :

AS 2 does not apply to producers of agricultural products but applies to traders in agricultural products. Hence AS 2 will apply to Rohan Pvt. Ltd. and it will have to value inventory at lower of cost or market value.

Question 11 : May 2022 – Paper

SM Enterprises is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. For the end month of June 2021 following information is available:

(i) Sales for the month of June 2021 was Rs.30,40,000.

(ii) General overheads cost Rs.4,00,000.

(iii) Inventory at beginning 10,000 litres @ Rs.92 per litre.

(iv) Purchases - June 1, 2021, 20,000 litres @ Rs.90 per litre, June 30, 2021, 10,000 litres @ Rs.95 per litre.

(v) Closing inventory 13,000 litres.

You are required to compute the following by FIFO method as per AS 2 :

(i) Value of Inventory on 30th June, 2021.

(ii) Amount of cost of goods sold for June, 2021.

(iii) Profit/Loss for the month of June, 2021

Solution :

	Rs.
Cost of closing inventory for 13,000 litres as on 30th June 2021	
10,000 litres @ Rs. 95	9,50,000
3,000 litres @ Rs. 90	2,70,000
Value of inventory (determined at cost in absence of NRV)	12,20,000
Calculation of cost of goods sold	
Opening inventories (10,000 litres @ Rs. 92)	9,20,000
Purchases June – 1 (20,000 litres @ Rs. 90)	18,00,000
June – 30 (10,000 litres @ 95)	9,50,000
	36,70,000
Less: Closing inventories	(12,20,000)
Cost of Goods Sold	24,50,000
Calculation of Profit	
Sales (Given) (A)	30,40,000
Cost of Goods Sold	24,50,000
Add: General Overheads	4,00,000
Total Cost (B)	28,50,000
Profit (A-B)	1,90,000

Question 12 : Nov 2022 – RTP

The closing stock of finished goods (at cost) of a company amounted to Rs. 4,50,000. The following items were included at cost in the total:

(a) 100 coats, which had cost Rs. 2,200 each and normally sold for Rs. 4,000 each. Owing to a defect in manufacture their NRV was determined at 50% of their normal selling price.

(b) Shirts which had cost Rs. 50,000, their net realizable value at Balance sheet date was Rs. 55,000. Commission @ 10% on sales is payable to agents.

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

Solution :

Valuation of closing stock

	Rs.
Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	(20,000)
Value of inventory	4,30,000

Working Notes:

1. Adjustment for Coats

	Rs.
Cost included in Closing Stock	2,20,000
NRV of Coats	2,00,000
Adjustment to be made as NRV is less than Cost	20,000

2. No adjustment required for shirts as their NRV is more than their cost which was included in value of inventory.

Question 13 : May 2019 – Paper / May 2023 – RTP

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

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

(ii) Allocation of material cost.

Solution :

Calculation of Normal cost per Kg.

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

Allocation of material cost

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

Note: Abnormal losses are recognized as separate expense.

Question 14 : Nov 2023 – RTP

Alpha Ltd. sells flavored milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

Keeping this in view:

Decide whether the inventory of empty bottles is an asset of the company;

If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

Solution :

As per the 'Framework on Presentation and Preparation of Financial Statements':

Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets.

Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale.
Therefore, empty bottles are assets for the company.
As per AS 2, inventories are assets held for sale in the ordinary course of business.
Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality.
Thus, inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Question 15 : May 2024 – Paper

Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production arc ns under:

Purchase of Raw Material for manufacturing process of	
30,000 units	Rs.3,50,000
Wages paid	Rs.1,60,000
Fixed overheads	Rs.1,20,000
Variable overheads	Rs.60,000
Output :	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units
Closing Inventory :	
Polyester (P)	1,600 Units
Nylon (N)	400 Units

Average market price of Polyester and Nylon is Rs.100 and Rs.60 per units respectively, by-product Fiber is sold @Rs.40 per unit. There is a profit of Rs.8,000 on sale of by-product after incurring separate processing expenses of Rs.10,000 and packing charges of Rs.9,000, Rs.5,000 was realized from sale of scrap.
On the basis of he above information, you are required to compute the value of closing inventory of Polyester and Nylon.

Solution :

As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.
Determination of value of closing inventory of Polyester and Nylon

	Polyester	Nylon
Closing inventory in units	1,600 units	400 units
Cost per unit	Rs. 31.14	Rs. 18.68
Value of closing inventory	Rs. 49,824	Rs. 7,472

Working Notes

1. Calculation of net realizable value of by-product, Fiber

		Rs.
Selling price of by-product Fiber	(3,200 units x Rs.40 per unit)	1,28,000
Less: Separate processing charges of by-product Fiber		(10,000)
Packing charges		(9,000)
Net realizable value of by-product Fiber		1,09,000

2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon

	Rs.	Rs.
Raw material		3,50,000
Wages		1,60,000
Fixed overhead		1,20,000
Variable overhead		60,000
		6,90,000
Less: NRV of by-product Fiber (W.N. 1)	(1,09,000)	
Sale value of scrap	(5,000)	(1,14,000)
Joint cost to be allocated between Polyester and Nylon		5,76,000

Determination of "basis for allocation" and allocation of joint cost to Polyester and Nylon

	Polyester	Nylon
Output in units (a)	12,500 units	10,000 units
Sales price per unit (b)	Rs. 100	Rs. 60
Sales value (a x b)	Rs. 12,50,000	Rs. 6,00,000
Total value (12,50,000 + 6,00,000) = 18,50,000		
Joint cost of Rs. 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000	Rs. 3,89,189	Rs. 1,86,811
Cost per unit [c/a]	Rs. 31.14	Rs. 18.68

Question 16 : Sept 2024 – RTP

As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following:

(a) Secondary Packing material required for transporting and forwarding the material.

(b) Spare parts, servicing equipment and standby equipment

(c) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.

(d) Publicity material

Solution :

(c)

Question 17 : Sept 2024 – Paper

"In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred."
Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.'

Solution :

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;
(b) **Storage costs**, unless the production process requires such storage.
(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.
(d) **Selling and distribution costs**.

Question 18 : May 2025 – RTP

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to Rs. 10,40,000 (on the basis of FIFO method).
The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to Rs. 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to Rs. 12,00,000.
What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

(a) The value of inventory will be Rs. 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
(b) The value of inventory will be Rs. 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
(c) The value of inventory will be Rs. 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
(d) The value of inventory will be Rs. 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

Solution :

(d)

Question 19 : May 2025 – RTP

From the following information provided by LMN Ltd. for the year 2024, you are required to compute the closing inventory:

Raw Material A
Closing balance: 700 units

	Rs. per unit
Cost price including GST	280

ITC available	25
Freight inward	35
Handling charges	20
Replacement cost	200

Finished Goods B

Closing balance: 1,800 units

	Rs. per unit
Material consumed	280
Direct labour	80
Direct overhead	40

Total fixed overhead for the year was Rs. 3,60,000 on a normal capacity of 36,000 units, while actual production has been 30,000 units.

Calculate the value of closing stock when:

(i) Net Realisable Value of Finished Goods B is 500 per unit

(ii) Net Realisable Value of Finished Goods B is 380 per unit

Solution :

(i) When Net Realisable Value of Finished Goods B is Rs.500 per unit

Value of Closing Stock:

Valuation Base	Method	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material A	Cost	700	310	2,17,000
Finished Goods B	Cost	1,800	410	7,38,000
Total Value of Closing Stock				9,55,000

(ii) When Net Realisable Value of Finished Goods B is Rs. 380 per unit

Since NRV of finished goods B is less than its cost (Rs. 410, as per W.N.), raw material A is to be valued at replacement cost, and finished goods B is to be valued at NRV.

Value of Closing Stock:

Valuation Base	Basis	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material A	Replacement Cost	700	200	1,40,000
Finished Goods B	Net Realisable Value	1,800	380	6,84,000
Total Value of Closing Stock				**8,24,000**

Working Note:

Statement Showing Calculation of Cost of Raw Material A and Finished Goods B

Raw Material A

	Amount (Rs.)
Cost Price (280 - 25)	255
Add: Freight Inward	35
Add: Handling Charges	20
Total Cost	310

Finished Goods B

	Amount (Rs.)
Materials Consumed	280
Direct Labour	80
Variable Overheads	40
Fixed Overheads (Rs.3,60,000 / 36,000 units)	10
Total Cost	**410**

Question 20 : Sept 2025 – RTP

The following information is available for Zing Ltd. for the year 2024-25:

Raw Material:

Closing Stock	700 units	
Cost price	Rs. 35 per unit	
Replacement cost	Rs. 20 per unit	
Finished product:	FP 1	FP 2
Production (units)	3,000	1,600
Closing stock (units)	500	300
Material consumed	Rs. 3,20,000	
Direct labour	Rs. 1,60,000	
Direct expenses	Rs. 78,000	

Fixed overhead for the year was Rs. 95,000, which includes godown rent of Rs. 15,000. Godown is used for storing finished products.

Besides 2 main products, 1000 units of a by-product (BY) also emerged in the production process which was sold @ Rs. 12 per unit after incurring an expense of Rs. 2,500. Rs. 4,800 was realized from sale of scrap. The average market price of FP1 is Rs. 160 per unit and FP2 is Rs. 100 per unit. Calculate the value of closing stock of Zing Ltd. as per AS 2.

Solution :

As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials are often measured at net realizable value and this value is deducted from the cost of the main product.

(i) Calculation of net realizable value of by-product, BY

		Rs.
Selling price of by-product BY	(1,000 units x Rs. 12 per unit)	12,000
Less: Separate processing charges of by-product BY		(2,500)
Net realizable value of by-product BY		9,500

(ii) Calculation of cost of conversion for allocation between joint products FP1 and FP2

	Rs.	Rs.
Raw material consumed		3,20,000
Direct labour		1,60,000

Direct expenses		78,000
Fixed overhead (95,000 – 15,000)		80,000
		6,38,000
Less: NRV of by-product BY (See calculation 1)	(9,500)	
Sale value of scrap	(4,800)	(14,300)
Joint cost to be allocated between FP 1 and FP 2		6,23,700

(iii) Determination of "basis for allocation" and allocation of joint cost to FP 1 and FP 2

	FP 1	FP 2
Output in units (a)	3,000	1,600
Sales price per unit (b)	Rs. 160	Rs. 100
Sales value (a x b)	Rs. 4,80,000	Rs. 1,60,000
Ratio of allocation	3	1
Joint cost of Rs. 6,23,700 allocated in the ratio of 3:1 (c)	Rs. 4,67,775	Rs. 1,55,925
Cost per unit [c/a]	**Rs.155.93**	**Rs.97.45**

(iv) Determination of value of closing inventory of Finished Products FP1 and FP2

	FP 1	FP 2
Closing inventory in units	500	300
Cost per unit	Rs. 155.93	Rs. 97.45
Value of closing inventory (finished goods)	Rs. 77,965	Rs. 29,235

Determination of value of closing stock of raw material

	FP 1Rs.	FP 2Rs.
Cost price	155.93	97.45
Sales price	160	100

Since both finished goods FP 1 and FP 2 are sold above cost, raw material will be valued at cost i.e. Rs. 35 per unit (ie) Rs. 24,500 (700 units x Rs. 35)

(i) Total value of closing inventory

(a) Finished products:

FP 1	Rs. 77,965
FP 2	Rs. 29,235
	Rs. 1,07,200
(b) Raw material	Rs. 24,500
	Rs. 1,31,700

Question 21 : Sept 2025 – Paper

SR Limited is a manufacturing company and engaged in the production of 5 Finished goods 'MP' for which Raw material 'RP' is required.

The company provides following information for the year ended March 31 2025 :

Particulars		Units	Rs.
Opening Inventory	MP	4,000	1,20,000
	RP	4,400	52,800

Purchase of RP		40,000	4,80,000
Labour			3,23,200
Overheads (Fixed)			3,15,000
Sales		40,200	11,20,000
Closing Inventory	MP	4,200	
	RP	4,000	

The expected production for the year was 45,000 units of the MP. Due to fall in market demand, the sales price for the MP was Rs.22 per unit and the replacement cost for the RP was Rs.11.50 per unit on the closing day.

You are required to calculate the value of Closing Stock of 'MP' and 'RP' as on 31st March 2025.

Solution :

Calculation of cost for closing inventory

Particulars	Unit (Rs.)	Total (Rs.)
Cost of Material Consumed (40,400 x 12)	12	4,84,800
Direct Labour	8	3,23,200
Fixed Overhead $\frac{3,15,000 \times 40,400}{45,000}$	7	2,82,800
Cost of Production	27	10,90,800
Cost of closing inventory per unit (10,90,800/ 40,400)		Rs. 27
Net Realisable Value per unit		Rs. 22

Since net realisable value is less than cost, closing inventory will be valued at Rs. 22.

As NRV of the MP (finished goods) is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs.11.50.

Therefore, value of closing inventory: MP (finished goods) (4,200 x 22) Rs. 92,400

Raw Materials RP (4,000 x 11.50) Rs. **46,000**

Working Notes:

1. Units produced (actual) Production = Sales + Closing FG – Opening FG
   = 40,200 + 4,200 – 4,000 = 40,400 units.
2. Raw material (RP) movement (units)
   Total RP available = Opening RP + Purchases = 4,400 + 40,000 = 44,400 units.
   RP consumed = 44,400 – Closing RP (4,000) = 40,400 units.
   (Thus 1 unit RP is used per 1 unit MP.)
3. Cost per unit of RP (weighted average)
   Total cost of RP = Opening value Rs. 52,800 + Purchases Rs. 4,80,000 = Rs. 5,32,800.
   Cost per unit RP = 5,32,800 ÷ 44,400 = Rs. 12.00 per unit.

Question 22 : Jan 2026 – RTP

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of the inventories by the company.

Solution :

Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at net realisable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

Thanks ....



CHAPTER

6

AS 3 – CASH FLOW STATEMENTS

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Question 1 : May 2018 – RTP / Nov 2021 – RTP / Nov 2023 – RTP

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2021 (Using direct method):

(i) Total sales for the year were Rs. 597 crores out of which cash sales amounted to Rs. 393 crores.

(ii) Receipts from credit customers during the year, totalled Rs. 201 crores.

(iii) Purchases for the year amounted to Rs. 330 crores out of which credit purchases were 80%. Balance in creditors as on

1.4.2020 Rs. 126 crores

31.3.2021 Rs. 138 crores

(iv) Suppliers of other consumables and services were paid Rs. 28.5 crores in cash.

(v) Employees of the enterprises were paid 30 crores in cash.

(vi) Fully paid preference shares of the face value of Rs. 48 crores were redeemed. Equity shares of the face value of Rs. 30 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of Rs. 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) Rs. 39 crores were paid by way of income tax.

(ix) A new machinery costing Rs. 15 was purchased.

(x) Investment costing Rs. 27 cores were sold at a loss of Rs. 3 crores.

(xi) Dividends totalling Rs. 22.5 crores was also paid.

(xii) Debenture interest amounting Rs. 3 crore was paid.

(xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled Rs. 3 crores.

Solution :

Cash flow statement (using direct method) for the year ended 31st March, 2021

	(Rs.in crores)	(Rs.in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	

Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	
Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	
Debenture interest paid	(3)	
Dividend Paid	(22.5)	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(Rs. in crores)
Opening Balance in creditors Account	126
Add: Purchases (330x .8)	264
Total	390
Less: Closing balance in Creditors Account	138
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	66
Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services	28.5
Add: Payment to employees (c)	30
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	376.5

Question 2 : May 2018 – Paper

Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft

(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10) Underwriting commission paid

Solution :

(a) **Operating Activities** : Items 1 and 5.
(b) **Investing Activities** : Items 3,7 and 9
(c) **Financing Activities** : Items 4,6,8 and 10
(d) **Cash Equivalent** : 2

Question 3 : Nov 2018 – RTP

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (Rs.)	2017 (Rs.)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V) :		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss account for the year ended 31st March, 2018 disclosed :

	Rs.
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building Rs.1,000.
2. Depreciation on Furniture & Fixtures for the year Rs.2,000.
3. Depreciation on Cars for the year Rs.5,000. One car was disposed during the year for Rs.3,400 whose written down value was Rs.2,000.
4. Purchase investments for Rs.6,000.
5. Sold investments for Rs.10,000, these investments cost Rs.2,000.

You are required to prepare Cash Flow Statement as per AS-3 (revised) using indirect method.

Solution :

Calculation of Fixed assets acquisitions

	Furniture & Fixtures (Rs.)	Car (Rs.)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Question 4 : May 2019 – RTP

Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404
(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & L A/c	6,000
(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital	1,34,580
	[Excluding cash and bank balance]	
(xii)	Purchase of fixed assets	44,184
(xiii)	Expenditure on construction work	83,376
(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000

	Cash and bank balance on 31.3.2019	16,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

Solution :

Cash Flow Statement as per AS 3

Cash flows from operating activities:			**Rs. in lacs**
Net profit before tax provision			
Add:	Non cash expenditures:		
	Depreciation	48,000	
	Loss on sale of assets	96	
	Interest expenditure (non-operating activity)	24,000	72,096
			1,44,096
Less:	Non cash income		
	Amortisation of capital grant received	(20)	
	Profit on sale of investments (non-operating income)	(240)	
	Interest income from investments (non-operating income)	(6,000)	6,260
Operating profit			1,37,836
Less: Increase in working capital			(1,34,580)
Cash from operations			3,256
Less: Income tax paid			(10,200)
Net cash generated from operating activities			(6,944)
Cash flows from investing activities:			
	Sale of assets (444 – 96)	348	
	Sale of investments (66,636+240)	66,876	
	Interest income from investments	6,000	
	Purchase of fixed assets	44,184)	
	Expenditure on construction work	(83,376)	
Net cash used in investing activities			(54,336)
Cash flows from financing activities:			
	Grants for capital projects	36	
	Long term borrowings	1,11,732	
	Interest paid	(26,084)	
	Dividend paid	(20,404)	
Net cash from financing activities			65,280
Net increase in cash			4,000
Add: Cash and bank balance as on 1.4.2018			12,000
Cash and bank balance as on 31.3.2019			16,000

Question 5 : May 2019 – Paper

The following information was provided by PQR Ltd. for the year ended 31st March, 2019 :

(1) Gross Profit Ratio was 25% for the year, which amounts to Rs.3,75,000.
(2) Company sold goods for cash only.
(3) Opening inventory was lesser than closing inventory by Rs.25,000.
(4) Wages paid during the year Rs.5,55,000.
(5) Office expenses paid during the year Rs.35,000.
(6) Selling expenses paid during the year Rs.15,000.
(7) Dividend paid during the year Rs.40,000 (including dividend distribution tax).
(8) Bank Loan repaid during the year Rs.2,05,000 (included interest Rs.5,000)
(9) Trade Payables on 31st March, 2018 were Rs.50,000 and on 31st March, 2019 were Rs.35,000.
(10) Amount paid to Trade payables during the year Rs.6,10,000
(11) Income Tax paid during the year amounts to Rs.55,000
(Provision for taxation as on 31st March, 2019 Rs.30,000)·
(12) Investments of Rs.8,20,000 sold during the year at a profit of Rs.20,000.
(13) Depreciation on furniture amounts to Rs.40,000.
(14) Depreciation on other tangible assets amounts to Rs.20,000.
(15) Plant and Machinery purchased on 15th November, 2018 for Rs.3,50,000.
(16) On 31st March, 2019 Rs.2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
(17) Cash and Cash equivalents on 31st March, 2018 Rs.2,25,000.
(A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.
(B) Calculate cash flow from operating activities, using indirect method.

Solution :

(i)

PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2019

(Using direct method)

Particulars	**Rs.**	**Rs.**
Cash flows from Operating Activities		
Cash sales (Rs.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 Rs.(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
Cash flows from Investing activities		
Sale of investments Rs.(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
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(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

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

		Rs.
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	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

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

Question 6 : Nov 2019 – RTP

From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

	Particulars	Note	31.03.2019 (Rs.)	31.03.2018 (Rs.)
I	EQUITY AND LIABILITES			
	(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			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000

	(b) Other Current Liabilities	3	37,000	27,000
	(c) Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
	ASSETS			
	(1) Non-current Assets			
	(a) Tangible Assets	4	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 (Rs.)	31.03.2018 (Rs.)
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 : Reserve and Surplus

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
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 (Rs.)	31.03.2018 (Rs.)
Dividend declared	37,000	27,000

Note 4 : Tangible Assets

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

Additional Information:

(i) Rs.18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.

(ii) A piece of land has been sold out for Rs.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.

(iii) A plant was sold for Rs.12,000 WDV being Rs.15,000 on the date of sale (after charging depreciation).
(iv) Dividend received amounted to Rs.2,100 which included pre-acquisition dividend of Rs.600.
(v) An interim dividend of Rs.10,000 including Dividend Distribution Tax has been paid.
(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.
(vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

Solution :

Cash flow Statement for the year ending 31st March, 2019

		Particulars	Rs.	Rs.
1		**Cash Flow from Operating Activities**		
	A	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000
	B	Net profit before taxation, and extra-ordinary item		98,000
	C	Add: Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000
	D	Less: Dividend Income		(1,500)
	E	Operating profit before working capital changes [B + C - D]		1,30,500
	F	Add: Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G	Less: Increase in Trade Receivables		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
2		**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		2,100
		Net cash used in investing activities		(95,500)
3		**Cash Flows from Financing Activities:**		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)

		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
4		**Net increase in cash and cash equivalents (1 + 2 + 3)**		15,000
5		**Cash and cash equivalents at beginning of period**		17,000
6		**Cash and cash equivalents at end of period (4 + 5)**		32,000

1. **Land and Building Account**

Particulars	Rs.	Particulars	Rs.
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
	1,25,000		**1,25,000**

2. **Plant and Machinery Account**

Particulars	Rs.	Particulars	Rs.
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
	2,24,000		**2,24,000**

3. **Investment Account**

Particulars	Rs.	Particulars	Rs.
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
	35,600		**35,600**

Question 7 : Nov 2019 – Paper

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

Particulars	Amount (Rs.)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs.8,200 was deducted on the above interest)	73,800

Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs.9,600)	90,000

Solution :

Cash Flow Statement from Investing Activities of
Subham Creative Limited for the year ended 31-03-2019

Cash generated from investing activities	**Rs.**	**Rs.**
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery Rs.(90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note :

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

Question 8 : May 2020 – RTP

Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.
b. Proceeds from Trade receivables.
c. Trading Commission received.
d. Redemption of Preference Shares.
e. Proceeds from sale of investment
f. Interim Dividend paid on equity shares.
g. Interest received on debentures held as investment.
h. Dividend received on shares held as investments.
i. Rent received on property held as investment.
j. Dividend paid on Preference shares.
k. Marketable Securities

Solution :

(1) Operating Activities : b, c.
(2) Investing Activities : e, g, h, i.
(3) Financing Activities : a, d, f, j.

(4) Cash Equivalent : k.

Question 9 : May 2020 – RTP / Nov 2020 – Paper / Jan 2021 – Paper / May 2022 – Paper

Following information was extracted from the books of S Ltd. for the year ended 31st March, 2020:

(1) Net profit before taking into account income tax and after taking into account the following items was Rs.30 lakhs;
   (i) Depreciation on Property, Plant & Equipment Rs.7,00,000
   (ii) Discount on issue of debentures written off Rs.45,000.
   (iii) Interest on debentures paid Rs.4,35,000.
   (iv) Investment of Book value Rs.3,50,000 sold for Rs.3,75,000.
   (v) Interest received on Investments Rs.70,000.

(2) Income tax paid during the year Rs.12,80,000

(3) Company issued 60,000 Equity Shares of Rs.10 each at a premium of 20% on 10th April, 2019.

(4) 20,000, 9% Preference Shares of Rs.100 each were redeemed on 31st March, 2020 at a premium of 5%.

(5) Divided paid during the year amounted to Rs.11 Lakhs (including dividend distribution tax)

(6) A new Plant costing Rs.7 Lakhs was purchased in part exchange of an old plant on 1st January, 2020. The book value of the Old plant was Rs.8 Lakhs but the vendor took over the old plant at a value of Rs.6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2020.

(7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 105. The inventory according to books on 31.03.2020 was Rs.14,76,000. The inventory on 31.03.2019 was correctly valued at Rs.13,50,000.

(8) Current Assets and Current Liabilities in the beginning and at the end of year 2019-2020 were as :

	As on 1st April, 2019 Rs.	As on 31st March, 2020 Rs.
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,700	3,70,500
Trade Payables	2,84,700	2,87,300
Outstanding Expenses	97,000	1,04,400

You are required to prepare a Cash Flow Statement for the year ended 31st March, 2020 as per AS 3 (revised) using the indirect method.

Solution :

S Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	Rs.	Rs.
Cash flows from operating activities		30,00,000
Net profit before taxation*		
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	

Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital changes		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets	(1,00,000)	
(7,00,000 – 6,00,000)		
Net cash used in investing activities		3,45,000
Cash flows from financing activities		
Redemption of Preference shares	(21,00,000)	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		3,70,500

*Net profit given in the question is after considering only the items listed as information point (1) of the question ; hence amount of loss on plant not added back.

Question 10 : Nov 2020 – RTP

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

Summary Cash Account

	Rs. in '000	Rs. in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost Rs. 1,35,000)		153
Issue of Shares		2,700

Sale of Fixed Assets		1,152
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	450	(27,756)
Balance as on 31.03.2020		1,458

Solution :

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

Cash flows from operating activities	Rs. in '000	Rs. in '000
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	(1,035)	
Cash generated from operations	4,932	
Income taxes paid	(2,187)	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	
Sale of investments	153	
Net cash used in investing activities		-882
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	(720)	
Net cash used in financing activities		(720)
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		315
Cash and cash equivalents at end of period		1,458

Question 11 : July 2021 – Paper

Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3(Revised) from the following cash account summary :

Cash summary Account

Inflows	Rs. ('000)	Outflows	Rs. ('000)
Opening Balance	945	Payment to suppliers	54,918
Receipts from Customers	74,682	Purchase of Investments	351
Sale of Investments (Cost Rs.4,05,000)	459	Property, plant and equipment acquired	6,210
Issue of Shares	8,100	Wages and salaries	1,863
Sale of Property, Plant and equipment	3,456	Payment of Overheads	3,105
		Taxation	6,561
		Dividends	2,160
		Repayment of Bank Overdraft	6,750
		Interest paid on Bank Overdraft	1,350
		Closing Balance	4,374
	87,642		**87,642**

Solution :

Cash flow statement for Gama ltd. For the year ended 31/3/2021 as per AS – 3 (Revised)

	Particulars	Rs.	Rs.
(I)	Cash from operating activities		
	Receipt from customer		74,682
	Payment to supplier	54,918	
	Wages and Salaries	1,863	
	Payment of overhead	3,105	59,886
			14,796
	Less payment of taxation		6,561
			8,235
(II)	Cash from investing activity		
	Sale of investments	459	
	Sale of property, plant ad equipment	3,456	
	Purchase of investments	(351)	
	Purchase of property plant and Equipment	(6,210)	(2,646)
(III)	Cash from financing Activity		
	Issue of shares	8,100	
	Payment of dividend	(2,160)	
	Payment of Bank overdraft	(6,750)	
	Interest on Bank o/d	(1,350)	(2,160)
	Net : Cash or equivalent generated		3,429
	Add : Opening cash or Equivalent		945
	Closing cash or Equivalent		43,74

Question 12 : Dec 2021 – Paper

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

Liabilities	31.3.2020	31.3.2021
Equity Share Capital	25,00,000	35,60,000
10% Preference Share capital	7,00,000	6,00,000
Securities Premium Account	5,00,000	5,50,000
Profit & Loss A/c	20,00,000	28,00,000

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

Profit & Loss account on 31st March, 2021 includes Rs.50,000 of dividend received on Equity shares invested in X Ltd.

Show how the related items will appear in the Cash Flow Statement of ABC Ltd. as per AS-3 (Revised).

Solution :

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

		Rs.	Rs.
Cash flows from operating activities			
Closing Balance as per Profit and Loss Account		28,00,000	
Less: Opening Balance as per Profit and Loss Account		(20,00,000)	
		8,00,000	
Less: Dividend received		50,000	
			7,50,000
Cash flows from investing activities			
Dividend received			50,000
Cash flows from financing activities			
Proceeds from issuance of share capital			
Equity shares issued for cash	Rs. 10,00,000		
Proceeds from securities premium (Rs. 5,50,000 – 5,00,000)	Rs. 50,000		
		10,50,000	
Less: Redemption of Preference shares (Rs. 7,00,000 – Rs. 6,00,000)		(1,00,000)	9,50,000

Note:

1. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement.
2. ABC Ltd. has been considered as a non-financial company in the given answer.

Question 13 : May 2022 – RTP

From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31.03.2021(Rs.)	31.03.2020 (Rs.)
Share Capital	14,00,000	11,20,000

General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000
Debentures	2,80,000	-
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000	-
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for Rs. 49,000. Purchase of machinery was also made at the year end.

(iii) Rs. 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation. Expenses on renovation of building amount Rs. 2,80,000 were incurred during the year.

Prepare Cash Flow Statement.

Solution :

Omega Ltd.

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

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	56,000	
Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	
Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	
Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	
Proceeds from issue of debentures	2,80,000	

Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes:

Provision for taxation account

	Rs.		Rs.
To Cash (Tax Paid)	70,000	Balance b/d	98,000
To Balance c/d	1,40,000	Profit and Loss A/c (Balancing figure)	1,12,000
	2,10,000		**2,10,000**

Plant and Machinery account

	Rs.		Rs.
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000	By Cash (sale of machine)	49,000
To Cash (Balancing figure)	4,48,000	By Balance c/d	9,80,000
	11,69,000		**11,69,000**

Question 14 : Nov 2022 – RTP

The Balance Sheet of Max Ltd. for the year ending 31st March, 2022 and 31st March, 2021 were summarised as :

Particulars	Note No	2022 Rs.	2021 Rs.
Equity and Liabilities			
Shareholders' funds			
Equity share capital		1,20,000	1,00,000
Reserves	1	9,000	8,000
Current Liabilities			
(i) Trade Payables		8,000	5,000
(ii) Short term provision	2	7,000	4,000
		1,44,000	1,17,000
Non-current assets			
(i) PPE (at W.D.V)	3	78,000	58,000
(ii) Long Term Investments		32,000	28,000
Current Assets			
(i) Inventory		14,000	8,000
(ii) Trade Receivables		8,000	6,000
(iii) Cash & Bank		12,000	17,000
		1,44,000	1,17,000

Note to accounts :

		2022	2021
1	**Reserves and Surplus**		
	Profit & Loss A/c	9,000	8,000
2	**Short term provision**		
	provision for Income tax	7,000	4,000
3	**PPE**		
	Building	19,000	20,000
	Furniture & Fixture	34,000	22,000
	Cars	25,000	16,000
		78,000	58,000

The Profit and Loss statement for the year ended 31st March, 2022 disclosed:

	Rs.
Profit before tax	8,000
Income Tax	(7,000)
Profit after tax	1,000

Further Information is available:

1. Depreciation on Building for the year Rs. 1,000
2. Depreciation on Furniture & Fixtures for the year Rs. 2,000
3. Depreciation on Cars for the year Rs. 5,000. One car was disposed during the year for Rs.3,400 whose written down value was Rs. 2,000.
4. Purchase investments for Rs. 6,000.
5. Sold investments for Rs. 10,000, these investments cost Rs. 2,000.

Prepare Cash Flow Statements for the year ended 31st March, 2022 as per AS-3 (revised) using indirect method.

Solution :

Max Ltd.

Cash Flow Statement for the year ended 31st March, 2022

	Rs.	Rs.
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation Rs. (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(4,000)	

Net cash generated from operating activities (A)		(2,400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Net cash from financing activities(C)		20,000
Net decrease in cash and cash equivalents (A + B +C)		(5,0000
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

Working Notes:

1. Calculation of Income taxes paid

	Rs.
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	4,000
	11,000
Less: Income tax liability at the end of the year	(7,000)
	4,000

2. Calculation of Fixed assets acquisitions

		Furniture & Fixtures (Rs.)	Car (Rs.)
W.D.V. at 31.3.2022		34,000	25,000
Add back:	Depreciation for the year	2,000	5,000
	Disposals	-	2,000
		36,000	32,000
Less: W.D.V. at 31.3.2021		(22,000)	(16,000)
Acquisitions during 2021-2022		14,000	16,000

Question 15 : Nov 2022 – Paper

Ridgeway Limited, a Non-Financial company has the following activities :

(i) Dividend paid for the year.
(ii) TDS on interest income earned on investments made.
(iii) Loans and advances given to suppliers and interest earned from them.
(iv) Deposit with bank for a term of two years.
(v) Highly liquid Marketable Securities (without risk of changes in value).
(vi) Investments made and dividend earned on them.
(vii) Insurance claims received against loss of stock or loss profits.
(viii) Loans and advances given to subsidiaries and interest earned from them.

(ix) Issue of Bonus Shares.
(x) Term loan repaid.
You are required to classify the above activities in Cash Flow Statement as per 'AS-3'.

Solution :

No.		Activities
(i)	Dividend paid for the year	Financing
(ii)	TDS on interest income earned on investments made	Investing
(iii)	Loans and advances given to suppliers and interest earned from them	Operating
(iv)	Deposit with bank for a term of two years	Investing
(v)	Highly liquid Marketable Securities (without risk of change in value)	Cash Equivalent
(vi)	Investments made and dividends earned on them	Investing
(vii)	Insurance claims received against loss of stock or loss of profits	Operating
(viii)	Loans and advances given to subsidiaries and interest earned from them	Investing
(ix)	Issue of Bonus Shares	No Cash Inflow / Cash outflow
(x)	Term Loan repaid	Financing

Question 16 : May 2023 – RTP

Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

	Particulars	Note No.	31st March, 2021 (Rs.)	31st March, 2020 (Rs.)
(I)	**Equity and Liabilities**			
	1. Shareholders' Funds			
	(a) Share capital	1	5,60,000	3,00,000
	(b) Reserve and Surplus	2	35,000	25,000
	2. Current Liabilities			
	(a) Trade payables		1,50,000	60,000
	(b) Short-term provisions		8,000	5,000
	(Provision for taxation)			
	Total		**7,53,000**	**3,90,000**
(II)	**Assets**			
	1. Non-current assets			
	(a) Property, Plant and Equipment		3,50,000	1,80,000
	2. Current assets			
	(a) Inventories		1,20,000	50,000
	(b) Trade receivables		1,00,000	25,000
	(c) Cash and cash equivalents		1,05,000	90,000

	(d) Other current assets		78,000	45,000
	Total		**7,53,000**	**3,90,000**

Notes to Accounts :

	31st March,2021 (Rs.)	**31st March,2020 (Rs.)**
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	-10,000	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

1. Dividend paid during the year Rs. 10,000
2. Depreciation charges during the year Rs. 40,000.

Solution :

Fox Ltd.

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

	Rs.	**Rs.**
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	

Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note :

	Rs.
Property, plant and equipment acquisitions	
W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

Question 17 : May 2023 – Paper

The summarised Balance Sheet of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below :

Assets	**31/03/2023 (Rs.)**	**31/03/2022 (Rs.)**
Goodwill	15,000	28,000
Land	5,75,000	6,00,000
Furniture and Fixtures	48,000	44,000
Vehicles	22,000	28,000
Office Equipment	21,000	-
Long-term Investments	60,000	1,10,000
Stock-in-hand	96,000	88,000
Bills Receivables	18,150	14,500
Trade Receivables	46,000	52,000
Cash and Bank Balances	1,29,850	34,500
Total	**10,31,000**	**9,99,000**
Liabilities	**31/03/2023 (Rs.)**	**31/03/2022 (Rs.)**
Equity Share Capital	6,80,000	5,00,000
General Reserves	90,000	60,000
Profit and Loss Account	93,000	52,000
Capital Reserve	75,000	-

8% Debentures of Rs.100 each	-	3,00,000
Loan from Mr. Andrew	-	15,000
Bills Payables	11,000	13,000
Trade Payables	49,000	45,000
Creditors for Equipment	10,500	-
Outstanding Expenses	4,500	3,000
Provision for Taxation	18,000	11,000
Total	**10,31,000**	**9,99,000**

Additional Information :

(i) On 1st April, 2022, one of the vehicles was sold for Rs.3,000. No new purchases were made during the year.

(ii) A part of the total land was sold for Rs.1,25,000 (Cost Rs.1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.

(iii) Depreciation provided during the year -
- Furniture and Fixtures Rs.5,000
- Vehicles Rs.2,200

(iv) Interim dividend of Rs.5,000 was paid during the year.

(v) Provision for taxation for the year 2022-2023 was Rs.16,000.

(vi) 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.

(vii) Part of the long-term investments were sold at a profit of Rs.8,000.

(viii) Interest income received during the year on long-term investment was Rs.6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer)

Solution :

Statement of Profit and Loss of Travese Limited.
for the year ended 31st March, 2023

	Particulars	Notes	Amount
I.	Revenue from operations	1	47,22,600
II.	Other income	2	1,61,465
III.	Total Income (I + II)		48,84,065
IV.	Expenses:		
	Purchases of Inventory-in-Trade		28,86,600
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade	3	20,400
	Finance costs	4	3,52,410
	Depreciation and amortization expenses	5	3,57,765
	Other expenses	6	6,65,040
	Total expenses		42,82,215
V.	Profit (Loss) for the period (III - IV) before tax		6,01,850
VI	Provision for tax		(1,50,463)
VII	Profit for the period		4,51,387

Notes to accounts

			Rs.
1	Revenue from operations		
	Sale		47,22,600
2	Other Income		
	Transfer fees		38,250
	Discount received		66,300
	Interest on Investment		55,000
	Profit on sale of plant		1,915
	Total		1,61,465
3	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		
	Opening Inventory	4,97,250	
	Less: Closing Inventory	(4,76,850)	20,400
	Total		20,400
4	Finance costs		
	Interest on Debentures		3,39,150
	Bank Interest		13,260
	Total		3,52,410
5	Depreciation and Amortization expenses		
	Depreciation on Plant & Machinery (10% x 37,43,400 - 1,65,750)		3,57,765
6	Other expenses		
	Factory expense		2,58,060
	Rent, Taxes and Insurance		65,025
	Repairs		1,49,685
	Sundry expenses		1,27,500
	Selling expenses		26,520
	Director's fees		38,250
	Total		6,65,040

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 financial statements) as per accounting standards. Hence, it is not recognized in the financial statement for the year ending 31st March 2023. Such dividend will be disclosed in notes only.

Question 18 : May 2024 – RTP

From the following particulars calculate cash flows from Operating activities:

Particulars	Rs.
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000

Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional Information:

	31.3.22 Rs.	31.3.23 Rs.
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepare Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

Solution :

Calculation of Cash Flow from Operating Activities

Particulars	Amount Rs.
Retained earnings	17,000
Add: Depreciation	4,000
Add: Loss on sale of Machinery	3,000
Add: Premium Payable on redeemable Preference Shares	2,000
Add: Dividend paid	8,000
Add: Interim dividend paid during the year	10,000
Add: provision for tax made during the current year	7,000
Less: Refund of tax	(1,000)
Less: Profit on Sale of Investment	(10,000)
Operating Profit before Working Capital Changes	40,000
Add: Decrease in Prepaid Expenses	1,000
Less: Increase in Trade receivable	(2,000)
Add: Increase in Trade Payable	8,000
Less: Decrease in Outstanding Expenses	(400)
Cash generated from (Net of refund) operation	46,600
Less: Income tax paid (4,000 – 1,000)	(3,000)
Net Cash flow operating activities	43,600

Question 19 : May 2024 – Paper

The following information is provided for Aarambh Limited :

Particulars	31st March 2023 (Rs)	31st March 2024 (Rs)
Profit and Loss A/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,800	2,91,600

Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, Plant and Equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalents	5,400	30,240

Additional Information :

(i) Income tax provided during the year Rs.1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities.

Solution :

Cash Flow from Operating Activities

	Rs.
Difference between Profit and Loss Account Rs. (37,800 + 5,400)	43,200
Add: Transfer to General Reserve (81,000-54,000)	27,000
Add: Adjustment for Provision for taxation	1,62,000
Profit Before tax	2,32,200
Add: Adjustment for Depreciation (Rs. 1,62,000 – Rs. 1,29,600)	32,400
Add: Adjustment for provision for doubtful debt (Rs. 54,000 – Rs. 27,000)	27,000
Add: Debenture Interest Paid Rs. (1,18,800 × 12%)	14,256
Less: Income from Investments (54,000 × 8%)	(4,320)
Operating Profit before Working Capital changes	3,01,536
Decrease in Inventories Rs. (1,35,000-81,000)	54,000
Increase in Trade receivables Rs. (2,61,360-81,000)	(1,80,360)
Decrease in Trade payables Rs. (1,29,600-1,18,800)	(10,800)
Cash generated from operations	1,64,376
Income tax paid	2,48,400)
Net Cash generated from Operating Activities	(84,024)

Working Note:

Provision for taxation account

	Rs.		Rs.
To Cash (Paid) (Balancing figure)	2,48,400	By Balance b/d	2,21,400
To Balance c/d	1,35,000	By Profit and Loss A/c	1,62,000
	3,83,400		**3,83,400**

Question 20 : Sept 2024 – RTP

Purse Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on them:

(1) to suppliers
(2) to employees
(3) to its subsidiaries companies

(ii) Investment made in subsidiary Wallet Ltd. and dividend received

(iii) Dividend paid for the year

(iv) Insurance claim received against loss of property, plant and equipment by fire.

Discuss in the context of AS 3 'Cash Flow Statement'.

Solution :

Treatment as per AS 3 'Cash Flow Statement'

(i) Loans and advances given and interest earned
(1) to suppliers Cash flows from operating activities
(2) to employees Cash flows from operating activities
(3) to its subsidiary companies Cash flows from investing activities

(ii) Investment made in subsidiary company and dividend received
Cash flows from investing activities

(iii) Dividend paid for the year Cash flows from financing activities

(iv) Insurance claim received against loss of property, plant and equipment by fire.

Question 21 : Sept 2024 – Paper

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

Solution :

Cash flow statement
for the year ended 31st March 2024

	(Rs. in lakhs)	(Rs. in lakhs)
Cash flow from operating activities		
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		
Cash flow from investing activities		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	8.00	
Net cash used in investing activities		3.00
Cash flow from financing activities		
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

Question 22 : Jan 2025 – RTP

Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.
b. Proceeds from Trade receivables.
c. Trading Commission received.
d. Redemption of Preference Shares.
e. Proceeds from sale of investment
f. Interim Dividend paid on equity shares.
g. Interest received on debentures held as investment.
h. Dividend received on shares held as investments.
i. Rent received on property held as investment.
j. Dividend paid on Preference shares.
k. Marketable Securities

Solution :

Operating Activities: b, c.
Investing Activities: e, g, h, i.
Financing Activities: a, d, f, j.
Cash Equivalents: k

Question 23 : Jan 2025 – Paper

Given below are the extracts of the Balance Sheet of BGH Limited :

Particulars	31st March, 2024 (Rs.)	31st March, 2033 (Rs.)
Share Capital	5,00,000	4,00,000
Profit & Loss Account	1,10,000	60,000
10% Debentures (issued at the end of the year)	1,00,000	-
Bank Loan	2,50,000	2,00,000
Trade Payable	60,000	75,000
Dividend Payable	-	50,000
Interest Payable on Bank Loan (Current Year)	25,000	20,000
Goodwill	1,20,000	1,50,000
Trade Receivables	65,000	95,000
Inventory	55,000	30,000

You are required prepare for the year ended 31st March, 2024 :

(i) Cash Flow from Operating Activities;

(ii) Cash Flow from Financing Activities.

Solution :

Cash Flow from Operating Activities for the Year Ended 31 March 2024

Particulars	Rs.
Cash Flow from Operating Activities	
Retained earnings (1,10,000-60,000)	50,000
Adjustments for non-cash items	
Goodwill Amortisation	30,000
Interest expenses	25,000
	1,05,000
Changes in Working Capital	
Decrease in Trade Receivables	30,000
Increase in Inventory	(25,000)
Decrease in Trade Payables	(15,000)
Cash Flow from Operating Activities	95,000

Cash Flow from Financing Activities for the Year Ended 31 March 2024

Increase in Share Capital	1,00,000
Increase in Bank Loan	50,000
Issue of 10% Debentures	1,00,000
Dividend Paid	(50,0000
Interest Paid	(20,000)

Cash Flow from Financing Activities	1,80,000

Question 24 : May 2025 – RTP

From the following data of Vishnu Ltd. prepare cash flow statement from Operating activities using direct method as per AS 3:

	31.03.2024 (Rs.)	31.03.2023 (Rs.)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

Summary of Statement of Profit and Loss	Rs.	Rs.
Sales	85,50,000	
Less: Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	1,10,000	1,30,000
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	(18,000)	(16,18,000)
Net Profit before tax and extraordinary income		14,62,000
Income Tax		(95,000)
Net Profit		13,67,000

Additional information:

(1) Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.

(2) Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

Solution :

Cash Flow Statement from operating activities of Vishnu Ltd. for the year ended 31 March 2024 (Direct Method)

Particulars	Rs.	Rs.
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)

		13,06,000
Adjustment for extraordinary items (fire insurance claim)		1,10,000
Net Cash Flow from Operating Activities		14,16,000

Working Notes:

1. Calculation of total purchases

Cost of Sales = Opening stock + Purchases – Closing Stock

Rs. 56,00,000 = Rs. 1,65,000 + Purchases – Rs. 1,20,000

Purchases = Rs. 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

	Rs.		Rs.
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
To Balance c/d	1,95,000	By Purchases (W.N. 1)	55,55,000
	57,70,000		57,70,000

3. Calculation of cash received from Customers

Trade Receivables

	Rs.		Rs.
To Balance b/d	1,88,000	By Bank A/c (balancing figure)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	87,38,000		87,38,000

4. Calculation of tax paid during the year in cash

Provision for tax

	Rs.		Rs.
To Bank A/c (balancing figure)	1,12,000	By Balance b/d	65,000
To Balance c/d	48,000	By Profit and Loss A/c	95,000
	1,60,000		1,60,000

Question 25 : May 2025 – Paper

The Balance Sheet of Moon Ltd. as on 31st March 2025 and 2024 were given as:

Particulars		Notes	31st March, 2025	31st March, 2025
			Rs.	Rs.
Equity and Liabilities				
1	Shareholder Funds			
	(a) Share Capital	1	8,00,000	6,00,000
	(b) Reserves and Surplus	2	80,000	50,000
2	Non-Current Liabilities			
	(a) Deferred Tax Liability		6,000	-
3	Current liabilities			
	(a) Trade payable		40,000	25,000
	(b) Short term provisions (Provision for tax)		15,000	10,000

	Total		**9,41,000**	**6,85,000**
Assets				
1	Non-Current Assets			
	(a) Property Plant and Equipment	3	3,95,000	2,90,000
2	Current Assets			
	(a) Trade Receivable		20,000	10,000
	(b) Inventories		2,50,000	2,00,000
	(c) Cash and cash equivalent	4	2,76,000	1,85,000
	Total		**9,41,000**	**6,85,000**

Notes to Accounts

Notes	Particulars	2025 (Rs.)	2024 (Rs.)
1	Share Capital		
	Equity Shares of Rs. 10 each	8,00,000	6,00,000
2	Reserve & Surplus		
	Profit and loss Account	80,000	50,000
3	Property, Plant and Equipment (at WDV)		
	Building	1,00,000	1,00,000
	Furniture and fixtures	2,95,000	1,90,000
	Total	3,95,000	2,90,000
4	Cash & Cash equivalents	2,76,000	1,85,000

Further information related to Profit and loss A/c for the year ended March, 2025 is as under:

(i) Profit before tax is Rs. 45,000

(ii) Tax expense during the year Rs. 15,000 (it includes deferred tax liability of Rs. 6,000 created during the year)

(iii) Depreciation charged on furniture and fixture for the year was Rs. 35,000. One old furniture item was sold for Rs. 17,000 and the profit on such disposal amounting to current year Rs. 8,000 was booked in the current year.

Prepare a Cash Flow Statement for the year ended 31st March, 2025.

Solution :

Moon Ltd.

Cash Flow Statement for the year ended 31st March, 2025

	Rs.	Rs.
Cash flows from operating activities		
Net Profit before taxation	45,000	
Adjustments for:		
Depreciation	35,000	
Profit on sale of Furniture & Fixtures	(8,000)	
Operating profit before working capital changes	72,000	
Increase in Trade receivables	(10,000)	
Increase in inventories	(50,000)	

Increase in Trade payables	15,000	
Cash generated from operations	27,000	
Income taxes paid (W.N.1)	(4,000)	
Net cash generated from operating activities		23,000
Cash flows from investing activities		
Sale of Furniture & Fixtures	17,000	
Purchase of Furniture & Fixtures (W.N.2)	(1,49,000)	
Net cash used in investing activities		(1,32,000)
Cash flows from financing activities		
Issue of shares for cash	2,00,000	
Net cash generated from financing activities		2,00,000
Net decrease in cash and cash equivalents		91,000
Cash and cash equivalents at beginning of period (31.3.2024)		1,85,000
Cash and cash equivalents at end of period (31.3.2025)		2,76,000

Working Notes:

		Rs.
1	Income taxes paid	
	Income tax expense for the year	15,000
	Add: Income tax liability at the beginning of the year	10,000
		25,000
	Less: Income tax liability at the end of the year	(15,000)
	Less: DTL	(6,000)
		4,000
2	Property, plant and equipment acquisitions	
	Furniture & Fixtures	Rs.
	W.D.V. at 31.3.2025	2,95,000
	Add back:	
	Depreciation for the year	35,000
	Disposals (17,000 -8,000)	9,000
		3,39,000
	Less: W.D.V. at 31.12.2024	(1,90,000)
	Acquisitions during 2024-2025	1,49,000

Question 26 : Sept 2025 – RTP

From the following information, prepare cash flow statement of Kiran Ltd. as at 31st March, 2025 by using indirect method:

	2024 Rs.	2025 Rs.
Liabilities		
Share capital	12,00,000	12,00,000
Profit & Loss A/c	8,50,000	10,00,000

Long Term Loans	10,00,000	10,60,000
Trade payables	3,50,000	4,00,000
	34,00,000	36,60,000
Assets		
Fixed Assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Inventory	6,80,000	7,00,000
Trade receivables	7,20,000	6,60,000
Cash	60,000	70,000
Bills Receivable	40,000	30,000
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2025

		Rs.
Sales		40,80,000
Less: Cost of sales		27,20,000
Gross Profit		13,60,000
Less: Operating expenses:		
Administrative expenses	4,60,000	
Depreciation	2,20,000	(6,80,000)
Operating Profit		6,80,000
Add: Non-operating incomes (dividend received)		50,000
		7,30,000
Less: Interest paid		(1,40,000)
Profit before tax		5,90,000
Less: Income-tax		(2,60,000)
Profit after tax		3,30,000

Statement of Retained Earnings

	Rs.
Opening balance	8,50,000
Add: Profit	3,30,000
	11,80,000
Less: Dividend paid	(1,80,000)
Closing balance	10,00,000

Solution :

Cash flow statement of Kiran Ltd.
for the year ended 31st March 2025

		Rs.	Rs.
(i)	**Cash flows from operating activities**		
	Profit before tax	5,90,000	

	Add: Depreciation (Non-cash expenses)	2,20,000	
	Interest (Non-operating expenses)	1,40,000	
		9,50,000	
	Less: Dividend (Non-operating income)	(50,000)	
	Operating Profit	9,00,000	
	Add: Decrease in Bills Receivable	10,000	
	Decrease in Trade receivables	60,000	
	Increase in Trade paybles	50,000	
		10,20,000	
	Less: Increase in inventory	(20,000)	
	Cash flow from operations before tax	10,00,000	
	Less: Tax paid	(2,60,000)	
	Cash flow from operating activities		7,40,000
(ii)	**Cash flows from investing activities**		
	Purchase of fixed assets	(5,20,000)	
	[20,00,000 + 2,20,000 - 17,00,000]		
	Dividend on investments	50,000	
	Cash used in investing activities		(4,70,000)
(iii)	**Cash flows from financing activities**		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	(1,80,000)	
	Cash used in financing activities		(2,60,000)
	Net increase in cash during the year		10,000
	Add: Opening cash balance		60,000
	Closing cash balance		70,000

Question 27 : Sept 2025 – RTP

Garden Ltd. acquired fixed assets viz. plant and machinery for Rs. 20 lakhs. During the same year it sold its furniture and fixtures for Rs. 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS 3?

Solution :

According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furnitures and fixtures.

Question 28 : Sept 2025 – Paper

The following are the summarised Balance Sheets of Magenta Limited :

Particulars	31st March 2024	31st March 2025
	(Rs. in Lakhs)	(Rs. in Lakhs)
Equity Share Capital	15.00	20.00
12% Redeemable Preference Shares	7.50	5.00
Profit & Loss A/c	1.50	2.40
General Reserve	4.10	6.00
Outstanding Expenses	1.00	0.80
Trade Payables	2.75	4.15
Provision for Tax	2.00	2.50
Total	**33.85**	**40.85**
Goodwill	5.75	4.50
Land & Building	10.00	9.00
Plant & Machinery	4.00	9.50
Inventories	4.85	4.35
Trade Receivable	8.00	12.60
Cash and Bank	0.50	0.40
Marketable Securities	0.75	0.50
Total	**33.85**	**40.85**

(i) Depreciation charged on Plant & Machinery and Land & Building during the year was Rs.50,000 and Rs.1,00,000 respectively.

(ii) Income Tax of Rs.1,75,000 was paid during the year.

(iii) An Interim Dividend of Rs.1,00,000 has been paid.

You are required to prepare Cashflow Statement from Operating Activities for 31st March 2025.

Solution :

Assumption 1: There is no dividend on preference shares

Cash Flow Statement from Operating Activities
for the year ended 31st March, 2025

Particulars	Amount (Rs. in Lakhs)
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00- 4.10)	1.90
Add: Interim Dividend Paid	1.00
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25
Provision for Income tax	2.25
Operating Profit before Working Capital Changes	8.80
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40
Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)

Cash Generated from Operations	5.90
Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	4.15

Working Note

1. Calculation of provision for taxation

	Amount (Rs. in Lakhs)		Amount (Rs. in Lakhs)
To Cash	1.75	By Income tax payable	2.00
To Income tax payable	2.50	By Profit & Loss A/c (Bal. fig.)	2.25
	4.25		4.25

Assumption 2: Preference Shares redeemed at the end of the year

Cash Flow Statement from Operating Activities
for the year ended 31st March, 2025

Particulars	Amount (Rs. in Lakhs)
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00 -4.10)	1.90
Add: Interim Dividend Paid	1.00
Add: Preference dividend* (7.50 x 12%)	0.90
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25
Provision for Income tax	2.25
Operating Profit before Working Capital Changes	9.70
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40
Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)
Cash Generated from Operations	6.80
Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	5.05

*Assumption Preference shares are redeemed at the end of the year

Working Note:

1. Calculation of provision for taxation

	Amount (Rs. in Lakhs)		Amount (Rs. in Lakhs)
To Cash	1.75	By Income tax payable	2.00
To Income tax payable	2.50	By Profit & Loss A/c (Bal. fig.)	2.25
	4.25		4.25

Assumption 3: Preference Shares redeemed at the beginning of the year

Cash Flow Statement from Operating Activities
for the year ended 31st March, 2025

Particulars	Amount (Rs. in Lakhs)
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00 - 4.10)	1.90
Add: Interim Dividend Paid	1.00
Add: Preference dividend* (5 x 12%)	0.60
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25
Provision for Income tax	2.25
Operating Profit before Working Capital Changes	9.40
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40
Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)
Cash Generated from Operations	6.50
Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	4.75

***Assumption Preference shares are redeemed at the beginning of the year**

Working Note:

1. Calculation of provision for taxation

	Amount (Rs. in Lakhs)		Amount (Rs. in Lakhs)
To Cash	1.75	By Income tax payable	2.00
To Income tax payable	2.50	By Profit & Loss A/c (Bal. fig.)	2.25
	4.25		4.25

Thanks ....

CHAPTER

7

AS 4 – CONTINGENCIES & EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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Question 1 : May 2020 – RTP / July 2021 – Paper

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

(i) A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of Rs. 5 lakhs.

(ii) Company sends a proposal to sell an immovable property for Rs. 45 lakhs in March 2021. The book value of the property is Rs. 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.

(iii) The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was Rs. 50 lakhs.

(iv) Theft of cash amounting to Rs. 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.

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

Solution :

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

(ii) In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for

the year ended 31st March, 2021. There was just a proposal before 31st March, 2021 and hence sale cannot be shown in the financial statements for the year ended 31st March, 2021. Sale of immovable property is an event occurring after the balance sheet date and is a non-adjusting event.

(iii) In the given case, terms and conditions for acquisition of business were finalized before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2021.
Hence, it is an adjusting event and necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2021.

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

Question 2 : Nov 2020 – RTP / Nov 2021 – RTP

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

a. A major property was sold (it was included in the balance sheet at Rs. 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2020 at a price of Rs. 26,50,000.

b. On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.

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

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

Solution :

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

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property Rs. 1,50,000 would be considered.
(b)	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, Rs. 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.

Question 3 : May 2021 – RTP

A case is going on between ABC Ltd. and Tax department on claiming the exemption for certain items, for the year 2019-2020. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. The financial statements were approved on 31st May, 2020. Shall company account for such tax in the year 2019-2020 or shall it account for in the year 2020-2021?

Solution :

To decide whether, the event is adjusting or not adjusting two conditions need to be satisfied,

(a) There has to be evidence

(b) The event must have been related to period ending on reporting date.

Here both the conditions are satisfied. Court order is a conclusive evidence which has been received before approval of the financial statements since the liability is related to earlier year. The event will be considered as an adjusting event and accordingly the amount will be adjusted in accounts of 2019-2020.

Question 4 : Dec 2021 – Paper

As per the provision of AS 4, you are required to state with reason whether the following transactions are adjusting event or non-adjusting event for the year ended 31.03.2021 in the books of New Ltd. (accounts of the company were approved by board of directors on 10.07.2021):

1. Equity Dividend for the year 2020-21 was declared at the rate of 7% on 15.05.2021.
2. On 05.03.2021, Rs.53,000 cash was collected from a customer but not deposited by the cashier. This fraud was detected on 22.06.2021.
3. One building got damaged due to occurrence of fire on 23.05.2021. Loss was estimated to be Rs.81,00,000.

Solution :

(i) If dividends are declared after the balance sheet date but before the financial statements are approved, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes. Thus, no liability for dividends needs to be recognized in financial statements for financial year ended 31st March, 2021 and declaration of dividend is non-adjusting event.

(ii) As per AS 4 'Contingencies and Events occurring after the Balance Sheet Date' an event occurring after the balance sheet date may require adjustment to the reported values of assets, liabilities, expenses or incomes if such events relate to conditions existing at the balance sheet date. In the given case, fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to

recognize the loss. Thus loss amounting Rs. 53,000 should be adjusted in the accounts of the company for the year ended 31st March, 2021 as it is adjusting event.

(iii) AS 4 states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The damage of one building due to fire did not exist on the balance sheet date i.e. 31.3.2021. Therefore, loss occurred due to fire is not to be recognized in the financial year 2020-2021 as it is non-adjusting event.

However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the fire has caused major destruction; therefore, fundamental accounting assumption of going concern would have to be evaluated. Considering that the going concern assumption is still valid, the fact of fire together with an estimated loss of Rs. 81 lakhs should be disclosed in the report of the approving authority for financial year 2020-21 to enable users of financial statements to make proper evaluations and decisions.

Question 5 : May 2022 – RTP

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

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

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

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

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

Solution :

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

basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2020:

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

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

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

Question 6 : Nov 2022 – Paper

MN Limited operates its business into various segments. Its financial year ended on 31st March, 2022 and financial statements were approved by their approving authority on 15th June, 2022. The following material events took place :

(i) On 7th April, 2022, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs.15 crores would be fully covered by the insurance company.

(ii) A claim for damage amounting to Rs.12 crores for breach of patent had been received by the entity prior to the year end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

(iii) A major property was sold (it was included in the balance sheet at Rs.37,50,000) for which contracts had been exchanged on 15th March, 2022. The sale was completed on 15th May, 2022 at a price of Rs.39,75,000.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of MN Limited for the year ended 31st March, 2022 as per AS - 4.

Solution :

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

(i) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of note in the financial statements.

(ii) On the basis of evidence provided, the claim against the company will not succeed. Thus, 12 crores should not be provided in the account but should be disclosed by means of a contingent

liability with full details of the facts as per AS 29. Provision can be made for legal fee expected to be incurred to the extent that they are not expected to be recovered if the amount can be ascertained.

(iii) The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2022 and the profit on sale of property Rs. 2,25,000 would be considered.

Question 7 : May 2024 – RTP

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

(i) A suit against the Company's Advertisement was filed by a party on 5th April, 2023, claiming damages of Rs. 5 lakhs.

(ii) Company sends a proposal to sell an immovable property for Rs. 45 lakhs in March 2023. The book value of the property is Rs. 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2023.

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

Solution :

Accordingly, the treatment as per AS 4 "Events Occurring After the Balance Sheet Date" is:

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

(ii) In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2023. There was just a proposal before 31st March, 2023 and hence sale cannot be shown in the financial statements for the year ended 31st March, 2023. Sale of immovable property is an event occurring after the balance sheet date is a non-adjusting event.

Question 8 : Sept 2024 – RTP

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

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

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

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

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

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

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

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

Solution :

0Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

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

Question 9 : May 2025 – RTP

Smart Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March, 2024 are to be approved by the approving authority on 30th June 2024.

During the first quarter of 2024-2025, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

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

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

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

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

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

Solution :

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

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

In the given case, financial statements are approved by the approving authority on 30th June 2024.

On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31st March 2024:

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

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

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

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

Question 10 : Jan 2026 – RTP

You are the accountant of Zenith Industries Ltd., a company engaged in the manufacture and sale of consumer products across India. The company has its corporate office in Mumbai and an extensive network of stockists and distributors throughout the country. You are preparing the financial statements for the year ended 31st March, 2025.

After the close of the financial year, the following significant events and accounting considerations came to light:

a. Fire Accident: On 10th April, 2025, a major fire broke out at the company's warehouse, resulting in the destruction of uninsured stock worth Rs. 10,00,000. However, the company managed to recover salvage valued at Rs. 2,00,000.

b. Legal Claim: On 18th April, 2025, a party filed a lawsuit against the company alleging that one of its advertisements was misleading and caused loss to competitors. The suit claims damages of Rs. 20,00,000.

c. Cheques in Hand and Revenue Recognition: Zenith Industries Ltd. sells its products to stockists all over India. As part of its year-end accounting on 31st March, 2025, the company proposes to recognize all cheques bearing date 31st March, 2025 or earlier, received from stockists, as "Cheques in Hand", by reducing the
Trade Receivables. These cheques are proposed to be shown under Cash and Cash Equivalents in the Balance Sheet.

However, the following two categories of cheques exist:

(i) Cheques collected by the marketing personnel of the company from stockists on or before 31st March, 2025, which were physically in the company's possession as on that date.

(ii) Cheques sent by stockists through courier on or before 31st March, 2025, but received by the company in April 2025, after the balance sheet date.

All cheques were deposited in the bank and realized in April 2025 in the normal course of business.

Solution :

Events occurring after the balance sheet date that represent material changes or commitments affecting the financial position of an enterprise must be disclosed in accordance with paragraph 15 of AS 4 on Contingencies and Events Occurring After the Balance Sheet Date. The treatment of each event is explained below:

a. Fire Accident and Loss of Uninsured Stock: The key consideration is whether the impact of the loss is material. The fire occurred after the balance sheet date and does not relate to any condition existing as on 31st March, 2025. Therefore, it is a non-adjusting event.

However, since the loss is material—not only due to the uninsured nature of the stock but also due to the company's exposure to future risk—the fact of the fire and the uninsured position must be disclosed in the financial statements. The disclosure should include the nature of the event, its estimated financial effect, and information regarding future vulnerabilities, if determinable.

b. Legal Suit Filed Against the Company: The lawsuit was initiated after the balance sheet date and does not provide additional evidence of any condition that existed on 31st March, 2025. Therefore, it is also a non-adjusting event.

In accordance with paragraph 16 of AS 4, this should be disclosed as a contingent liability. The disclosure should include the nature of the contingency, an estimate of the financial effect, and uncertainties that might affect the outcome of the case in future periods.

c. Cheques in Hand: (i) Cheques collected by marketing personnel: These cheques were physically collected by the company's employees on or before 31st March, 2025. Since marketing personnel act as representatives of the company, the collection of cheques by them constitutes receipt by the company itself. The liability of the stockists is discharged upon handing over the cheques. Hence, such cheques represent an adjusting event as per AS

(i) Accordingly, the cheques collected by marketing personnel should be adjusted in the books by reducing Trade Receivables and recognizing them as Cheques in Hand under Cash and Cash Equivalents. Proper disclosure in Notes to Accounts should also be made regarding the accounting policy followed for recognizing such cheques.

(ii) Cheques sent by stockists through courier: Even if the cheques are dated 31st March or earlier, they were received by the company only after the balance sheet date. Hence, the event of their receipt does not represent any condition existing as on 31st March, 2025. Therefore, this is a non-adjusting event. Such cheques should be accounted for in the period in which they are actually received (i.e., April 2025), irrespective of their date. Further, since the event does not materially affect the company's financial position, no disclosure is necessary in the Director's Report or Notes to Accounts.

Thanks ....



CHAPTER

8

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

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Question 1 : May 2020 – RTP / Nov 2020 – RTP

The Accountant of Virush Limited has sought your opinion, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2020. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

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

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

Solution :

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

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

Question 2 : Jan 2021 – Paper / May 2023 – RTP

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

(i) Actual bad debts turning out to be more than provisions.

(ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.

(iii) Government grant receivable as compensation for expenses incurred in previous accounting period.

(iv) Treating operating lease as finance lease.

(v) Capitalisation of borrowing cost on working capital.

(vi) Legislative changes having long term retrospective application.

(vii) Change in the method of depreciation from straight line to WDV.

(viii) Government grant becoming refundable.

(ix) Applying 10% depreciation instead of 15% on furniture.

(x) Change in useful life of fixed assets.

Solution :

Classification of given items is as follows:

Sr. No.	Particulars	Remarks
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates
(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy
(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items
(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of fixed assets	Change in Accounting Estimates

Question 3 : May 2021 – RTP

XYZ Ltd. is in the process of finalizing its account for the year ended 31st March, 2020. The company seeks your advice on the following:

The company's tax assessment for assessment year 2017-18 has been completed on 14th February, 2020 with a demand of Rs.5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of Rs.3.70 crore.

Solution :

Since the company is not appealing against the addition of Rs. 1.70 crore (Rs. 5.40 crore less Rs. 3.70 crore), therefore, the same should be provided/ expensed off in its accounts for the year ended on 31st March, 2020. However, the amount paid under protest can be kept under the heading 'Long-term Loans & Advances / Short-term Loans and Advances' as the case may be alongwith disclosure as contingent liability of Rs. 3.70 crore.

Question 4 : Nov 2021 – RTP

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

Solution :

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

Question 5 : Nov 2021 – RTP / May 2022 – RTP / Nov 2022 - Paper

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2021. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2020. From the Financial year 2020-2021, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2021, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

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

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

(v) During the year ended 31st March, 2021, there was change in cost formula in measuring the cost of inventories.

Solution :

(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2020. Subsequently in 2020-21, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in accounting estimate and is not a change in accounting policy. This change will affect only current year.

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

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

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

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

Question 6 : May 2022 – Paper

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

Solution :

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

It is given that revision of wages took place in April, 2022 with retrospective effect from 1st January, 2022. Therefore, wages payable for the period from 1.01.2022 to 31.3.2022 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item. The full amount of wages payable to workers will be treated as an expense of current year and it will be charged to profit & loss account for the year 2022-23 as normal expenses.

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

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

Question 7 : Nov 2022 – RTP

Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The company decided to sell the land to tide over its liquidity problems and made a profit of Rs.10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at Rs. 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of Rs.2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

Solution :

As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

Question 8 : Sept 2024 – RTP

Explain whether the following will constitute a change in accounting policy or not as per AS 5:

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

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

Solution :

As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy of paying pension to retired employees is a policy for events or transactions which did not occur previously. Hence, it will not be treated as a change in an accounting policy.

Question 9 : Jan 2025 – RTP

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

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

Solution :

The balance amount of maintenance provision written back to profit and loss account, no longer required due to crash of the helicopters, is not a prior period item because there was no error in the preparation of previous periods' financial statements. The term 'prior period items', as defined in AS 5 (revised) "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting

Policies", refer only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The balance amount left in the provision created earlier is not as a result of error in the past. So it will not be considered as prior period item. Such write back of provision is not an ordinary feature of the business, it shall be considered as an extra-ordinary item.

As per paragraph 8 of AS 5, extraordinary items should be disclosed in the Statement of Profit and Loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner that its impact on current profit or loss can be perceived. Hence, the amount so written-back (if material) should be disclosed as an extraordinary item as per AS 5 rather than as prior period items.

Question 10 : May 2025 – RTP

The Accountant of Heera Ltd. has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2024. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

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

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

(iii) During the year ended 31st March, 2024, there was change in cost formula in measuring the cost of inventories.

Solution :

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

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

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

Question 11 : Sept 2025 – RTP

(a) When can an item qualify to be a prior period item as per AS 5?

(b) The company finds that the stock sheets of 31.3.2024 did not include two pages containing details of inventory worth Rs. 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2025 with reference to AS 5.

Solution :

(a) According to para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items refers to those income or expenses, which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the

current period e.g., arrears payable to workers in current period as a result of revision of wages with retrospective effect.

(b) As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth Rs.20 lakhs in 31.3.2024 is a prior period item. As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, Rs.20 lakhs must be added to opening stock of 1.4.2024. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

Question 12 : Sept 2025 – Paper

Sneha an employee of Omre Limited went on maternity leave with pay for 9 months on 1st January 2024 up to 30th September 2024. Her monthly pay was Rs.1,50,000. While preparing the financial statements for the year ended 31st March 2024, the salary of Sneha for 3 months (1st January 2024 .to 31st March 2024) was not provided due to omission. When Sneha joined on 1st October 2024 the whole salary for 9 months (1st January 2024 to 30th September 2024) was paid to her.
With reference to AS-5 'Net Profit or Loss for the period, Prior Period Items and Change in Accounting Policies' you are required to determine if this is an example of prior period item and are also required to pass journal entry for the F.Y. 2024-2025.
Suppose Sneha was terminated from service on 1st January 2024 and was re-instated in service by the Court on 30th September 2024 and on 1st October 2024 the Company paid the 9 months salary to Sneha. What will be the treatment with reference to AS-5 in this situation ? Give journal entry.

Solution :

As per AS- 5 "Net Profit or Loss for the Period", Prior Period Items and Changes in Accounting Policies, the term 'prior period items', refers to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss so that their impact on the current profit or loss can be perceived.
Hence, in this case salary paid to Sneha for 3 months i.e. 1.1.2024 to 31.3.2024 Rs.4,50,000 (1,50,000 x 3) will be classified as prior period item in FY 2024 -25 and following journal entry shall be passed:

(i) Journal entry in FY 2024-25

Salary A/c (Rs. 1,50,000 x 6)	Dr.	9,00,000	
Prior period item (Rs. 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			13,50,000
(Being salary related to 9 months paid out of which 3 month's salary is prior period item)			

Alternative Entry

Prior Period Item (Rs. 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			4,50,000
(Being Salary related to 3 month's salary is prior period item)			

Salary A/c (Rs.1,50,000 x 6) To Bank A/c (Being salary related to 6 month's salary)	Dr.	9,00,000	9,00,000

(ii) AS 5 inter alia states that the term 'prior period items' does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Accordingly, in the second case though Sneha was terminated on 1.1.2024 i.e. in 2023- 2024, yet she was reinstated due to court's order in 2024 -2025, with the instruction by the court to pay the salary for the intervening period i.e. with retrospective effect from January, 2024.

The adjustment of salary of Rs. 4,50,000 (for January 2024 to March, 2024) would not be considered as prior period item and will be accounted for in the books as current year expense.

Thus, the entire amount of Salary of Rs. 13,50,000 for January, 2024 to September, 2024 is a current year expense only.

Salary A/c (1,50,000 x 9) To Bank A/c (Being 9 month's salary paid during the year)	Dr.	13,50,000	13,50,000

Question 13 : Jan 2026 – RTP

The accountant of Beryl Limited has asked you to identify the following items as – Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity:

(i) Non- provision for salary already due in earlier year.
(ii) Attachment of the property of the enterprise.
(iii) Introduction of new pension scheme for employees.
(iv) Change in Reserve for obsolete inventory.
(v) Settlement of litigation case.
(vi) Legislative changes having long term retrospective application.
(vii) Change from Cost Molde to Revaluation Model for measurement of carrying amount of PPE.
(viii) Government sanctioned grant in current year for expenses incurred in previous accounting year.

Solution :

(i) Prior Period item
(ii) Attachment of property of enterprise is an extraordinary item.
(iii) Introduction of new pension scheme for employes is not a change in accounting policy. It is an ordinary activity.
(iv) Change in provision for obsolete inventory is a change in accounting estimate.
(v) Litigation settlement is an ordinary activity but requires separate disclosure
(vi) Extra ordinary activity requiring separate disclosure
(vii) Change in Accounting policy.
(viii) prior period item.

Question 14 : Jan 2026 – RTP

Best Ltd. is engaged in the business of providing consultancy services. A few days back, it received a notice from GST department raising a demand of GST on consultancy services provided by it for Rs. 2,50,000.

Recently Best Ltd. paid the demand. In the books, the payment is recorded as an extraordinary expenditure.

Whether payment of tax demand raised by the taxation authority can be recognised as an extraordinary item?

Solution :

No, payment of tax cannot be recognised as an extraordinary item.

As per AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", extraordinary items are income or expenses that arise from events or transactions which are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

In the instant case, providing consultancy services is the ordinary business activity of Best Ltd. The GST liability arises from these ordinary transactions. Payment of GST pursuant to a demand by the taxation authority is part of the normal business operations of the company.

Therefore, recording the payment of GST as an extraordinary expenditure is not correct. Such payments are ordinary expenses and should be recognised as part of the profit or loss from ordinary activities, and cannot be treated as an extraordinary item. Recognising such payments as an extra-ordinary item is contrary to AS 5.

Thanks ....



CHAPTER

9

AS 7 – CONSTRUCTION CONTRACTS

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Question 1 : May 2018 – Paper / May 2023 – Paper

Fisher Construction Co. obtained a contract for construction of a commercial complex. The following details are available in records of a company for the year ended 31st March, 2023:

Particulars	Amount in lakhs
Total contract price	24000
Work certified	12500
Work not certified	2500
Estimated further cost to completion of work	17500
Progress payment received	11000
Progress payment to be received	3000

Applying the provisions of AS 7, you are required to compute:

(i) Profit / Loss for the year ended 31stMarch, 2023.

(ii) Contract work in progress at the end of financial year 2022-2023.

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

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

Solution :

		(Rs. In lakhs)
(i)	**Profit or Loss for the year ended 31.03.2023**	32,500
	Total cost of construction (12,500 + 2,500 + 17,500)	(24,000)
	Less: Total contract price	8,500

Total foreseeable loss to be recognized as expense

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

		(Rs. in lakhs)
(ii)	Contract work-in-progress i.e. cost incurred to date are Rs. 15,000 lakhs	
	Work certified	12,500
	Work not certified	2,500
	Contract work in progress at the end of 2022-23	15,000

(iii) Proportion of total contract value recognized as revenue:

For this, cost incurred till 31.03.2023 is 46.154% (15,000/32,500 □ 100) to total costs of construction.

Therefore, Proportion of total contract value recognized as revenue is

46.154% of Rs. 24,000 lakhs = Rs. 11,076.96 lakhs

Or 46.15% (Approx.) of Rs. 24,000 lakhs = Rs. 11,076 lakhs

(iv) Amount due from/ to customers =

(Contract costs + Recognised profits – Recognised Losses)

– (Progress payments received + Progress payments to be received)

= (15,000 + Nil – 8,500) – (11,000 + 3,000) Rs. in lakhs

= [6,500 – 14,000] Rs. in lakhs

Amount due to customers = Rs. 7,500 lakhs

Question 2 : May 2019 – RTP

GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. Rs. 102 lacs, Rs. 150 lacs, Rs. 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

Solution :

As per AS 7 'Construction Contracts', when a contract covers number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Offices, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one single agreement for contracts. Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract, principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS 7.

Question 3 : May 2019 – Paper / May 2021 – RTP / May 2022 – RTP / May 2023 – RTP / Nov 2023 – RTP

(i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. Rs.50 Lakh Rs.60 Lakh and Rs.75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS - 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

(ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for Rs.45 lakhs. On 31st March, 2018, the company found that it had already spent Rs.32.50 lakhs on the construction. Additional cost of completion is estimated at Rs.15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provisions of AS - 7 ?

Solution :

(i) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

Therefore, Mr. AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	Rs. in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

= (32.50/47.60) × 100 = 68.28%

Proportion of total contract value recognised as revenue for the year ended 31st March, 2018 per AS 7 (Revised)

= Contract price x percentage of completion

= Rs.45 lakh x 68.28% = Rs.30.73 lakhs.

	Rs. in lakhs
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

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

Question 4 : Nov 2019 – RTP / Nov 2022 – RTP

On 1st December, 2020, "Sampath" Construction Limited undertook a contract to construct a building for Rs. 108 lakhs. On 31st March, 2021 the company found that it had already spent Rs. 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was Rs. 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2021 based on AS 7 "Accounting for Construction Contracts."

Solution :

Calculation of foreseeable loss for the year ended 31st March, 2021
(as per AS 7 "Construction Contracts")

	(Rs. in lakhs)
Cost incurred till 31st March, 2021	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of Rs.12 lakhs is required to be provided for in the books of Sampath Construction Ltd. for the year ended 31st March, 2021.

Question 5 : May 2020 – RTP

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

	(Amount Rs.in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

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

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

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

Solution :

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in Rs. lakhs)

	Up to the reporting date	Recognized in previous years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247

Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note :

	Year 1	Year 2	Year 3
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6068	8200
		(6,168-100)	(8,100+100)
Degree of completion (B/A)	26%	74%	100%

Question 6 : Nov 2020 – RTP

Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs.12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	Rs.4 crore
Further cost estimated to complete the contract	Rs.6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.

You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

Solution :

	Rs. in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10) × 100 = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2019 as per AS 7:

Proportion of total contract value recognized as revenue

= Contract price x percentage of completion

= Rs. 12.60 crore x 40% = Rs. 5.04 crore

Profit for the year ended 31st March, 2019 = Rs. 5.04 crore – Rs. 4 crore = 1.04 crore.

Question 7 : Nov 2020 – Paper

Rajendra undertook a contract for Rs. 20,00,000 on an arrangement that 80% of value of work done as certified by the architect of the contractee should be paid immediately and that remaining 20% be retained until the contract was completed.

In year 1 the amount expended were Rs.8,60,000 the work was certified for 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the contract would be Rs. 10,00,000

In Year 2, the amounts were Rs. 4,75,000. Three-fourth of the contract was certified as done by December 31st and 80% of this was received accordingly it was estimated that future expenditure to complete the contract would be Rs. 4,00,000

In year 3 amount expended were Rs. 3,10,000 and on June 30th the whole contract was completed

Show how contract revenue would be recognized in the P & L account of Mr Rajendra every year

Solution :

Year 1	**Rs.**
Actual expenditure	8,60,000
Future estimated expenditure	10,00,000
Total Expenditure	18,60,000

% of work completed = $\frac{8,60,000}{18,60,000} \times 100$ = 46.24% (rounded off)

Revenue to be recognized = 20,00,000 x 46.24%
= Rs. 9,24,800

Year 2

Actual expenditure	4,75,000
Future Expenditure	4,00,000
Expenditure incurred in Year 1	8,60,000
	17,35,000

% of work completed = $\frac{4,75,000 + 8,60,000}{17,35,000}$ = 76.95% (rounded off)

Revenue to be recognized (cumulative) = 20,00,000 x 76.95%
= 15,39,000

Less: revenue recognized in Year 1 = (9,24,800)

Revenue to be recognized in Year 2 Rs. 6,14,200

Year 3

Whole contract got completed therefore total contract value less revenue recognized up to year 2 will be amount of revenue to be recognized in year 3 i.e. 20,00,000 – 15,39,000 (9,24,800 + 6,14,200) = Rs. 4,61,000.

Note: Calendar year has been considered as accounting year.

Question 8 : May 2021 – RTP

Sky Limited belongs to Heavy Engineering Contractors specializing in construction of Flyovers. The company just entered into a contract with a local municipal corporation for building a flyover. No activity has started on this contract.

As per the terms of the contract, Sky Limited will receive an additional Rs. 50 lakhs if the construction of the flyover were to be finished within a period of two years from the commencement of the contract. The Accountant of the entity wants to recognize this revenue since in the past the company has been able to meet similar targets very easily. Give your opinion on this treatment.

Solution :

According to AS 7 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when both the conditions are met:

(i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and

(ii) the amount of the incentive payment can be measured reliably.

In the given problem, the contract has not even begun and hence the contractor (Sky Limited) should not recognize any revenue of this contract. Therefore, the accountant's contention for recognizing Rs.50 lakhs as revenue is not correct.

Question 9 : July 2021 – Paper

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

(i) Contract Price - Rs. 85 lakhs

(ii) Materials issued - Rs. 21 Lakhs out of which Materials costing Rs. 4 Lakhs is still lying unused at the end of the period.

(iii) Labour Expenses for workers engaged at site - Rs. 16 Lakhs (out of which Rs. 1 Lakh is still unpaid)

(iv) Specific Contract Costs - Rs. 5 Lakhs

(v) Sub-Contract Costs for work executed - Rs. 7 Lakhs, Advances paid to sub-contractors - Rs. 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - Rs. 35 Lakhs

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

Solution :

Computation of contract cost

	Rs. Lakh	Rs. Lakh
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16

Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		7
Cost incurred (till date)		45
Add: further cost to be incurred		35
Total contract cost		80

Percentage of completion = Cost incurred till date/Estimated total cost
= Rs. 45,00,000/Rs. 80,00,000
= 56.25%

Contract revenue and costs to be recognized
Contract revenue (Rs. 85,00,000x56.25%) = Rs. 47,81,250
Contract costs = Rs. 45,00,000

Question 10 : Nov 2021 – RTP

In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably only when certain conditions prescribed under AS 7 are satisfied. You are required to describe these conditions mentioned in the standard.

Solution :

In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(i) total contract revenue can be measured reliably;

(ii) it is probable that the economic benefits associated with the contract will flow to the enterprise;

(iii) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

(iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

Question 11 : Nov 2021 – RTP

Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs. 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily. Is X correct in his proposal? Discuss.

Solution :

According to AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.

Question 12 : May 2022 – Paper

Grace Ltd., a firm of contractors provided the following information in respect of a contract for the year ended on 31st March, 2022 :

Particulars	(Rs. in '000)
Fixed Contract Price with an escalation clause	35,000
Work Certified	17,500
Work not Certified (includes Rs.26,25,000 for materials issued, out of which material lying unused at the end of the period is Rs.1,40,000)	3,815
Estimated further cost to completion	17,325
Progress Payment Received	14,000
Payment to be Received	4,900
Escalation in cost is by 8% and accordingly the contract price is increased by 8%	-

From the above information, you are required to :

(i) Compute the contract revenue to be recognised,

(ii) Calculate Profit / Loss for the year ended 31st March, 2022 and additional provision for loss to be made, if any, for the year ended 31st March, 2022.

Solution :

		Rs. in thousand
Cost of Contract incurred till date		
Work certified	17,500	
Work not certified (3,815 thousand – 140 thousand)	3,675	21,175
Add: Estimated future cost		17,325
Total estimated cost of construction		38,500
Contract Price (35,000 thousand x 1.08)		37,800

Stage of completion

Percentage of completion till date to total estimated cost of construction = [Cost of work completed till date / total estimated cost of the contract] x 100

= [Rs. 21,175 thousand / Rs. 38,500 thousand] x 100= 55%

Revenue to be recognized for the year ended 31stMarch, 2022

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

= Rs. 37,800 thousand x 55% = Rs. 20,790 thousand

Loss to be recognized for the year ended 31stMarch, 2022

Loss for the year ended 31stMarch, 2022 = Cost incurred till date – Revenue to be recognized for the year ended 31st March, 2022

= Rs. 21,175 thousand – Rs. 20,790 thousand = Rs. 385 thousand

Provision for loss to be made at the end of 31stMarch, 2022

		Rs. in thousand
Total estimated loss on the contract		
Total estimated cost of the contract	38,500	
Less: Total revised contract price	(37,800)	700
Less: Loss recognized for the year ended 31st March, 2022		(385)
Provision for loss to be made at the end of 31stMarch, 2022		315

Question 13 : May 2024 – RTP

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

(i) Contract Price - Rs. 85 lakhs

(ii) Materials issued - Rs. 21 Lakhs out of which Materials costing Rs. 4 Lakhs is still lying unused.at the end of the period.

(iii) Labour Expenses for workers engaged at site - Rs. 16 Lakhs (out of which Rs. 1 Lakh is still unpaid)

(iv) Specific Contract Costs = Rs. 5 Lakhs

(v) Sub-Contract Costs for work executed - Rs. 7 Lakhs, Advances paid to Sub-Contractors - Rs. 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - Rs. 35 Lakhs

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

Solution :

Computation of contract cost

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

Percentage of completion = Cost incurred till date/Estimated total cost
= Rs. 45,00,000/Rs. 80,00,000
= 56.25%

Contract revenue and costs to be recognized

Contract revenue (Rs. 85,00,000x56.25%) = Rs. 47,81,250

Contract costs = Rs. 45,00,000

Question 14 : May 2024 – Paper

Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge

for Rs.400 crores. The construction of the railway over bridge is expected to be completed in 4 years.

At the outset of the contract, it was estimated that the total costs to be incurred will be Rs.370 crores but by the end of year 1, this estimate stands revised to Rs.375 crores.

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by Rs.10 crores and costs will increase by rs.7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at die end of each year is :

Year 1 : Rs.98.8 crores
Year 2 : Rs.202.4 crores
Year 3 : Rs.310 crores (including unused material of 3 crores}
Year 4 : Rs.382 crores

You are required to :

(i) Calculate stage of completion of contract for each year
(ii) Profit to be recognised for each year.

Solution :

(a) Stage of completion = Costs incurred to date / Total estimated costs

Year 1: 98.8 crore / 375 crore = 26.35%
Year 2: 202.4 crore / 375 crore = 53.97%
Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%
Year 4: 382 crore / 382 crore = 100%

(b) Profit to be recognized each year has been calculated as follows:

	Year 1	Year 2	Year 3	Year 4
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore -110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore
		202.40 - 98.80 crore)	(307 crore - 98.8 crore - 103.60 crore)	(382 crore - 98.8 crore- 103.6 crore – 104.6 crore)
Contract Profit (1) – (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

Question 15 : Sept 2024 – RTP

Mehta ltd. has undertaken bridge construction contract wherein, bridge will be constructed in 3 years. The details of the contracts are as follows:

(i) Initial contract revenue Rs. 900 crore

(ii) Initial contract cost Rs. 800 crore

	Years		
	I Rs.in crore	II Rs.in crore	III Rs.in crore
Estimated contract cost	805		
Increase in contract revenue	-	20	
Estimated additional increase cost	-	15	
Contract cost incurred upto	161	584	820

At the end of year II, cost incurred includes Rs. 10 crore, for material stored at the sites to be used in year III to complete the project.

State the amount of revenue, expenses and profit to be recognized in the Statement of Profit and Loss in these three years.

Solution :

Statement showing analysis of the contract details

(Rs.in crore)

		Year I	Year II	Year III
(a)	Initial revenue agreed	900	900	900
(b)	Increase in contract revenue	-	20	20
(c)	Total Contract Value	900	920	920
(d)	Contract cost incurred upto the date of reporting	161	574 (excluding Rs. 10* crore of material stored)	820
(e)	Estimated cost to complete	644	246	
(f)	Total estimated contract	805	820(805+15)	820
(g)	Stage of Completion [(d/f) x 100)]	20% (161/805 x 100)	70% (574/820 x 100)	100% (820/820 x 100)

* Note: 10 crore, for material stored at the sites to be used in its 1st year. i.e. in IInd year it is already included so it will be deducted in II year only.

Statement showing amount of revenue, expenses and profit to be recognized in the Statement of Profit and Loss in three years

(Rs.in crore)

	Upto reporting date	Recognised in the prior year	Recognized in the current year
Year I			
Revenue (900 x 20/100)	180	-	180
Expenses	161	-	161
Profit	19	-	19

Year II			
Revenue (920 x 70/100)	644	180	464
Expenses (820 x 70/100)	574	161	413
Profit	70	19	51
Year III			
Revenue	920	644	276
Expenses	820	574	246
Profit	100	70	30

Question 16 : Jan 2025 – RTP

Rose Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2024 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2024:

Cost incurred upto 31.03.2024	Rs. 4 crore
Cost estimated to complete the contract	Rs. 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.

You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

Solution :

	Rs. in crore
Cost of construction of bridge incurred upto 31.3.2024	4
Add: Estimated future cost	6
Total estimated cost of construction	10
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10)×100 = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2024 as per AS 7:

Proportion of total contract value recognized as revenue

= Contract price x percentage of completion

= Rs. 12.60 crore x 40% = Rs. 5.04 crore

Profit for the year ended 31st March, 2024 = Rs. 5.04 crore – Rs. 4 crore = 1.04 crore.

Question 17 : May 2025 – RTP

(i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. Rs. 50 Lakh Rs. 60 Lakh and Rs. 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS- 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

(ii) On 1st December, 2023, GR Construction Co. Ltd. undertook a contract to construct a building for Rs. 45 lakhs. On 31st March, 2024, the company found that it had already spent Rs. 32.50 lakhs on the construction. Additional cost of completion is estimated at Rs. 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2024 as per provisions of AS-7?

Solution :

(i) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

Therefore, AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	Rs. in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction
= (32.50/47.60) × 100 = 68.28%
Proportion of total contract value recognised as revenue for the year ended 31st March, 2024 per AS 7 (Revised)
= Contract price x percentage of completion
= Rs. 45 lakh x 68.28% = Rs. 30.73 lakhs.

	Rs. in lakhs
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

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

Question 18 : Sept 2025 – RTP

A company took a construction contract for Rs. 100 lakhs in January, 2024. It was found that 80% of the contract was completed at a cost of Rs. 92 lakhs on the closing date i.e. on 31.3.2025. The company estimates further expenditure of Rs. 23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2025?

Solution :

As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work

has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.
Hence, the company must recognize the loss immediately.

Question 19 : Jan 2026 – RTP

A construction contractor has entered into a fixed-price contract of Rs. 18,000 lacs to construct a bridge within a three-year time frame. The contract specifies the total contract price and includes provisions for variations in work, which may affect revenue and costs during the contract period. The contractor maintains detailed records of costs incurred and estimates of profit to be recognized each year.
A summary of the financial data for the contract is as follows (amounts in Rs. lacs):

	(Amount Rs. in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	18,000	18,000	18,000
Variation in Revenue (+)		400	400
Contracts costs incurred up to the reporting date	4,186	12,336*	16,200**
Estimated profit for whole contract	1,900	2,000	2,000

*includes Rs.200 lacs for standard materials stored at the site to be used in year 3 to complete the work.
**Excludes Rs.200 lacs for standard material brought forward from year 2.
The variation in cost and revenue in year 2 has been approved by customer.
Using the provisions of Accounting Standard (AS) 7 Construction Contracts (Revised), compute the following year-wise:

1. Revenue to be recognized in the Statement of Profit and Loss.
2. Expenses to be recognized in the Statement of Profit and Loss.
3. Contract costs to complete the remaining work.
4. Profit or loss to be recognized each year.

Solution :

Computation of amounts of revenue, expenses & profit recognized in three years :

Year	Particulars	Up to the reporting date	Recognized in previous years	Recognized in current year
1	Revenue (18,000*26%)	4,680		4,680
	Expenses (16,100*26%)	4,186		4,186
	Profit	494		494
2	Revenue (18,400*74%)	13,616	4,680	8,936
	Expenses (16,400*74%)	12,136	4,186	7950
	Profit	1,480	494	986
3	Revenue (18,400*100%)	18,400	13,616	4,784

	Expenses (16,400*100%)	16,400	12,136	4,264
	Profit	2,000	1,480	520

Working Note :

Particulars	Year 1	Year 2	Year 3
Revenue after consider variations	18,000	18,400	18,400
Less: Estimated profit for whole contract	1,900	2,000	2,000
Estimated total cost of the contract (A)	16,100	16,400	16,400
Actual cost incurred upto the reporting date (B)	4,186	12,136 (12,336-200)	16,400 (16,200+200)
Degree of completion (B/A)	26%	74%	100%

Thanks ....

CHAPTER

10

AS 9 – REVENUE RECOGNITION

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Question 1 : May 2019 – RTP

Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing Rs. 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of Rs. 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth Rs. 15,00,000 ready for dispatch. Raj Ltd. accounted Rs. 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

Solution :

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of Rs. 30,00,000 (Rs. 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

Question 2 : May 2019 – Paper

Given below are the following informations of B.S. Ltd.

(i) Goods of Rs.50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.

(ii) On 13-01-2018 goods of Rs.1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.

(iii) Rs.1,00,000 worth of goods were sold on approval basis on 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS - 9.

Solution :

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of Rs.50,000 for the year ended 31st March, 2018.

Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to a third party. 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs.1,00,000 (80% of Rs.1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs.1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs.2,50,000 (50,000 + 1,00,000+ 1,00,000) will be recognized for the year ended 31st March, 2018 in the books of B.S. Ltd.

Question 3 : Nov 2019 – RTP

The Board of Directors decided on 31.3.2019 to increase the sale price of certain items retrospectively from 1st January, 2019. In view of this price revision with effect from 1st January 2019, the company has to receive Rs.15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. Accountant cannot make up his mind whether to include Rs.15 lakhs in the sales for 2018-2019. Advise.

Solution :

Price revision was effected during the current accounting period 2018-2019. As a result, the company stands to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. If the company is able to assess the ultimate collection with reasonable

certainty, then additional revenue arising out of the said price revision may be recognised in 2018-2019 vide para 10 of AS 9.

Question 4 : Nov 2019 – Paper / May 2022 – RTP / Nov 2022 – Paper

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

(i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.
(ii) Instalment Sales.
(iii) Trade discounts and volume rebates.
(iv) Insurance agency commission for rendering services.
(v) Advertising commission.

Solution :

(i) Delivery is delayed at buyer's request and buyer takes title and accepts billing: Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

(ii) Instalment sales: When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

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

(iv) Insurance agency commissions for rendering services: Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(v) Advertising commission: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

Question 5 : May 2020 – RTP / Nov 2020 – RTP / Dec 2021 – Paper / May 2023 – Paper

Given the following information of Rainbow Ltd. :

(i) On 15th November, goods worth Rs.5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.
(ii) On 31st March, goods worth Rs.2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.
(iii) Rainbow Ltd. supplied goods worth Rs.6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
(iv) Dew Ltd. used certain assets of Rainbow Ltd. Rainbow Ltd. received Rs.7.5 lakhs and Rs.12 lakhs as interest and royalties respectively from Dew Ltd. during the year 2020-21.

(v) On 25th December goods of Rs.4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

Solution :

(i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of Rs. 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.

(v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 2,40,000 (60% of Rs. 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Question 6 : May 2021 – RTP

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

(i) On 31st December, 2019 shoes worth Rs. 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2020.

(ii) On 10th January, 2020, Tonk Tanner supplied shoes worth Rs. 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April. 2020.

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

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

Solution :

(i) Shoes sent to Mohan Shoes (consignee) for consignment sale

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2019-2020, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for Rs. 3,20,000 x 75% = Rs. 2,40,000.

(ii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2019-2020. Hence, sale of Rs. 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) Delivery is delayed at buyer's request

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

Question 7 : July 2021 – Paper

A Limited sells goods with unlimited right of return from its customers.

The following pattern has been observed in the Return of Sales:

Time frame of Return from date of purchase	% of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of Rs. 36 Lakhs in the month of January, Rs. 48 Lakhs in the month of February and of Rs. 60 Lakhs in the month of March. The Total Sales for the Financial Year have been Rs. 400 Lakhs and the Cost of Sales was Rs. 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.

Solution :

Amount of provision

The goods are sold with a right to return. The existence of such right gives rise to a present obligation on the company as per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. According to the standard, a provision should be created on the Balance sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

Sales during	Sales value (Rs. in lacs)	Sales value (cumulative) Rs. (in lacs)	Likely returns (%)	Likely returns Rs. (in lacs)	Provision @ 20% (Rs. in lacs) (Refer W.N.)
March	60	60	6%	3.60	0.720
February	48	108	7%	7.56	1.512
January	36	144	8%	11.52	2.304
Total				22.68	4.536

Revenue to be recognized

Revenue in respect of sale of goods is recognized fully at the time of sale itself assuming that the company has complied with the conditions stated in AS 9 relating to recognition of revenue in the case of sale of goods. As per AS 9, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

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

(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experiences.

Therefore, sale of Rs. 36 lakhs, Rs. 48 lakhs and Rs. 60 lakhs made in the months of January, February and March will be recognized at full value. Thus, total revenue to be recognized for Rs. 400 lacs for the year.

Working Note:

Calculation of Profit % on sales

	(Rs. in lacs)
Sales for the year	400
Less: Cost of sales	(320)
Profit	80
Profit mark up on sales (80/400) x 100 = 20%	

Question 8 : Nov 2021 – RTP

How will you recognize revenue in the following cases:

1. Installation Fees;
2. Advertising and insurance agency commissions;
3. Subscriptions for publications.

Solution :

Installation Fees: In cases where installation fees are other than incidental to the sale of a product, they should be recognized as revenue only when the equipment is installed and accepted by the customer.

Advertising and insurance agency commissions: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed. Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

Subscription for publications: Revenue received or billed should be deferred and recognized either on a straight-line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.

Question 9 : Nov 2021 – RTP

Shipra Ltd., has been successful jewellers for the past 100 years and sales are against cash only (returns are negligible). The company also diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales is that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy, with reference to AS 9.

Solution :

As per AS 9 "Revenue recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

Effect of Uncertainty- In the case of the jewellery business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Industry, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewellery and Apparels business.

Question 10 : May 2022 – RTP

An infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Financial Officer of the company wants to account/recognize license fee as income for 12 months during current year and variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is correct or not.

Solution :

AS 9 on Revenue Recognition, is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. However, when uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition. Further, as per accrual concept, revenue should be recognized as and when it is accrued i.e. recorded in the financial statements of the periods to which they relate. In the present case, monthly rental towards license fee and variable license fee as a percentage on the turnover of the tenant (though on annual basis) is the income related to common financial year.

Therefore, recognizing the fee as revenue cannot be deferred simply because the invoice is raised in subsequent period. Hence it should be recognized in the financial year of accrual. Therefore, the contention of the Chief Financial Officer is not in accordance with AS 9.

Question 11 : Nov 2022 – RTP

When revenue will be recognized in the following situation:

(i) Where the purchaser makes a series of installment payments to the seller and the seller deliver the goods only when the final payment is received.

(ii) Where seller concurrently agrees to repurchase the same goods at a later date.

(iii) Where goods are sold to distributors, dealers or others for resale.

(iv) Commissions on service rendered as agent on insurance business.

Solution :

(i) Revenue from sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received, should not be recognised until goods are delivered. However, when experience indicates that most such sales have been consummated, revenue may be recognised when a significant deposit is received.

(ii) For sale where seller concurrently agrees to repurchase the same goods at a later date, such transactions are in substance a financing agreement. In such a situation, the resulting cash inflow should not be recognised as revenue.

(iii) Revenue from sales of goods to distributors, dealers or others for resale can generally be recognised if significant risks of ownership have passed. However, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(iv) Commissions on service rendered as agent on insurance business should be recognised as revenue when the service is completed. Insurance agency commissions should be recognised on the effective commencement or renewal dates of the related policies.

Question 12 : May 2023 – RTP

PQR Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2021-22 the company wants to recognize the entire interest receivable. Do you agree?

Solution :

As per AS 9 'Revenue Recognition', where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments.

Thus, PQR Ltd. cannot recognise the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstanding is also an estimate based on previous record and is not certain. Hence, the company is advised to recognise interest receivable only on receipt basis.

Question 13 : Nov 2023 – RTP

Given below are the following information of B.S. Ltd.

(i) Goods of Rs. 50,000 were sold on 18-03-2023 but at the request of the buyer these were delivered on 15-04-2023.

(ii) On 13-01-2023 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.

(iii) Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2023 in above cases in the context of AS-9.

Solution :

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of Rs. 50,000 for the year ended 31st March, 2023.

Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to a third party.20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,00,000 (80% of Rs. 1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 1,00,000 as the time period for rejecting the goods had expired.

Question 14 : May 2024 – RTP

Following information of BS Products Ltd. is given:

(i) Goods of Rs. 2,00,000 sold to Den Ltd. on 20-03-2023 but at the request of the buyer these were delivered on 10-04-2023. ·

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

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

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

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

Solution :

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

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

Case (ii)

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

Case (iii)

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

Case (iv)

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

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

Question 15 : Sept 2024 – RTP

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for Rs. 45,000 each which includes installation fees of Rs. 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered Rs. 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

(a) How much revenue should be recognised by the Company as on March 31, 2024:

(i) Rs. 2,25,000 (ii) Rs. 2,17,500

(iii) Rs. 2,00,000 (iv) Rs. 2,30,000

(b) How much revenue should be recognised by the Company in the financial year 2024-25:

(i) Rs. 5000 (ii) Rs. 2,20,000

(iii) Rs. 10,000 (iv) Rs. 2,40,000

(c) What will be the accounting for trade discount:

(i) The same will be recognised separately in the profit and loss.

(ii) The trade discounts are deducted in determining the revenue.

(iii) Trade discount will be recognised after one year, when the warranty will be over.

(iv) Trade discount will be recognised after installation is complete.

(d) Is the Company required to do any accounting for 1 year warranty provided by it:

(i) No accounting treatment is required till some warranty claim is actually received by the Company.

(ii) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

(iii) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.

(iv) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

Solution :

(a) ii (b) i (c) ii (d) ii

Question 16 : Sept 2024 – RTP

When will the revenue be recognized in the case of inter divisional transfers?

Solution :

The Accounting Standard Board of ICAI has come up with an announcement in the earlier years wherein it clarified that the inter-divisional transfers/sales are not revenue as per AS 9 "Revenue Recognition". According to it, in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole.

Therefore, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers. Hence, no revenue is recognized in the case of inter-divisional transfers.

Question 17 : Jan 2025 – RTP

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

Solution :

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

Journal Entries in the books of Mithya Ltd.

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

Question 18 : May 2025 – RTP

Given below are the following informations of B.S. Ltd.

(i) Goods of Rs. 50,000 were sold on 18-03-2024 but at the request of the buyer these were delivered on 15-04-2024.

(ii) On 13-01-2024 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2024.

(iii) Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2023. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2024 and no approval or disapproval received for the remaining goods till 31-03-2024.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2024 in above cases in the context of AS-9.

Solution :

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of Rs. 50,000 for the year ended 31st March, 2024.

Case (ii): In case of consignment sale revenue should not be recognized until the goods are sold to a third party.20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,00,000 (80% of Rs. 1,25,000).

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 1,00,000 as the time period for rejecting the goods had expired.

Thus, total revenue amounting Rs. 2,50,000 (50,000 + 1,00,000 + 1,00,000) will be recognized for the year ended 31st March, 2024 in the books of B.S. Ltd.

Question 19 : Sept 2025 – RTP

Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2024-25:

(i) On 31st December, 2024 shoes worth Rs. 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2025.

(ii) On 10th January, 2025, Tonk Tanner supplied shoes worth Rs. 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April 2025.

(iii) On 21st March, 2025 shoes worth Rs. 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2025.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2024 -25 in above cases in the context of AS 9.

Solution :

(i) Shoes sent to Mohan Shoes (consignee) for consignment sale

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the

time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2024-25, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for Rs. 3,20,000 x 75% = Rs. 2,40,000.

(ii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2024-25. Hence, sale of Rs. 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) Delivery is delayed at buyer's request

On 21st March, 2025, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2024-25 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

Question 20 : Sept 2025 – Paper

Discuss whether the below treatment is as per relevant Accounting Standard.

(i) AB Limited purchase goods on credit from XY Limited for Rs.150 lakhs for export. The export order of AB Limited was cancelled. AB Limited decided to sell the same goods in the local market with a price discount. XY Limited was requested to offer a price discount of 12%, which was accepted by XY Limited. The chief accountant of XY Limited wants to adjust the sales figure to the extent of the discount requested by AB Limited.

(ii) XY Limited has recognized dividend income of Rs.10 lakhs on accrual basis on securities of face value of Rs.100 lakhs held by it at the end of the financial year 31st March 2025. The dividend on securities was declared at the rate of 10% on 30th April 2025. The dividend was proposed on 30th March, 2025.

(iii) XY Limited sold goods of Rs.1,50,000 on approval basis on 15th December 2024. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 60% goods upto 31st January 2025 and no approval or disapproval received for the remaining goods until 31st March, 2025. Accountant of XY Limited recognised Rs.1,50,000 as revenue on 15th December, 2024.

(iv) In the year 2024-2025, XY Limited supplied goods of Rs.80,000 on consignment basis to ABC (a retail outlet). ABC sold goods worth Rs.60,000 during the year and rest of the goods are still lying in its store. XY Limited recognizes Rs.60,000 revenue in its books for the year 2024-2025.

Solution :

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

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

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

(i) Trade discounts given should be deducted in determining revenue. Thus 12% should be deducted from the amount of turnover for the purpose of recognition of revenue.
The adjustment of sale figure to the extent of discount is correct as per AS 9 'Revenue Recognition'.

(ii) Dividends from investments in securities are not recognized in the statement of profit and loss until a right to receive payment is established. In the given situation, the dividend is proposed on 30th March, 2025, while it is declared on 30th April, 2025. Thus, the right to receive the payment of dividend gets established on 30th April, 2025.
The recognition of Rs. 10 lakhs on accrual basis in the end of the financial year 31st March, 2025 is not correct as per AS 9 'Revenue Recognition'.

(iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed.
Therefore, revenue should be recognized for the Rs. 90,000 upon receipt of approval on 31st January, 2025 and for the balance Rs. 60,000 on
15th March, 2025 as the time period for rejecting the goods had expired.

(iv) 20,000 goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 60,000. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.
The recognition of Rs. 60,000 revenues in the book for the year 2024-25 is correct as per AS 9 'Revenue Recognition'.

Question 21 : Jan 2026 – RTP

Class Ltd. is a well-established real-estate developer and builder engaged in residential and commercial projects. In the financial year 2025, the company purchased a unit of land situated in a prime location for Rs. 225 crore, intending to develop a high-end residential complex. Within a few months of acquisition, due to a strategic decision to reallocate resources to another project and take advantage of favorable market conditions, Class Ltd. sold the land at a price of Rs. 360 crore. The company maintained proper books of accounts, and all legal formalities for the transfer were duly completed.
Advise Class Ltd. on the recognition of revenue from this transaction in the final statement of accounts for the year ended 31st March, 2025.

Solution :

AS 9 on 'Revenue Recognition' states that revenue is recognised when it is earned and there is reasonable certainty of its collection, arising from the ordinary activities of an enterprise.
In this case, Class Ltd. is in the business of buying and selling properties. The land purchased and sold forms part of its inventory. The sale of land at Rs. 360 crore is a transaction arising from ordinary activities of the company. Therefore, the revenue is recognised when the sale is completed and collection is reasonably certain.
In the light of AS 5, this transaction will not be treated as an extraordinary item, because it arises from the ordinary course of business. However, if the amount is of such size, nature, or incidence

that its disclosure is relevant to explain the performance of the enterprise, the nature and amount of such items should be disclosed separately.
Hence, Rs. 360 crore realised from the sale of land shall be recognised as revenue in the year in which the sale is completed.

Thanks ....



CHAPTER

11

AS 10 – PROPERTY PLANT & EQUIPMENT

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Question 1 : May 2018 – RTP

In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for Rs.90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows :

Component	Useful life (Years)	Cost
Land	Infinite	Rs.20,00,000
Roof	25	Rs.10,00,000
Lifts	20	Rs.5,00,000
Fixtures	10	Rs.5,00,000
Remainder of building	50	Rs.50,00,000
		Rs.90,00,000

You are required to calculate depreciation for the year 2016-17 as per componentization method.

Solution :

As per AS 10 "Property, Plant & Equipment"

Statement showing depreciation as per Componentization Method

Component	Cost	Life	Depreciation
Land	20,00,000	Infinite	Nil
Roof	10,00,000	25	40,000
Lifts	5,00,000	20	25,000
Fixtures	5,00,000	10	50,000
Remainder of Building	50,00,000	50	1,00,000
			2,15,000

Question 2 : Nov 2018 – Paper

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening Rs.7,50,000

Construction and remodelling cost of restaurant Rs.30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

Solution :

As per AS 10 "Property, Plant & Equipment".

Any cost directly attributable to bring an asset to its location and condition necessary for it being capable of being in use in intended manner should be capitalised.

1) Cost of construction and remodeling should be capitalised. The restaurant cannot be opened and cannot function in intended manner
2) Cost of salaries to staff amounting to Rs.7,50,000 cannot be capitalised. They are operating expenses and will be required even after asset is put to use.

Question 3 : Nov 2019 – RTP / Nov 2020 - RTP

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs.1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs.45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs.49,500 per month after adding 10% profit margin.

The machine was purchased at Rs.1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs.55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs.30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

Solution :

As per AS 10 "Property, Plant & Equipment", PPE should be initially measured "it cost"

Cost of Asset

Particulars	Rs.
Purchase price (1,58,34,000 × 100/112)	1,41,37,500
Site prepared cost	1,41,870
Technician salary (45,000 × 3)	1,35,000
Initial delivery cost	55,770
Architect fees	30,000

Total Cost of Asset	1,45,00,140

Question 4 : May 2020 – RTP

Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

Solution :

As per AS 10 "Property, Plant & Equipment".

PPE should be depreciated from the date it is ready for intended use. Depreciation should cease the day the asset is derecognised.

Thus the policy of company is not acceptable. They should charge depreciation from the date asset is put to use. Also depreciation should cease or date of derecognition.

Question 5 : May 2020 – RTP

Entity A purchased an asset on 1st January 2016 for Rs.1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

Solution :

As per AS 10 "Property, Plant & Equipment". Entity should reestimate the estimated scrap value and estimated life at the end of each financial year. Any change in depreciation should be accounted for AS change in accounting estimate.

Accordingly,

	2016	2017	2018	2019	2020
Cost/Carrying Amt.	1,00,000	90,000	80,000	70,000	60,000
Life	10	9	8	7	4
Depreciation	10,000	10,000	10,000	10,000	15,000
Carrying Amt.	90,000	80,000	70,000	60,000	45,000

Question 6 : May 2020 – RTP

The following items are given to you:

ITEMS

(1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

(4) Costs of opening a new facility or business, such as, inauguration costs;

(5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE.

Solution :

(1) Cost of testing to checking the functioning of asset. After deducting the net proceeds from selling the items produced during testing is "direct cost attributable to asset" to bring the asset to its current location and condition.

(2) Cost of conducting business in new location or with new class of customer is not directly attributable to asset and therefore it cannot be capitalised.
∴It should not be included in determining the carrying amount of PPE.

(3) Any costs directly attributable to brining the asset to the location and condition necessary for it to be capable of operating in manner intended by management should be classified as "direct cost attributable to asset."

(4) Cost of opening new facility or business such as inauguration cost "should not be included in carrying amount of PPE".

(5) Purchase price including import duties and non-refundable purchase taxes after deducting trade discount and rebates should be included in "purchase price of PPE".

Question 7 : Nov 2020 – Paper

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

1. Machinery purchased for Rs 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is Rs 10 lakhs.
2. Land for Rs 50 lakhs
3. A machinery is constructed for Rs 5,00,000 for its own use (useful life 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.
4. Machinery purchased on 1st April, 2017 for Rs 50,000 with useful life of 5 years and residual value is Nil. On 1st April, 2019 management decided to use this asset for further 2 years only.

Solution :

Depreciation as per AS 10 "Property, Plant & Equipment would be

(1) Machinery purchased on 1/4/15 for Rs.10 lakhs

Depreciation = $\frac{10-10}{5}$ = Nil

Note : Since scrap value is equal to cost of asset depreciation would be Nil.

(2) Land for Rs.50 lakhs

Deprecation = Nil

Note : Land does not have finite life hence depreciation would be Nil.

(3) Machinery is constructed for 5,00,000

Depreciation = $\frac{5,00,000}{10} \times \frac{12}{12}$ = 50,000

Note : Depreciation should start from the date asset is ready for its intended use.

(4) Machinery purchased for Rs.50,000 on 1/4/17.

CA = 50,000 – $\frac{50,000}{5} \times 2$ = 30,000

Depreciation for 31/3/2020 = $\frac{30,000}{2}$ = 15,000

Note : Changes in estimated life should be treated as change in accounting estimated and effected prospectively.

Question 8 : May 2021 – RTP

You are required to give the correct accounting treatment for the following in line with provisions of AS 10:

(a) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (Rs. 18 lakhs), salaries of staff (Rs. 2 lakhs) who will be preparing the store before its opening and related utilities costs (Rs. 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?

(b) ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

Solution :

(A) As per AS 10 "Property, Plant & Equipment"

Cost of remodeling = Rs.18 lakhs – Capitalised

Cost of salaries = Rs.2 lakhs } Charged to

Utility cost = Rs.1.5 lakhs } P/L

Note : Cost incurred to bring the asset to its location and function intended by management should be capitalised.

(B) AS 10 states that asset should be recognised if

(a) it is probable that future economic benefit associated with the item will flow to the entity and

(b) the cost can be measured reliably.

In the given case, railway siding, road and bridge are required to facilitate the construction of refinery and its operations. Such cost are required to derive economic benefit from other assets and hence should be capitalised.

Question 9 : Nov 2021 – RTP

A property costing Rs. 10,00,000 is bought on 1.4.2020. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 25 years.
The estimated residual value in 25 years' time, based on current year prices, is:
Case (a) Rs. 10,00,000
Case (b) Rs. 9,00,000
You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

Solution :

Case A :
The company considers residual value, based on prices prevailing at balance sheet date which is Rs.10,00,000
Since it is equal to cost depreciation will be Nil.
Case B :
Residual value = 9,00,000
Depreciation amount = 10,00,000 – 9,00,000 = 1,00,000

Depreciation = $\frac{1,00,000}{25}$ = Rs.4,000/year.

Question 10 : May 2022 – RTP

A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs
8. Cost of site preparation.

Solution :

Included in Cost:
Point no. 1,2,3,5,8
Excluded from Cost:
Point no. 4,6,7

Question 11 : May 2022 – Paper

XYZ Limited provided you the following information for the year ended 31st March, 2022:-

(i) The carrying amount of a property at the end of the year amounted to Rs.2,16,000 (cost / value Rs.2,50,000 and accumulated depreciation Rs.34,000). On this date the property was revalued and was deemed to have a fair value of Rs.1,90,000. The balance on the revaluation surplus relating to a previous revaluation gain for this property was Rs.20,000.

You are required to calculate the revaluation loss as per AS-10 (Revised) and give its treatment in the books of accounts.

(ii) An asset that originally cost Rs.76,000 and had accumulated depreciation of Rs.62,000 was disposed of during the year for Rs.4,000 cash.
You are required to explain how the disposal should be accounted for in the financial statements as per AS-10 (Revised).

Solution :

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

Calculation of revaluation loss and its accounting treatment

		Rs.
Carrying value of the asset as on 31st March, 2022	a	2,16,000
Revalued amount of the asset	b	(1,90,000)
Total revaluation loss on asset	c = a - b	26,000
Adjustment of previous revaluation reserve	d	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e = c - d	6,000

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

Calculation of loss on disposal of the asset and its accounting treatment

		Rs.
Original cost of the asset	a	76,000
Accumulated depreciation till date	b	62,000
Carrying value of the asset as on 31st March, 2022	c = a – b	14,000
Cash received on disposal of the asset	d	4,000
Loss on disposal of asset charged to the Profit and loss account	e = c – d	10,000

Question 12 : Nov 2022 – RTP

RS Ltd. has acquired a heavy plant at a cost of Rs. 2,00,00,000. The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete (which was acquired at price of Rs. 50,00,000) and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is Rs. 60,00,000.

Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year?

Solution :

Recognition of Asset: The new boiler will produce economic benefits to RS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The cost old boiler should be de-recognized and the new boiler will be added .

Statement showing cost of new boiler and machine after year 2

Original cost of plant	Rs. 2,00,00,000
Less: Accumulated depreciation [(2,00,00,000 /10) x 2]	Rs. 40,00,000
Carrying value of the plant after two years	Rs. 1,60,00,000
Less: Current Cost of Old Boiler to be derecognized	
Less: WDV of Boiler (replaced) after 2 years	
(50,00,000/10 x 8)	40,00,000
	1,20,00,000
Add: Cost of new Boiler to be recognized	60,00,000
Revised carrying amount of Plant	1,80,00,000

Question 13 : May 2023 – RTP

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

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

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of Rs. 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

Solution :

Calculation of Cost of Plant

Particulars		**Rs.**
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200

Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000
Supervisor's Salary	25% of Rs. 26,000	6,500
Administrative costs	1/10 of Rs. 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		-40,000
Value to be capitalized		7,39,500

Note: Further Expenses of Rs. 8,900 from 15.1.2021 to 1.2.2021 to be charged to profit and loss A/c as plant was ready for production on 15.1.2021.

Question 14 : May 2023 – Paper

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1st April, 2022 is Rs.56,30,000.

On scrutiny, it was found that a purchase of Machinery worth Rs.21,12,000 was included in the purchase of goods/m 1st June, 2022.

On 30th June, 2022 the company disposed a Machine having book value of Rs.9,60,000 (as on 1st April, 2022) for Rs.8,25,000 in part exchange)bf a new machine costing Rs.15,65,000.

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

You are required to compute :

(i) Depreciation to be charged to Profit & Loss Account;

(ii) Book value of Plant & Machinery as on 31st March, 2023; and

(iii) Profit/Loss on exchange of Plant & Machinery.

Solution :

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

Particulars	Amount in Rs.
Depreciation on old Machinery [10% on Rs. 56,30,000 for 3 months (01.04.2022 to 30.06.2022)]	1,40,750
Add: Depreciation on Machinery acquired on 01.06.2022 (Rs.21,12,000 X 10% X10/12)	1,76,000
Add: Depreciation on Machinery after adjustment of Exchange [10% of Rs. 56,30,000 – 9,60,000 + 15,65,000) for 9 months]	4,67,625
Total Depreciation to be charged in Profit & Loss A/c	7,84,375

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

Particulars		Amount in Rs.
Balance as per books on 01.04.2022		56,30,000
Add: Included in purchases on 01.06.2022	21,12,000	

Add: Purchases on 30.06.2022	15,65,000	36,77,000
		93,07,000
Less: Book value of Machine sold on 30.06.2022		(9,60,000)
		83,47,000
Less: Depreciation on Machinery in use Rs. (7,84,375 - 24,000)		(7,60,375)
Book Value as on 31.03.2023		75,86,625

Note: The computation of depreciation and book value of Plant & Machinery can be presented in the following alternative manner:

Particulars	Book Value or Cost or Acquisition	Period	Depreciation	Book Value as on 31.03.2023
Opening Value	46,70,000 (56,30,000 – 9,60,000)	01.04.2022 to 31.03.2023	4,67,000 (46,70,000 x 10%)	42,03,000
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 x 10% x 3/12)	-
Purchases	21,12,000	01.06.2022 to 31.03.2023	1,76,000 (21,12,000 x 10% x 10/12)	19,36,000
New Machinery	15,65,000	01.07.2022 to 31.03.2023	1,17,375 (15,65,000 x 10% x 9/12)	14,47,625
Total			7,84,375	75,86,625

(iii) Profit/Loss on Exchange of Machinery

Particulars	Amount in Rs.
Balance as per books on 01.04.2022	9,60,000
Less: Depreciation for 3 months (Rs. 9,60,000 x 10 /100 x 3 / 12)	(24,000)
W.D.V. as on 30.06.2022	9,36,000
Less: Exchange value	(8,25,000)
Loss on Exchange of Machinery	1,11,000

Question 15 : Nov 2018 – RTP / May 2019 – RTP / July 2021 – Paper / Nov 2023 - RTP

A Ltd. is installing a new plant at its production facility. It has incurred these costs :

		Rs.
1	Cost of the plant (cost per supplier's invoice plus taxes)	25,00,000
2	Initial delivery and handling costs	2,00,000
3	Cost of site preparation	6,00,000
4	Consultants used for advice on the acquisition of the plant	7,00,000
5	Interest charges paid to supplier of plant for deferred credit	2,00,000

6	Estimated dismantling costs to be incurred after 7 years	3,00,000
7	Operating losses before commercial production	4,00,000

Advise A Ltd. on the costs that can be capitalized in accordance with AS 10.

Solution :

Costs which will be capitalized:

		Rs.
1	Cost of the plant	25,00,000
2	Initial delivery and handling costs	2,00,000
3	Cost of site preparation	6,00,000
4	Consultants' fees	7,00,000
5	Estimated dismantling costs to be incurred after 7 years	3,00,000
	Total	43,00,000

Note: Interest charges paid on to the supplier for deferred credit of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs. 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized.
They should be written off to the Profit and Loss in the period they are incurred.

Question 16 : Jan 2025 – RTP

MS Ltd. has acquired a heavy machinery at a cost of Rs. 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is Rs. 45,00,000. The discount rate assumed is 5%.
Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used?

Solution :

The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement Rs. 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

Statement showing cost of new turbine and machine after 6th year

			Rs.
Cost of machines recognized on purchase			1,00,00,000
Less: Depreciation charged for 6 years	[(1,00,00,000/ 10) x 6]		(60,00,000)
			40,00,000
Less: Current cost of turbine to be derecognized:			
Cost of Turbine before 6 years	[45,00,000 x {1 / $(1.05)^6$}]	33,57,900	
Less: Depreciation for 6 years	[(33,57,900 / 10) x 6]	(20,14,740)	(13,43,160)

Add: Cost of new turbine to be recognised			45,00,000
Revised carrying amount of machine			71,56,840

Question 17 : May 2025 – RTP

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

Solution :

Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		**Rs.**
Purchase Price	Given (Rs. 158,34,000 x 100/ 112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x 3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

Question 18 : May 2025 – Paper

Hardy Ltd. intends to extend the factory set up on the adjacent plot with disintegrated old premises. It acquired the land having an area of 250 hectares at a cost of Rs. 25,000 per hectare. Hardy Ltd. incurred Stamp duty and registration charges of 5% of land value. Legal fees were paid Rs. 4,75,000 for land acquisition.

Hardy Ltd. incurred Rs. 37,85,000 for demolishing old premises thereon. A sum of Rs. 12,60,000 (including 5% GST thereon) was realized from the sale of material salvaged from the site.

Till the new site with extended factory premises is ready, the company needs to move the present production facilities to another (temporary) site. The following incremental costs will be incurred.

(1) Set up costs of Rs. 7,50,000 to install machinery in the new location.

(2) Rent of Rs. 12,00,000.

(3) Removal costs of Rs. 2,50,000 to transport the machinery from the old location to the temporary location.

(i) Management is of the opinion that the cost of moving the production facilities to another temporary location can be capitalised.
You are required to advise.

(ii) You are also required to compute the cost of land acquired.

Solution :

(i) (i) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.

(ii) These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(iii) The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised)

(iv) Therefore, these costs cannot be capitalized.

(ii) Computation of cost of land

Particulars		**Rs.**	**Rs.**
Purchase Price	250 hectares x Rs. 25,000 per hectares		62,50,000
Stamp Duty and Registration Charges	5% of Rs. 62,50,000		3,12,500
Legal and Consultancy Fees			4,75,000
Demolition Expenses (Net of Salvage Income)	Rs. 12,60,000 x (100/105)	37,85,000 (12,00,000)	25,85,000
Cost of Land			96,22,500

Question 19 : May 2025 – Paper

A machine was acquired by Zest Ltd. on 01/04/2019 for Rs. 60 lakhs. It had a useful life of 6 years. The machine is depreciated on straight line basis and does not carry any residual value. On 01/04/2022, the carrying value of the machine was reassessed at Rs. 36 lakhs.

The surplus arising out of the revaluation being credited to revaluation reserve.

For the year ended March 2024, conditions indicating an impairment of the existed machine and the amount recoverable ascertained to be Rs. 9 lakhs.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Zest Ltd. The company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

Solution :

Statement Showing Impairment Loss

(Rs. in lakhs)	
Carrying amount of the machine as on 1st April, 2019	60
Depreciation for 3 years i.e. 2019-2020 to 2021-2022	

$\left[\frac{60 Lakh}{6 years} \times 3 years\right]$	(30)
Carrying amount as on 31.03.2022	30
Add: Upward Revaluation (credited to Revaluation Reserve account)	6
Carrying amount of the machine as on 1st April, 2022 (revalued)	36
Less: Depreciation for 2 years i.e. 2022-2023 & 2023-2024	
$\left[\frac{36 Lakh}{3 years} \times 2 years\right]$	(24)
Carrying amount as on 31.03.2024	12
Less: Recoverable amount	(9)
Impairment loss	3
Less: Balance in revaluation reserve as on 31.03.2024: 6	
Less: Enhanced depreciation met from revaluation reserve	
2022-2023 & 2023-2024 = [(12 – 10) x 2 years] (4)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"	(2)
Impairment Loss to be debited to profit and loss account	1

Question 20 : Sept 2025 – RTP

Precision Tools Ltd. provides the following details related to its fixed assets for the year ended 31st March 2025:

The company purchased a machine for Rs. 12,00,000 on 1st October 2024. The following expenses were also incurred:

Freight and insurance: Rs. 60,000

Erection charges: Rs. 40,000

Testing Cost: Raw materials used Rs. 25,000, Wages Rs.10,000, Sale of finished goods from testing production Rs. 8,000.

On 1st December 2024, it replaced the motor of an old machine with a new one costing Rs.1,20,000, improving the output capacity by 15%. The old motor had a Cost of Rs.50,000 and Accumulated Depreciation of Rs. 35,000.

On 15th March 2025, the company shifted a machine from one factory to another. It incurred the following:

Dismantling cost: Rs.12,000

Transport and installation: Rs.18,000

Loss due to damage in transit: Rs.6,000

You are required to calculate the amount to be capitalized for each of the above cases as per AS 10.

Solution :

As per AS 10, Property, Plant and Equipment, the cost of an item of PPE includes:

(a) Purchase price including import duties and non-refundable taxes,

(b) Directly attributable costs to bring the asset to working condition (e.g., transport, installation, trial run),

(c) Any trial run net costs (i.e., cost – recoverable proceeds).

Particulars	Amount (Rs.)
Purchase Price	12,00,000
Freight & Insurance	60,000
Erection Charges	40,000
Net Cost of Testing (25,000 + 10,000 – 8,000)	27,000
Cost of Machinery	13,27,000

Recognition of Motors Replacement

Particulars	Rs.
Cost of Motors	50,000
Less: Depreciation	35,000
Carrying Amount of Motors	**15,000**

Accounting: The company should derecognize the existing Carrying Amount of Motors replaced of Rs. 15,000. Further, the acquisition cost of new motors of Rs. 1,20,000 would be capitalized as a separate component.

Costs of relocating or reorganising part or all of the operations of an enterprise are not included in the carrying amount of an item of PPE. Hence Costs of relocation of Rs. 36,000 (12,000 +18,000 +6,000) of PPE are not capitalized. Thus, entire expense to be charged off to Profit and Loss A/c.

Thus, total capitalization (net off derecognition) = 14,32,000 (13,27,2000 +1,20,000-15,000).

Question 21 : Jan 2026 – RTP

Zenith Ltd., a medium-sized manufacturing company engaged in the production of precision industrial components, has provided the following details of its fixed assets. You are required to calculate depreciation for each asset for the year ended 31st March, 2025, in accordance with the provisions of AS 10 (Revised) – Property, Plant and Equipment.

(i) Machinery was purchased on 1st April, 2020 for Rs. 10 lakhs. The management estimated its useful life at 5 years, and the residual value at the end of its useful life, based on 2020 prices, is Rs. 10 lakhs.

(ii) The company owns a piece of land acquired for Rs. 50 lakhs, which is being held for use in its factory operations.

(iii) Zenith Ltd. constructed a machine for its own use at a total cost of Rs. 5,00,000. The construction was completed on 1st April, 2024. The machine has a useful life of 10 years; however, the company did not commence using the machine until 31st March, 2025.

(iv) Another machine was purchased on 1st April, 2022, for Rs. 50,000, having a useful life of 5 years and nil residual value. Subsequently, on April 1, 2024, the management decided that the machine would now be used for only two more years.

Solution :

Computation of amount of depreciation as per AS 10

		Rs.
(i)	Machinery purchased on 1/4/20 for Rs. 10 lakhs	Nil

	(having residual value of Rs. 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (Rs. 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2024. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having a revised useful life Reason: The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e (50,000/5 years). On 1st April,2024 the asset's net book value is [50,000 – (10,000 x 2)] i.e. Rs. 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at Rs. 15,000 per annum i.e. (30,000 / 2 years).	15,000

Thanks ....

CHAPTER

12

AS 11 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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Question 1 : May 2018 – Paper

ABC Ltd. borrowed US $ 5,00,000 on 01/01/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

1/1/2017	1 US$ =	Rs.68.50
31/03/2017	1 US $ =	Rs.69.50
31/07/2017	1 US $ =	Rs.70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Journal

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2017	Bank Account	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
	(5,00,000 x 68.50)			
Mar. 31, 2017	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account			5,00,000
	[5,00,000 x (69.50-68.50)]			
Jul. 31, 2017	Foreign Exchange Difference Account	Dr.	2,50,000	
	To Foreign Loan Account			2,50,000
	[5,00,000 x (70-69.5)]			
Jul. 31, 2017	Foreign Loan Account	Dr.	3,50,00,000	
	To Bank Account			3,50,00,000
	(5,00,000 × 70)			

Question 2 : May 2018 – RTP / Nov 2018 – RTP / Nov 2018 – Paper / Nov 2020 – RTP / Nov 2021 - RTP

AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 5 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs.62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 Rs.60.75 per dollar
On 31st March, 2018 Rs.63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Forward contract rate	Rs./$ 62.50
Spot Rate	Rs./$ 60.75
Loss on forward contract	Rs./$ .1.75
Amount payable	$ 5,00,000
Contract period	5 months
Period till 31/3	3 months

Amount to be recognised in

P & L till 31/3 = $\frac{5,00,000 \times 1.75}{5} \times 3 = 5,25,000$

Question 3 : Nov 2018 – Paper / Nov 2019 – RTP / May 2021 – RTP / Dec 2021 – Paper / Nov 2023 - RTP

(i) Rs. 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh Rs.5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US $ 1= Rs.58.50. US $ 1 = Rs.61.20 on 31.3.2019.
Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

(ii) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @Rs.64.25 per Dollar. On 31st October, 2018, the exchange rate was Rs.61.50 per Dollar.
You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019.

Solution :

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Initial recognition = $\frac{5,00,000}{58.50}$ =	$ 8,547
Exchange rate on 31/3/2019 = 8,547 × 61.20 =	Rs.5,23,077

Foreign exchange gain = 5,23,077 – 5,00,000 =		Rs.23,077
Trade Receivables A/c Dr. 23,077		
To Foreign Exchange gain	23,077	

(ii) **Similar to Question 1 – May – 2018 – RTP**

Question 4 : Jan 2021 – Paper

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020

(i) Debtors include amount due from Mr.S Rs.9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1 = Rs.72.00
US $ 1 = Rs.73.50 on 31st March, 2020
US $ 1 = Rs.72.50 on 1st April, 2019

(ii) Long term loan taken on 1st April, 2019 from a U.S. company amounting to Rs.75,00,000. Rs.5,00,000 was repaid on 31st December, 2019, recorded at US $ 1 = Rs.70.50. Interest had been paid as and when debited by the US company.
US $ 1 = Rs.73.50 on 31st March, 2020
US $ 1 = Rs.72.50 on 31st April, 2019

Solution :

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", monetary items should be recorded at closing rate at balance sheet date.
Accordingly,

Initial recognition = $\frac{9,00,000}{72}$ = $ 12,500

Rate on Balance sheet date = Rs.73.50

Exchange gain = 12,500 × 1.5 (73.50 – 72) = Rs.18,750

(ii)

Long term loan	1/4/19
Exchange Rate	Rs/$ 72.50
Rs. Amount	75,00,000
$ Amount $\frac{75,00,000}{72.50}$ =	$ 1,03,448.2758
Part payment	31/12/2019
Exchange rate	Rs/& 70.50
Rs. Amount	5,00,000
$ Amount = $\frac{5,00,000}{70.50}$ =	$ 7,092.19858
Exchange gain = 7,092.19858 × 2 (72.50 – 70.50)	Rs.14,184.40

Balance payable = 1,03,448.258 – 7,092.19858	$ 96,356.08
Balance sheet date	31/3/2020
Exchange rate	Rs.73.50
Rs. Amount = 96,356.08 × 73.50	70,82,172
Exchange loss = 70,82,172 – 70,00,000	82,172

Question 5 : May 2022 – RTP

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

31-12-2020	1 US $ = Rs. 44.00
31-03-2021	1 US $ = Rs. 44.50
30-06-2021	1 US $ = Rs. 44.75

(i) Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.

(ii) if borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US $ = Rs. 44.20 then what entry should be passed?

Solution :

(i) As per AS 11 'The Effect of Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2020 borrowings will be recorded at Rs. 1,32,00,000 (i.e., Rs. 3,00,000 × Rs. 44.00). On 31.3.2021 borrowings (monetary items) will be recorded at Rs. 1,33,50,000 (i.e. $ 3,00,000 × Rs. 44.50).

Journal of Kumar Ltd.

Date	Particular		Dr. (Rs.)	Cr. (Rs.)
31-12-2020	Bank A/c	Dr.	1,32,00,000	
	To Foreign Loan Account			1,32,00,000
31-03-2021	Foreign Exchange Difference Account A/c	Dr.	1,50,000	
	To Foreign Loan Account			1,50,000
30-06-2021	Foreign Loan Account A/c	Dr.	1,33,50,000	
	Foreign Exchange Difference Account A/c	Dr.	75,000	
	To Bank A/c			1,34,25,0000

(ii) In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

Date	Particular		Dr. (Rs.)	Cr. (Rs.)
28-02-2021	Foreign Loan Account A/c	Dr.	1,32,00,000	
	Foreign Exchange Difference Account A/c	Dr.	60,000	
	To Bank A/c			1,32,60,000

Working Notes:

(i) The exchange difference of Rs. 1,50,000 is arising because the transaction has been reported at different rate (Rs. 44.50 = 1 US $) from the rate initially recorded (i.e., Rs. 44 = 1 US $) from the rate initially recorded (i.e., Rs. 44 = 1 US $)

(ii) The exchange difference of Rs. 75,000 is arising because the transaction has been settled at an exchange rate (Rs. 44.75 = 1 US$) different from the rate at which reported in the last financial statements (Rs. 44.50 = 1 US$).

(iii) The exchange difference of Rs. 60,000 is arising because the transaction has been settled at a different rate (i.e., Rs. 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = Rs. 44.00)

Question 6 : Nov 2022 – RTP

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Solution :

As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e, Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (Rs. 48-Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

Question 7 : Nov 2022 - Paper

(i) Jared Limited purchased a Machine for US $ 20,000 on 31st December, 2021 payable after four months. It entered into a forward contact for four months @ Rs.78.85 per US $. On 31st December, 2021, the exchange rate was Rs.77.50 per US $.
How will you recognized the Profits or Loss on Forward Contact for the year ended 31st March, 2022 in the books of Jared Limited?

(ii) Trade Payables of Jared Limited includes amount due to Sterling Limited Rs.9,75,000 recorded at the prevailing exchange rate on the date of purchase; transaction recorded at US $ 1 = Rs.75.00 The exchange rate on Balance Sheet date (31st March, 2022) was US $ 1 = Rs.79.00. The payment was made on 1st May, 2022 when the exchange rate was US $ 1 = Rs.78.30

You are required to calculate the amount of exchange difference on 31st March, 2022 and 1st May, 2022 and also explain the accounting treatment needed in the above case as per AS ii in the books of Jared Limited.

Solution :

(i)

	Rs.
Forward Rate	78.85
Less: Spot Rate	(77.50)
Premium on Contract	1.35
Contract Amount	US$ 20,000
Total Loss (20,000 x 1.35)	Rs.27,000

Contract period 4 months (3 months falling in the year ended 31st March, 2022)
Loss to be recognized (Rs.27,000x 3/4) = Rs. 20,250 in the year ended 31st March, 2022.

(ii) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Trade payables	**Foreign Currency Rate**	**Amount Rs.**
Initial recognition US $13,000 (9,75,000/75)	1 US $ = Rs. 75	
Exchange Rate on Balance sheet date	1 US $ = Rs. 79	
Exchange Difference Loss US $ 13,000 X (79-75)		52,000
Exchange Rate on Settlement date	1 US $ = Rs. 78.30	
Exchange Difference Profit US $ 13,000x(79-78.30)		9,100

For the year ended 31st March, 2022 exchange difference loss amounting Rs. 52,000 will be charged to statement of Profit & Loss A/c.
However, there is exchange difference gain of Rs. 13,000 x (79-78.30) = 9,100 on 1st May, 2022. Thus gain of Rs. 9,100 will be credited to statement of Profit & Loss A/c for the year ended 31st March, 2023.

Question 8 : Sept 2024 – RTP

Alfa Ltd. purchased an item of property, plant and equipment for US $ 50 lakh on 01.04.2023 and the same was fully financed by the foreign currency loan [i.e. US $] repayment in five equal instalments annually. (Exchange rate at the time of purchase was 1 US $ = Rs. 60]. As on 31.03.2024 the first instalment was paid when 1 US $ fetched Rs. 62.00. The entire loss on exchange was included in cost of goods sold. Alfa Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss and its treatment and depreciation.

Solution :

Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Alfa Ltd. has exercised the option and it is long term foreign currency monetary item.

Thus, the entire exchange loss due to variation of Rs. 20 lakh on 31.03.2023 on payment of US $ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

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

Exchange loss on outstanding loan on 31.03.2024 = Rs. 40 lakh US $ x (62.00-60.00) = Rs. 80 lakh.

So, Rs. 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to Rs. 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by Rs. 100 lakh.

Total depreciation to be provided for the year 2023 - 2024 = 20% of (Rs. 3,000 Iakh + 100 lakh) = Rs. 620 lakh.

Question 9 : Jan 2025 – RTP

Bansal Company Ltd. imported raw material worth US Dollars 12,000 on 15th January, 2024 when the exchange rate was Rs. 68 per US Dollar. The payment for the transaction was made on 5th May, 2024 when exchange rate was Rs. 64 per US Dollar. At the year end, 31st March, 2024, the rate of exchange was Rs. 65 per US Dollar. The accountant of the company passed entry on 31st March, 2024 adjusting the cost of raw material consumed for the difference between Rs. 64 and Rs. 68 per US Dollar. Discuss whether this treatment is justified as per the provisions of AS-11 (Revised).

Solution :

As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', initial recognition of a foreign currency transaction is done in the reporting currency by applying the exchange rate at the date of the transaction. Accordingly, on 15th January, 2024, the raw material purchased and its creditors will be recorded at US dollar 12,000 × Rs. 68 = Rs. 8,16,000.

Also, on balance sheet date such transaction is reported at closing rate of exchange, hence it will be valued at the closing rate i.e. Rs. 65 per US dollar (USD 12,000 x Rs. 65 = Rs. 7,80,000) at 31st

March, 2024, irrespective of the payment made for the same subsequently at lower rate in the next financial year.
The difference of Rs. 3 (65 – 68) per US dollar i.e. Rs. 36,000 (USD 12,000 x Rs. 3) will be shown as an exchange gain in the profit and loss account for the year ended 31st March, 2024 and will not be adjusted against the cost of raw materials.
In the subsequent year on settlement date, the company would recognize or provide in the Profit and Loss account an exchange gain of Rs. 1 per US dollar, i.e. the difference from balance sheet date to the date of settlement between Rs. 65 and Rs. 64 per US dollar i.e. Rs. 12,000.
Hence, the accounting treatment adopted by the Accountant of the company is incorrect i.e. it is not in accordance with the provisions of AS 11.

Question 10 : May 2025 – RTP

Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2023, it borrowed US $1 million from International Funding Agency, USA when exchange rate was 1 $ = Rs. 63. The funds were used for acquiring machineries, on the same date, to be used in three different plants. The useful life of the machineries is 10 years and their residual value is Rs. 30,00,000.
Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.
Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2024 is 1 US $ = Rs. 62. Assume that on 31st March, 2024, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2023.
Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2024. If yes, then calculate the depreciation amount on machineries as on 31st March, 2024.

Solution :

As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.
Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount **Rs.**

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

Thanks ....

CHAPTER

13

AS 12 – ACCOUNTING FOR GOVERNMENT GRANTS

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Question 1 : May 2018 – RTP / Nov 2021 - RTP

D Ltd. acquired a machine on 01-04-2017 for Rs. 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	Rs.
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2017-18- to 2019-20 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

Solution :

From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the Rs. 16,00,000 that has been received, Rs. 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance Rs. 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of Rs. 12,00,000 had been debited to P & L A/c in the earlier years by way of depreciation charge, and Rs. 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

Question 2 : May 2018 – Paper / Nov 2020 - Paper

On 1st April, 2016, Mac Ltd. received a government grant of Rs 60 lakhs for acquisition of machinery costing Rs 300 lakhs. The grant was credited to the cost of the Asset. The estimated useful life of

the machinery is 10 years. The machinery is depreciated @10% on WDV basis. The company had to refund the grant in June 2019 due to non compliance of certain conditions.
How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for year 2019-20.
Pass necessary journal entries for the year 2019-20.

Solution :

As per AS 12 "Accounting for Government Grants",

		(Rs.in lakhs)
1.4.16	Cost of Machinery	300
	– Government grant	60
		240
	- Depreciation @ 10%	24
1.4.17	Carrying amount of asset	216
	– Depreciation @ 10%	21.6
1.4.18	Carrying amount of asset	194.40
	– Depreciation @ 10%	19.44
1.4.19	Carrying amount of asset	174.96
	– Depreciation @ 10% (2 months)	2.916
1.6.19	Carrying amount	172.044
	+ Refund of grant	60
	Carrying amount	232.44

Question 3 : Nov 2018 – RTP / May 2019 – RTP

Viva Ltd. received a specific grant of Rs.30 lakhs for acquiring the plant of Rs.150 lakhs during 2014-15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs.21 lakhs and written down value of plant was Rs.105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

Solution :

As per AS-12, 'Accounting for Government Grants', the amount refundable in respect of a government grant which was earlier credited to deferred income, should be debited to deferred income to be extend of outstanding balance and any excess should be debited to P & L A/c.
In this case grant refunded amounted Rs.30 lakh, Rs.21 lakh should be debited to deferred grand and balance 9 lakh should be debited to profit and loss A/c.

Amount refunded 30

21 — Dr. Deferred Income

9 — Dr. P & L A/c

Question 4 : Nov 2019 – RTP / Nov 2022 – RTP / Nov 2023 - RTP

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs. 80 crores in the eligible investments. The company is eligible for the subsidy and has received Rs. 20 crores from the government in February 2022. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

Solution :

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Question 5 : May 2020 – RTP / Nov 2020 – RTP / July 2021 – Paper / May 2022 - Paper

Suraj Limited provides you the following information :

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

(ii) It received a Capital Subsidy of Rs.150 Lakhs from Government for setting up a Plant costing Rs.300 Lakhs in a notified backward region.

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

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

(v) It also received a performance award of Rs.500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

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

Solution :

(i) As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of Rs. 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a

depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting Rs. 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

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

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

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

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

Question 6 : Jan 2021 - Paper

Darshan Ltd. purchased a Machinery on 1st April, 2016 for Rs.130 lakhs (Useful life is 4 years). Government grant received is s.40 lakhs for the purchase of above Machinery.
Salvage value at the end of useful life is estimated at Rs.60 lakhs.
Darshan Ltd. decides to treat the grant as deferred income.
You are required to calculate the amount of depreciation and grant to be recognised in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020.
Darshan Ltd. follows straight line method for charging depreciation.

Solution :

As per AS 12 "Accounting for Government Grants",

	Asset		Deferred Income
1/4/16	130		40
- Depreciation	17.5	- Amortisation	10
1/4/17	112.5		30
- Depreciation	17.5	- Amortisation	10
1/4/18	95		20

- Depreciation	17.5	- Amortisation	10
1/4/19	77.5		10
- Depreciation	17.5	- Amortisation	10
	60		Nil

* Depreciation = $\frac{130-60}{4}$ = 17.5/yr.

Deferred income amortised = $\frac{40}{4}$ = 10/yr.

Question 7 : May 2021 - RTP

(i) Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020.

The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

(ii) ABC Ltd. received two acres of land received for set up of plant. It also received Rs.2 lakhs received for purchase of machinery of Rs. 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

Solution :

(i) As per AS 12 "Accounting for Government Grants", grant received for asset can be

1) Shown as reduction to asset or
2) Credited to deferred income.

From the fact of case it is clear that grant was credited to asset. Due to non-compliance when grant was refunded asset was debited. In such cases as per "AS 12" the refund showed debited to asset and depreciation should be charged to revised value of asset as per change in accounting estimates with respective effect.

The treatment of entity to adjust deprecation retrospectively is wrong.

(ii) (a) A grant received in form of 2 acres of land is non monetary grant and showed be recorded at nominal value.

(b) Grant received for Rs.2 lakh for purchase of asset can be

i) Credited to cost of asset i.e. shown AS reduction to cost of asset
ii) Credited to deferred income.

Question 8 : May 2022 - RTP

A fixed asset is purchased for Rs. 30 lakhs. Government grant received towards it is Rs. 12 lakhs. Residual Value is Rs. 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs. 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year.

Solution :

Journal Entries

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)
2nd	Fixed Asset Account	Dr.	7.5	
	To Bank Account			7.5
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
	Depreciation Account (W.N.)	Dr.	5.5	
	To Fixed Asset Account			5.5
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	5.5	
	To Depreciation Account			5.5
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Note:

Depreciation for Year 2

	Rs. in lakhs
Cost of the Asset	30
Less: Government grant received	(12)
	18
Less: Depreciation for the first year [18-64]	3
	15
Add: Government grant refundable	7.5
	22.5
Depreciation for the second year [22.5-63]	5.5

Question 9 : May 2023 - RTP

Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2022. The company debited the said amount to its machinery account in 2022 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2022 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

Solution :

As per the facts of the case, Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

Question 10 : May 2023 - Paper

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

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

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

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

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

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

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

Solution :

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

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

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

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

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

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

NOTE: The answer can be presented in the following alternative manner:

Question 11 : Sept 2024 - RTP

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

State

(i) Is this a prior period item?

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

Solution :

(i) Whether a subsidy applied is to be classified as prior period item as per AS 5, depends upon whether the company has committed an error in 2023-2024 by not recognising the subsidy? The answer is in para 13 of AS 12 "Accounting for Government Grants" which permits recognition of grant only when there is reasonable assurance that -

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

(ii) the subsidy will be received.

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

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

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

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

Question 12 : May 2025 - RTP

XYZ Limited has set-up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs. 75 crore received Rs. 15

crore as subsidy from the Government in January 2024. The company wants to treat this receipt as an item of revenue and thereby reduce the losses for the year ended on 31st March, 2024.
Keeping in view the relevant Accounting Standard, examine whether this action is justified or not?

Solution :

As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.
In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus, it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to Capital Reserve. Therefore, the accounting treatment followed by the company is not proper.

Question 13 : Sept 2025 - RTP

Zenith Industries Ltd., a manufacturing company, is expanding its operations and has recently undertaken two major initiatives involving government assistance.

(i) The company received a sum of Rs. 65 lakhs from the local authority to develop medical facilities for its employees at its newly built township near the factory premises.

(ii) Additionally, it received Rs. 82 lakhs as a subsidy from the Central Government for establishing a new production unit in a notified backward area. This subsidy has been classified as one in the nature of promoters' contribution, intended to support the long-term development of the enterprise.

You are required to explain how the above transactions should be accounted for in the books of Zenith Industries Ltd. in accordance with Accounting Standard (AS) 12 "Government Grants".

Solution :

(i) In the books of Zenith Industries Ltd Rs. 65 lakhs received from the local authority for providing medical facilities to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, Rs. 65 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of Rs. 82 lakhs should be credited to capital reserve.

Question 14 : Jan 2026 - RTP

Mediwell Hospitals Ltd., a reputed healthcare company operating a chain of multi-specialty hospitals across India, had acquired 40 units of Doppler Scan Machines from Holiver Inc., USA, at a cost of US$ 1,65,100 per unit at the beginning of the financial year 2022-23. The prevailing exchange rate at that time was Rs. 50 per US$.

The acquisition was partly financed through a government grant amounting to Rs. 5 crores, which was sanctioned specifically for the purchase of these machines under a healthcare modernization scheme. The grant was sanctioned with a specific condition that, in the event of a change in management or ownership control of the company, the grant must be refunded to the government.

In April 2025, 51% of the company's shareholding was acquired by an overseas investor, thereby resulting in a change in management control. Consequently, the company became liable to refund the entire government grant.

The expected useful life of each Doppler scan machine is 5 years, and the company follows a Straight Line Method (SLM) of depreciation at 20% per annum. Additionally, Mediwell Hospitals Ltd. incurred the following directly attributable costs:

- Bank charges: US$ 4,000 (for the import transaction as a whole)
- Sea freight: Rs. 7,500 per unit

You are further informed that the company has not maintained any Capital Reserve or Deferred Income Account in respect of the government grant received.

You are required to advise the accounting treatment in the books of Mediwell Hospitals Ltd. as a result of the return of the government grant, in the light of the relevant provisions of Accounting Standard (AS) 12 – Accounting for Government Grants.

Solution :

The grant is received towards fixed asset. Capital approach is adopted.

Particulars	Rs. in lakhs
Cost of asset (Doppler machines) (1,65,100*40 @ 50)	3,302
Add: Freight and other charges (4,000 @ 50+7,500 x 40)	5
Less: Grants received	3,307
Cost as per AS-10	(500)
Less: Depreciation for 3 years(2,807 * 20% * 3)	2,807
Carrying amount as on 1/4/2025	(1684.2)
Add: Grant refunded	1,123
Revised carrying amount	500
	1,623

Thanks ....

CHAPTER

14

AS 13 – ACCOUNTING FOR INVESTMENTS

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Question 1 : May 2018 – RTP

Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of Rs.100 each of Pergot Ltd. on 1st May 2017 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ Rs.103 each on ex- interest basis. The market value of the debentures as at the close of the year was Rs.106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.

Solution :

Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date 2017	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.	Date 2017	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int.)		50,625	
Aug. 1	To Bank	2,50,000	11,250	2,45,000					
Oct.1	To P&L A/c			2,167	Oct.1	By Bank	2,00,000		2,06,000
Dec.31	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	**69,188**	**7,66,542**			**7,50,000**	**69,188**	**7,66,542**

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

Working Notes:

1. Interest paid on Rs.5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs.5,625
2. Interest received on 30th Sept. 2017
   On Rs.5,00,000 = 5,00,000 x 13.5% x $\frac{1}{2}$ = 33,750

On Rs.2,50,000 = 2,50,000 x 13.5% x $\frac{1}{2}$ = 16,875
Total Rs.50,625

3. Interest paid on Rs.2,50,000 purchased on Aug. 1st 2017 for April 2017 to July 2017 as part of purchase price:
2,50,000 × 13.5% × 4/12 = Rs.11,250

4. Loss on Sale of Debentures
Cost of acquisition
(Rs.5,19,375 + Rs.2,45,000) × Rs.2,00,000/Rs.7,50,000 = 2,03,833
Less: Sale Price (2,000 × 103) = 2,06,000
Profit on sale = Rs.2,167

5. Cost of Balance Debentures
(Rs.5,19,375 + Rs.2,45,000) × Rs.5,50,000/Rs.7,50,000 = Rs.5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)
Rs.5,50,000 × 13.5% × 3/12 = Rs.18,563

Question 2 : May 2018 – RTP / Nov 2018 – RTP / May 2021 – RTP

M/s Active Builders Ltd. invested in the shares of another company (with an intention to hold the shares for short term period)on 31st October, 2016 at a cost of Rs.4,50,000. It also earlier purchased Gold of Rs.5,00,000 and Silver of Rs.2,25,000 on 31st March, 2014.
Market values as on 31st March, 2017 of the above investments are as follows:
Shares Rs.3,75,000; Gold Rs.7,50,000 and Silver Rs.4,35,000
You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13?

Solution :

As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs.3,75,000 as on 31st March, 2017.
Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs.5,00,000 and Rs.2,25,000 respectively, though their realizable values have been increased.
Thus the shares, gold and silver will be shown at Rs.3,75,000, Rs.5,00,000 and Rs.2,25,000 respectively and hence, total investment will be valued at Rs.11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

Question 3 : May 2018 – Paper

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of Rs.10 per share.

Date	No. of Shares	Terms
01.01.2016	600	Buy @ Rs.20 per share
15.03.2016	900	Buy @ Rs.25 per share
20.05.2016	1000	Buy @ Rs.23 per share
25.07.2016	2500	Bonus Shares received

20.12.2016	1500	Sale @ Rs.22 per share
01.02.2017	1000	Sale @ Rs.24 per share

Addition information:

(1) On 15.09.2016 dividend @ Rs.3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of Rs.20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of Rs.3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

Solution :

Investment in Equity shares of JP Power Ltd.

Date	Particulars	No. Rs.	Dividend Rs.	Cost Rs.	Date	Particulars	No. Rs.	Dividend Rs.	Cost Rs.
1.1.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500			-		-
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank dividend		4,500	3,000
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		-	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P& L A/c (profit on sale)			15,187.50*					
1.2.17	To P& L A/c (profit on sale)			12,125					
31.3.17	To P & L A/c (dividend)		4,500						
		5,600	**4,500**	**96,812.50**			**5,600**	**4,500**	**96,812.50**

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

600 shares purchased at Rs.12,000
900 shares purchased at Rs.22,500
1,000 shares purchased at Rs.23,000
2,500 shares at nil cost
600 right shares purchased at Rs.12,000
Total cost of 5,600 shares is Rs.66,500 [Rs.69,500 less Rs.3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

Hence, weighted average cost per share will be considered as Rs.11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.
3. **Calculation of right shares subscribed by Vijay**
   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares
   Shares subscribed = 1,000 x 60%= 600 shares
   Value of right shares subscribed = 600 shares @ Rs.20 per share = Rs.12,000
   Calculation of sale of right renouncement
   No. of right shares sold = 1,000 x 40% = 400 shares
   Sale value of right = 400 shares x Rs.3 per share = Rs.1,200
   Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.
4. Profit on sale of equity shares

As on 20.12.16	
Sales price (1,500 shares at Rs.22)	33,000.00
Less: Cost of shares sold (1,500 x Rs.11.875)	(17,812.50)
Profit on sale	15,187.50
As on 1.2.17	
Sales price (1,000 shares at Rs.24)	24,000
Less: Cost of shares sold (1,000 x Rs.11.875)	(11,875)
Profit on sale	12,125

Balance of 3,100 shares as on 31.3.17 will be valued at Rs.36,812.50 (at rate of Rs.11.875 per share)

Question 4 : Nov 2018 – RTP / Nov 2020 – Paper / Jan 2021 – Paper / May 2022 – Paper

On 1st April, 2019 Mr H had 30,000 equity shares of ABC Ltd. at a book value of Rs 18 per share (Nominal Value of Rs 10 per share) . On 10th June 2019, H purchased another 10,000 equity shares of the ABC Limited at Rs 16 per share through a broker who charged 1.5% brokerage.

The director of ABC Ltd. announced a bonus and a right issue. The terms of the issue were as follows.

1. Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.
2. Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.
3. No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlement and sold the remaining rights for consideration of Rs 5 share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th Jan, 2020, Mr H sold half of his shareholdings at Rs 17.50 per share and brokerage was charged @ 1%.

You are required to prepare Investment Account in the books of Mr. H. for the year ending 31st March, 2020, assuming the shares are valued at average cost.

Solution :

In the books of Mr. H

Investment in equity shares of ABC Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Income Rs.	Amount Rs	Date	Particulars	No.	Income Rs.	Amount Rs
2019 April 1	To Balance b/d	30,000	-	5,40,000	2019 Oct.	By Bank A/c (W.N. 5)	-	60,000	20,000
June	To Bank A/c	10,000	-	1,62,400	20X2 Jan.	By Bank A/c (W.N.4)	28,000	-	4,85,100
July	To Bonus Issue (W.N. 1)	10,000	-	-	March 31	By Balance c/d (W.N. 6)	28,000	-	3,77,200
Sept.	To Bank A/c (W.N. 2)	6,000	-	72,000					
2020 Jan.	To P & L A/c (W.N. 4)	-	-	1,07,900					
March 31	To P & L A/c	-	60,000	-					
		56,000	**60,000**	**8,82,300**			**56,000**	**60,000**	**8,82,300**

Working Notes:

1. Calculation of no. of bonus shares issued
   Bonus Shares = (30,000 + 10,000) divided by 4= 10,000 shares
2. Calculation of right shares subscribed
   Right Shares = $\frac{30{,}000\,\text{shares} + 10{,}000\,\text{shares} + 10{,}000\,\text{shares}}{5}$
   = 10,000 shares
   Shares subscribed 10,000 x 60% = 6,000 shares
   Value of right shares subscribed = 6,000 shares @ Rs. 12 per share = Rs. 72,000
3. Calculation of sale of right entitlement
   Amount received from sale of rights will be 4,000 shares x Rs. 5 per share
   = Rs. 20,000 and it will be credited to statement of profit and loss.
4. Calculation of profit/loss on sale of shares-
   Total holding = 30,000 shares original
   10,000 shares purchased
   10,000 shares bonus
   6,000 shares right shares
   56,000
   50% of the holdings were sold i.e. 28,000 shares (56,000 x1/2) were sold.
   Cost of total holdings of 56,000 shares
   = Rs. 5,40,000 + Rs. 1,62,400 + Rs. 72,000– Rs. 20,000 = Rs. 7,54,400
   Average cost of shares sold would be:
   = $\frac{7{,}54{,}400}{56{,}000} \times 28{,}000$ = Rs. 3,77,200

	Rs.
Sale proceeds of 28,000 shares (28,000 x Rs.17.50)	4,90,000
Less: 1% Brokerage	(4,900)
	4,85,100

	Less: Cost of 28,000 shares sold	(3,77,200)
	Profit on sale	1,07,900

5. Dividend received on investment held as on 1st April, 2019
= 30,000 shares x Rs. 10 x 20%
= Rs. 60,000 will be transferred to Profit and Loss A/c and
Dividend received on shares purchased on 10th June, 2019
= 10,000 shares x Rs. 10 x 20% = Rs.20,000 will be adjusted to Investment A/c

6. Calculation of closing value of shares (on average basis) as on 31st March, 2020

$$\frac{7,54,400}{56,000} \times 28,000 = \text{Rs. } 3,77,200$$

Question 5 : Nov 2018 – Paper / Nov 2019 – RTP / Nov 2021 – RTP / Dec 2021 – Paper / Nov 2022 – RTP / May 2023 – Paper

Following transactions of Meeta took place during the financial year 2020-21:

1st April, 2020	Purchased Rs. 4,500 8% bonds of Rs. 100 each at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2020	Received half year's interest on 8% bonds.
10-Jul-20	Purchased 6,000 equity shares of Rs. 10 each in Kamal Limited for Rs. 44 each through a broker, who charged brokerage @ 2%.
1st October 2020	Sold 1,125 8% bonds at Rs. 81 Ex-interest.
1st November, 2020	Received half year's interest on 8% bonds.
15th January, 2021	Received 18% interim dividend on equity shares of Kamal Limited.
15th March, 2021	Kamal Limited made a rights issue of one equity share for every four Equity shares held at Rs. 5 per share. Meeta exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs. 2.25 per share.

Prepare separate investment account for 8% bonds and equity shares of Kamal Limited in the books of Meeta for the year ended on 31st March, 2021. Assume that the average cost method is followed.

Solution :

In the books of Meeta

8% Bonds for the year ended 31st March, 2021

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2020					1 May 2020	By Bank-Interest	-	18,000	-
1 April, Oct. 1	To Bank A/c	4,500	15,000	3,47,250	1 Oct. 2020	By Bank A/c	1,125	3,750	91,125
2021	To P & L A/c (W.N.1)	-	-	4,312.50	1 Nov. 2021	By Bank-Interest		13,500	-
Mar-31	To P & L A/c	-	20,250	-	2021 Mar. 31	By Balance c/d (W.N.2)	3,375	-	2,60,437.50
		4,500	**35,250**	**3,51,562.50**			**4,500**	**35,250**	**3,51,562.50**

Investment in Equity shares of Kamal Ltd. for the year ended 31st March, 2021

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2020 July 10	To Bank A/c	6,000	-	2,69,280	2021 Jan 15	By Bank – dividend	-	10,800	-
2021 March 15	To Bank A/c (W.N. 3)	600	-	3,000	Mar. 31	By Balance c/d (bal. fig.)	6,600	-	2,72,280
Mar. 31	To P & L A/c	-	10,800	-					
		6,600	**10,800**	**2,72,280**			**6,600**	**10,800**	**2,72,280**

Working Notes:

1. Profit on sale of 8% Bonds

Sales price	Rs. 91,125
Less: Cost of bonds sold = 3,47,250/4,500x 1,125	(Rs. 86,812.50)
Profit on sale	Rs. 4,312.50

2. Closing balance as on 31.3.2021 of 8 % Bonds

3,47,250/4,500x 3,375= Rs. 2,60,437.50

3. Calculation of right shares subscribed by Kamal Ltd.

Right Shares = 6,000/4 x 1= 1,500 shares

Shares subscribed by Meeta = 1,500 x 40%= 600 shares

Value of right shares subscribed = 600 shares @ Rs. 5 per share = Rs. 3,000

4. Calculation of sale of right entitlement by Kamal Ltd.

No. of right shares sold = 1,500 – 600 = 900 rights for 2,025

Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P & L A/c.

Question 6 : May 2019 – RTP / Nov 2019 – Paper / May 2022 – RTP / Nov 2022 – Paper

Mr. Wise had 12% Debentures of Face Value Rs. 100 of Alpha Ltd. as current investments.
He provides the following details relating to the investments.

1-4-2020	Opening balance 4,000 debentures costing Rs. 98 each
1-6-2020	Purchased 2,000 debentures @ Rs. 120 cum interest
1-9-2020	Sold 3,000 debentures @ Rs. 110 cum interest
1-12-2020	Sold 2,000 debentures @ Rs. 105 ex interest
31-1-2021	Purchased 3,000 debentures @ Rs. 100 ex interest
31-3-2021	Market value of the investments Rs. 105 each

Interest due dates are 30th June and 31st December.
Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions.
Show investment account in the books of Mr. Wise assuming FIFO method is followed.

Solution :

Investment A/c of Mr. Wise
for the year ending on 31-3-2021
(Scrip: 12% Debentures of Alpha Limited)
(Interest Payable on 30th June and 31st December)

Amount in Rs.

Date	Particulars	Nominal Value	Interest	cost	Date	Particulars	Nominal Value	Interest	cost

1.4.2020	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2020	By Bank (6,00,000 x 6%)	-	36,000	-
1.6.2020	To Bank	2,00,000	10,000	2,34,800	1.9.2020	By Bank	3,00,000	6,000	3,17,400
1.9.2020	To Profit & Loss A/c			23,400	1.12.2020	By Bank	2,00,000	10,000	2,05,800
31.1.2021	To Bank	3,00,000	3,000	3,06,000	1.12.2020	By Profit & Loss a/c	-	-	9,600
31.3.2021	To Profit & Loss A/c (Bal. fig.)		45,000		31.12.20	By Bank (1,00,000 x 6%)	-	6,000	-
					31.3.2021	By Profit & Loss A/c	-	-	3,400
					31.3.2021	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	**70,000**	**9,56,200**			**9,00,000**	**70,000**	**9,56,200**

Working Notes:

1. Valuation of closing balance as on 31.3.2021

	Rs.	Rs.
Market value of 4,000 Debentures at Rs. 105		4,20,000
Cost price of 1,000 debentures at	1,17,400	
3,000 debentures at	3,06,000	4,23,400
Value at the end = Rs. 4,20,000 i.e. whichever is less		

2. Profit on sale of debentures as on 1.9.2020

	Rs.
Sales price of debentures (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3,92,000 \times \frac{3,00,}{4,000}\right)$	(2,94,000)
Profit on sale	23,400

3. Loss on sale of debentures as on 1.12.2020

	Rs.
Sales price of debentures (2,000 x Rs. 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	9,600

4. Purchase Cost of 2,000 debentures on 1.6.2020

	Rs.

2000 Debentures @Rs. 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. Sale value for 3,000 debentures on 1.9.2020

	Rs.
Sales price of debentures cum interest (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

Question 7 : May 2019 – Paper

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

(1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.14 lakhs but had been written down by Rs.2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs.11 lakhs.

(2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.7 lakhs but had been written down to Rs.5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs.4.5 lakhs.

(3) A portion of current investments purchased on 15th March, 2018 for Rs.7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs.6 lakhs and fair value on 15th June 2018 was Rs.8.5 lakhs,

(4) Another portion of current investments purchased on 7th December, 2017 for Rs.4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on 31st March, 2018 Rs.3.5 lakhs
on 15th June, 2018 Rs.3.8 lakhs

Solution :

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs.7 lakhs as cost is less than its fair value of Rs.8.5 lakhs on the date of transfer.

(iv) In this case, market value (considered as fair vale) is Rs.3.8 lakhs on the date of transfer which is lower than the cost of Rs.4 lakhs. The reclassification of current investment into long-term investments will be made at Rs.3.8 lakhs.

Question 8 : Nov 2019 – RTP

Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

You are required to comment whether the policy of the bank is in accordance with AS 13?

Solution :

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 9 : May 2020 – RTP

Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On 1st April, 2019 she purchased 40,000 equity shares of Rs.1 each fully paid up for Rs.60,000.

(2) On 15th May 2019, Meera sold 8,000 shares for Rs.15,200.

(3) At a meeting on 15th June 2019, the company decided:

  (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and

  (ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of Rs.1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

  The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

  (a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

  (b) On 15th March 2020, she received interim dividend from Kumar Ltd. of 15 per cent in respect of the current financial year.

  (c) On 30th March 2020, she received Rs.28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Solution :

Investment Account (Shares in Kumar Limited) in the books of Meera

Date	Particulars	No. of shares	Income	Amount	Date	Particulars	No. of shares	Income	Amount
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
Apr.1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200	2020 Mar.15	By Bank (Dividend @ 15% on Rs.32,000)	-	4,800	-
June 15	To Bonus Issue	8,000	-	Nil	Mar.30	By Bank (Sale)	20,000	-	28,000
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar.31	By Balance c/d*	24,000	-	29,455
Sept. 2020 Mar.31	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000					
	To Profit & Loss A/c (W.N.2)	-	-	3,455					
	To Profit & Loss A/c	-	4,800						
		52,000	**4,800**	**72,655**			**52,000**	**4,800**	**72,655**

$$*\left(\frac{24,000}{44,000}\times 54,000\right)$$

Working Notes :

(1)	**Profit on Sale on 15-5-2019:**		
	Cost of 8,000 shares @ Rs.1.50	Rs.12,000	
	Less: Sales price	Rs.15,200	
	Profit		Rs.3,200
	Cost of 20,000 shares sold:		
	Cost of 44,000 shares (48,000 + 6,000)		Rs.54,000
	$\therefore$ Cost of 20,000 shares $\left(\frac{Rs.54,000}{44,000\,shares}\times 20,000\,shares\right)$		Rs.24,545
	Profit on sale of 20,000 shares (Rs.28,000 – Rs.24,545)		Rs.3,455

Question 10 : May 2020 – RTP

Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing Rs.8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs.6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs.6.8 lakhs.

(ii) Current investment in Company C, costing Rs.10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs.12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs.18 lakhs but had been written down to Rs.12 lakhs to recognize permanent decline as per AS 13.

Solution :

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

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at Rs.10 lakhs as cost is less than its market value of Rs.12 lakhs.

(iii) In this case, the book value of the investment is Rs.12 lakhs, which is lower than its cost i.e. Rs.18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at Rs.12 lakhs.

Question 11 : Nov 2020 – Paper / May 2023 – RTP

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of Rs. 4,25,000. It also earlier purchased Gold of Rs. 8,00,000 and Silver of Rs. 3,50,000 on 31st March, 2019.

Market values as on 31st March, 2022, of the above investments are as follows:

Shares	Rs. 3,50,000
Gold	Rs. 10,25,000
Silver	Rs. 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2022 as per the provisions of AS 13.

Solution :

As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (Rs. 4,25,000) and market value (Rs. 3,50,000) as on 31 March 2022, i.e., Rs. 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31stMarch, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., Rs. 8,00,000 and Rs.3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at Rs. 3,50,000, Rs. 8,00,000 and Rs. 3,50,000 respectively and hence, total investment will be valued at Rs. 15,00,000 for the year ending on 31st March, 2022 as per AS 13.

Question 12 : Jan 2021 – Paper

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

(i) Long term investments in Company A, costing Rs.10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to Rs.9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is Rs.9.3 lakhs.

(ii) Long term investment in Company B, costing Rs.14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is Rs.16 lakhs and book value is Rs.14 lakhs.

(iii) Current investment in Company C, costing Rs.12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is Rs.13.5 lakhs.

(iv) Current investment in Company D, costing Rs.18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is Rs.16.5 lakhs.

Solution :

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 9 lakhs in the books.

(ii) The carrying / book value of the long-term investment is same as cost i.e., Rs. 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of Rs. 14 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 12 lakhs as cost are less than its market value of Rs. 13.5 lakhs.

(iv) Market value of the investment is Rs. 16.5 lakhs, which is lower than its cost i.e., Rs. 18 lakhs.

Therefore, the transfer to long term investments should be done in the books at the market value i.e., Rs. 16.5 lakhs.

Question 13 : July 2021 – Paper

Mr. Z has made following transactions during the financial year 2020-21 : 20

Investment 1 : 8% Corporate Bonds having face value Rs.100.

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

Interest on the bonds is received on 30th September and 31st March

Investment 2 : Equity Shares of G Ltd having face value Rs.10

Date	Particulars
01.04.2020	Opening balance 8000 equity shares at a book value of Rs.190 per share
01.05.2020	Purchased 7,000 equity shares @ Rs.230 on cum right basis Brokerage of 1% was paid in addition.

15.06.2020	The company announced a bonus issue of 2 shares for every 5 shares held.
01.08.2020	The company made a rights issue of 1 share for every 7 shares held at Rs.230 per share. The entire money was payable by 31.08.2020.
25.08.2020	Rights to the extent of 30% of his entitlements was sold @ Rs.75 per shares. The remaining rights were subscribed.
15.09.2020	Dividend @ Rs.6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01.12.2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25.01.2021	Received interim dividend @ Rs.3 per share for the year 2020-21.
31.03.2021	The shares were quoted in the stock exchange @ Rs.260.

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

You are required to :

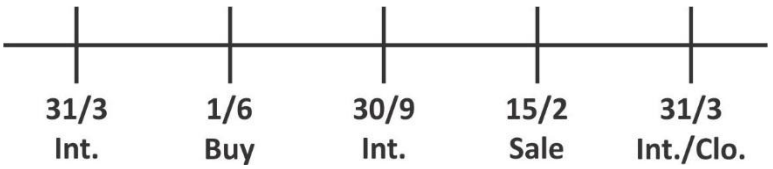
(i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.

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

(iii) Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Solution :

1) Investment 1 = 8% Corporate Bonds



Dr. 8% Corporate bond Cr.

Date	Particular	FV	Interest	Cost	Date	Particular	FV	Interest	Cost
1/6	To Bank	36,00,000	48,000	30,48,000	30/9	By Bank	-	1,44,000	-
15/2	To P/L	-	-	1,76,000	15/2	By Bank	24,00,000	72,000	22,08,000
					31/3	By Bank	-	48,000	-
31/3	To P/L	-	2,16,000	-	31/3	By Bal. c/d.	12,00,000	-	10,16,000
		36,00,000	**2,64,000**	**32,24,000**			**36,00,000**	**2,64,000**	**32,24,000**

Working Note :

Profit / Loss in sale or 15/2/2021

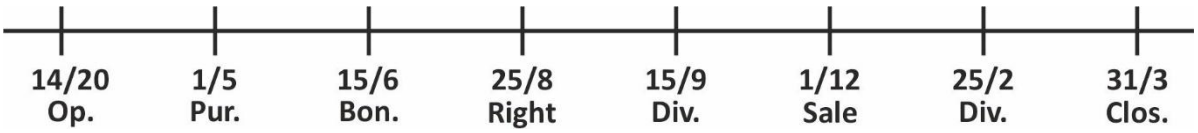
36,00,000 — 30,48,000

24,00,000 — 20,32,000 CP

22,08,000 SP

1,76,000 Profit

2) Investment 2 : Equity shares of G Ltd.



Dr. **Cr.**

Date	Particular	No.	Cost	Div.	Date	Particular	No.	Cost	Div.
1/4/20	To Op.	8,000	15,20,000	-	15/9	By Bank	-	42,000	48,000
1/5/20	To Bank	7,000	16,26,100	-	1/12	By Bank	7,000	18,01,800	-
15/6/20	To Bonus	6,000	-	-	25/1	By bank	-	-	48,300
25/8/20	To Bank	2,100	4,83,000	-	31/3	By Bal. c/d.	16,100	25,00,100	-
1/12	To P/L	-	7,14,800	-					
31/3	To P/L	-	-	96,300					
		23,100	**43,43,900**	**96,300**			**23,100**	**43,43,900**	**96,300**

Working Note :

1. Bonus 15/6 2 for 5

   i.e. $15,000 \times \frac{2}{5} = 6,000$

2. Right 1 for 7

   i.e. $21,000 \times \frac{1}{7} = 3,000$

   buy = $3,000 \times 70 = 2,100$

3. Dividend on 15/9

   Received = $15,000 \times 6$ = 90,000

   Pre Acquisition = $7,000 \times 6$ = 42,000

   48,000

4. Profit / Loss on sale on 1/12

Cost	8,000	15,20,000	
+	7,000	16,26,100	
+	6,000	-	
+	2,100	4,83,000	
-	-	(42,000)	
	23,100	35,87,100	
	7,000	10,87,100	CP
		18,01,800	SP
		7,14,800	Profit

5. Closing Balance

Cost =	25,00,100
NRV = 16,100 × 260 =	41,86,000
Value at cost i.e.	25,00,100

3) Investment 3 : Investments in equity of 2

15/3 short term investment are classified s long term investments.

As per AS – 13 accounting for investment the reclassification should be close at cost or fair value whichever is lower at date of transfer.

Question 14 : Nov 2021 – RTP

Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

Solution :

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 15 : Dec 2021 – Paper

Mr.Mohan has invested some money in various Mutual funds. Following information in this regard is given :

Mutual Funds	Date of Purchase	Purchase cost (Rs.)	Brokerage Cost (Rs.)	Stamp duty (Rs.)	Market value as on 31.03.2021 (Rs.)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to :

1. Classify his investment in accordance with AS-13 (revised).
2. Value of Investment in mutual fund as on 31.03.2021.

Solution :

As per AS 13 "Accounting for Investments", a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost	Market value	Carrying value

		(Rs.)	(Rs.)	(Rs.)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of Rs.48,225 will be considered.

Question 16 : May 2022 – RTP

JVR Limited has made investment of Rs. 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with Accounting Standards.

Solution :

The investments are classified into two categories as per AS 13, *viz.*, Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long-term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Question 17 : Nov 2022 – RTP

Mother Mart Ltd., wants to re-classify its investment in accordance with AS 13. Decide the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:

(i) A portion of current investments purchased for Rs. 25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was Rs. 30 lakhs. The fair value of the investments on the date of transfer is same as the market value on the balance sheet date

(ii) Another portion of current investments purchased for Rs. 20 lakhs has to be re-classified as long-term investments. The Fair value of these investments as on the date of the balance sheet was Rs. 12.5 lakhs.

(iii) One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 15 lakhs, but had been written down to Rs. 11 lakhs to recognize permanent decline as per AS 13.

Solution :

As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer. When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(i) In the first case, the market value of the investments is Rs. 30 lakhs, which is higher than its cost i.e. Rs. 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. Rs. 25 lakhs

(ii) In the second case, the market value of the investment is Rs. 12.5 lakhs, which is lower than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. Rs. 12.5 lakhs. The loss of Rs. 7.50 lakhs (20-12.5) should be charged to Profit and Loss statement.

(iii) In the third case, the book value of the investments is Rs. 11 lakhs, which is lower than its cost, i.e. Rs. 15 lakhs. As the transfer should be at carrying amount, hence this re-classified current investment should be carried at Rs. 11 lakhs.

Question 18 : Nov 2022 – Paper

(i) An unquoted long term investment made in the shares of Rachel Limited is caried in the books of Ziva Limited at a cost of Rs.1,00,000. The audited financial statements of Rachel Limited received in May, 2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than Rs.55,000.

(ii) On 1st December, 2021 Ziva Limited had made an investment of Rs.5,00,000 in 4000 Equity Shares of Garry Limited at a price of Rs.125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March, 2022, the shares of Garry Limited were trading at a price of Rs.80 per share on the Stock Exchange.

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March, 2022 as per the provision of Accounting Standard 13 'Accounting for Investments'?

Solution :

(i) Investments classified as long -term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

On this basis, the facts of the given case, it would be appropriate to reduce the carrying value of Long-term investments to Rs. 55,000 in the financial statements for the year ended 31st March, 2022.Thus the unquoted investment in the shares of Rachel Ltd. will be valued at Rs. 55,000

The provision for diminution amounting Rs. 45,000 should be made to reduce the carrying amount of the investments.

(ii) Equity Shares in Garry Ltd. will be considered as current investment as intended to hold for not more than six months. As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. In respect of current Investments for which as active market exists, market value generally provides the best evidence of fair value.

Since on 31st March,2022, the shares of Garry Limited were trading at a price of Rs. 80 per share on the stock exchange, the equity shares of Garry Ltd. should be carried in the financial statements at realizable value i.e. at Rs. 3,20,000 (4,000 shares @ Rs. 80 per share).The reduction of Rs. 1,80,000 in carrying value of current investment will be charged to the statement of profit and loss for the year ended 31st March,2022.

Question 19 : May 2023 – RTP

Remo Ltd. held on 1st April, 2021, 1000 9% Government Securities at Rs. 90,000 (Face Value of Security Rs. 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of Rs. 80,000 at Rs. 95 cum-interest. On 1st June, Rs. 60,000 face value of the security was sold at Rs. 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, Rs. 40,000 face value of the Govt. securities were sold at Rs. 97 cum-interest. On 1st December, the company purchased the same security Rs. 10,000 at par ex-interest. On 1st March, the company sold Rs. 10,000 face value of the government securities at Rs. 95 ex-interest.

You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof.

Solution :

In the Books of Remo Ltd.

9% Government Securities (Investment) Account

Particulars		Face Value	Interest	Cost	Particulars		Face Value	Interest	Cost
2021		Rs.	Rs.	Rs.	2021		Rs.	Rs.	Rs.
Apr 1	To Balance b/d	1,00,000	2,250	90,000	Jun 1	By Bank A/c	60,000	2,250	54,150
May 1	To Bank A/c	80,000	2,400	73,600	Jun 30	By Bank A/c	-	5,400	-
Jun 1	To P&L A/c	-	-	150	Sept. 30	By Bank A/c	40,000	900	37,900
Sept. 30	To P & L A/c	-	-	1,900	Dec. 31	By Bank A/c	-	4,050	-
Dec. 1	To Bank A/c	10,000	375	10,000	Mar.1 2022	By Bank A/c	10,000	150	9,500
Mar. 1 2022	To P&L A/c	-	-	300	Mar. 31 2022	By Balance c/d	80,000	1,800	74,400

Mar. 31, 2022	To P&L A/c (Transfer)	-	9,525	-					
		1,90,000	**14,550**	**1,75,950**			**1,90,000**	**14,550**	**1,75,950**

Working Notes:

1. Interest accrued on 1st April 2021 = Rs.1,00,000 x 9% x 3/12 = Rs. 2,250
2. Accrued Interest on 800 units as on 01.05.2021 = Rs. 80,000 x 9/100 x 4/12 = Rs. 2,400
3. Cost of Investment for purchase on 01.05.2021 = Rs. 76,000 - Rs. 2,400 = Rs. 73,600
4. Accrued Interest on 600 units as on 01.06.2021 = Rs. 60,000 x 9/100 x 5/12 = Rs. 2,250
5. Profit on Securities sold on 1st June = Rs. 54,150 (56,400 – 2,250)- Rs. 54,000 (60,000 x 90,000/1,00,000) = Rs. 150
6. Interest received on 30.06.2021 = Rs.1,20,000 x 9/100 x 6/12 = Rs. 5,400
7. Accrued Interest on 400 units as on 30.09.2021 = Rs. 40,000 x 9/100 x 3/12 = Rs. 900
8. Cost of 400 Govt. Securities sold on 30.09.2021 = 40,000 x 90,000/1,00,000 = Rs. 36,000
9. Profit on securities sold on 30th September = Rs.37,900 (38,800-900) - Rs. 36,000 = Rs. 1,900
10. Accrued Interest on 1.12.2021 = Rs. 10,000 x 9/100 x 5/12 = Rs. 375
11. Interest received on 31.12.2021 = Rs. 90,000 x 9/100 x 6/12 = Rs. 4,050
12. Accrued Interest on 100 units as on 01.03.2022 = Rs. 10,000 x 9/100 x 2/12 = Rs. 150
13. Cost of 100 Govt. Securities sold on 01.03.2022 = Rs. 10,000 x 73,600/80,000 = Rs. 9,200
14. Profit on securities sold on 01.03.2022 = Rs. 9,500 - Rs. 9,200 = Rs. 300
15.

	Units	**Rs.**
Calculation of closing balance:		
Securities in hand remained in hand at 31/3/2022		
From original holding (1,00,000 – 60,000 – 40,000)		-
Purchased on 1st May (80,000 – 10,000)	70,000	64,400
Purchased on 1st December	10,000	10,000
	80,000	74,400

Question 20 : May 2024 – RTP

ABC Ltd. holds 2,000, 15% Debentures of Rs. 100 each in XYZ Ltd. as on April 1, 2022 at a cost of Rs. 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 Rs. 1,05,000.
On November 1, 2022, 1200 debentures are sold ex-interest at Rs. 1,28,200.
On November 30, 2022, 500 debentures are purchased ex-interest at Rs. 54,500.
On December 31, 2022, 900 debentures are sold cum-interest for Rs. 1,18,000

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

Solution :

In the Books of ABC Ltd

15% Debentures (Investment) Account

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

1. Loss on sale of debentures on 1.11.22
   Cost = 2,50,000/2,000X 1,200 = Rs. 1,50,000
   Sale proceeds = Rs. 1,28,200
   Loss = Rs. 1,50,000 less Rs. 1,28,200 = Rs. 21,800
2. Profit on sale of debentures on 31.12.22
   Cost = 2,50,000/2,000X 800 + 1,00,000/1,000X 100 = Rs. 1,10,000 (1,00,000+10,000)
   Sale proceeds = Rs. 1,11,250
   Loss = Rs. 1,11,250 less Rs. 1,10,000 = Rs. 1,250
3.

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

Question 21 : Sept 2024 – RTP

A company is engaged in the business of refining, transportation and marketing of petroleum products. During the financial year ended 31st March, 2024, the company acquired controlling interest from Government of India in another public sector undertaking @ Rs. 1,551 per share as against the book value of Rs. 192.58 per share and market value of Rs. 876 per share as on 18th February, 2024.

Thus, the strategic premium of Rs. 675 per share has been paid considering various tangible and intangible factors.

The above investment in the shares of the acquired company has been considered as long term strategic investment and, therefore, has been accounted for at cost, i.e. at Rs. 1,551 per share in the financial statements. No provision for diminution in value has been made in the books of account. As per the requirement of Schedule III to the Companies Act, 2013, the aggregate market value of the quoted shares has been properly reflected in the financial statements.

On 28th March, 2024, the acquired shares were quoted at Rs. 880 per share on BSE and the current market price as on 18th July was around Rs. 300.

Considering the tangible and intangible benefits the Management is of the view that there is no permanent diminution in the value of the strategic investment in the acquired company, as the same has been considered as a long-term investment. Therefore, there is no need for provision for diminution in the value of the shares of the acquired company.

Required:

(i) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13.

(ii) If any provision for diminution in the value is to be made, whether such provision should be charged to the profit and loss account or whether same can be considered as deferred expenditure and amortised over a period of 5 years. Whether it is open for the company to charge off such diminution in the value in the books of account instead of creating provision.

(iii) Whether the premium paid for strategic benefits for investment described in facts of the case, can be accounted for separately in the books of account keeping in view that AS 13 specifies that long term investments should be recorded at cost and there is no specific provision in the standard in respect of accounting for premium paid for strategic benefits.

Solution :

(i) The accounting treatment 'at cost' under the head 'Long Term Investment' in the separate financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment.

(ii) The provision for diminution in the value of investment should be a charge to the profit and loss statement. As per the requirements of AS 13, the diminution in the value of investment can neither be accounted for as deferred revenue expenditure nor it can be written off in the statement of profit and loss.

(iii) The long-term investments should be carried at cost as per the requirements of AS 13. The amount paid over and above the market price should be treated as cost and cannot be accounted for separately.

Question 22 : Sept 2024 – Paper

On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of? 25 per share (nominal value of Rs.10 each). Further information is as under:

(i) On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.

(ii) On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the holders to subscribe three shares for every two shares at Rs.20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4* of entitlement to Dhwani for a consideration of ? 5 per share and subscribed the rest on 5th October, 2023.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

Solution :

In the books of Mr. Day
Investment Account
(Equity shares in Square Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000					
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	**13,00,000**			**63,750**	**13,00,000**

Working Notes:

(1) Bonus shares = $\frac{25,000}{5}$ = **5,000** shares

(2) Right shares = $\frac{25,000+5,000}{2}$ x 3 = **45,000** shares

(3) Sale of rights = 45,000 shares × $\frac{1}{4}$ × Rs. 5

= 11,250 x 5 = **56,250**

Rs. 56,250 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{3}{4}$ × Rs. 20 = Rs. **6,75,000**

Question 23 : May 2025 – RTP

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

1.4.2023 Opening balance - 12,500 debentures, cost Rs. 12,25,000
1.6.2023 Purchased 9,000 debentures@ Rs. 98 each ex-interest
1.11.2023 Purchased 12,000 debentures @ Rs. 115 each cum interest
31.1.2024 Sold 13,500 debentures@ Rs. 110 each cum-interest
31.3.2024 Market value of debentures @ Rs. 115 each

Due dates of interest are 30th June and 31st December.

Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2024. Show investment account as it would appear in his books assuming FIFO method is followed.

Solution :

Investment Account of Mr. Harsh for the year ending on 31-3-2024
(Scrip: 10% Debentures of Exe Limited)
(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.4.23	To Balance b/d	12,50,000	31,250	12,25,000	30.6.23	By Bank 21,500 x 100 x 10% x 1/2		1,07,500	
1.6.23	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.24	By Bank 33,500 x 100 x 10% x 1/2		1,67,500	

1.11.23	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.24	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.24	To Profit & Loss A/c (W.N.3)			1,34,920	31.3.24	By Balance c/d (W.N.4)	20,00,000	50,000	21,45,640
31.3.24	To Profit & Loss A/c (Bal. fig.)		2,27,500						
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes:

1. **Purchase of debentures on 1.6.23**
   Interest element = 9,000 x 100 x 10% x 5/12 = Rs. 37,500
   Investment element = (9,000 x 98) + [1% (9,000 x 98)] = Rs. 8,90,820
2. **Purchase of debentures on 1.11.2023**
   Interest element = 12,000 x 100 x 10% x 4/12 = Rs. 40,000
   Investment element = 12,000 X 115 X 101% less 40,000 = Rs. 13,53,800
3. **Profit on sale of debentures as on 31.1.24**

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

4. **Valuation of closing balance as on 31.3.2024**
   Market value of 20,000 Debentures at Rs. 115 = Rs. 23,00,000
   Cost of
   8,000 Debentures = 8,90,820/ 9,000 X 8,000 = 7,91,840
   12,000 Debentures = 13,53,800
   Total 21,45,640
   Value at the end is Rs. 21,45,640, i.e., which is less than market value of Rs. 23,00,000.

Question 24 : May 2025 - Paper

Ms. Neha had 20,000 Equity shares in Nexus Ltd. at a book value of Rs. 2,40,000 on 01.04.2024. Face value of shares is Rs. 10 per share.

The Directors of Nexus Ltd. announced a bonus of equity shares in the ratio of one share for every 5 shares held on 30/04/2024.

On 31/07/2024 the company made a right issue in the ratio of three shares for every 4 shares held, on payment of Rs. 14 per share. The due date for payment was 31/08/2024. Ms. Neha opted to subscribe 50% of the right shares and sold the remaining of her entitlement to Ms. Rewa for a consideration of Rs. 3 per share.

On 08/10/2024, Ms. Neha received dividend from Nexus Ltd. @ 15% for the year ended 31/03/2024.

On 01/11/2024, Neha sold 11500 shares at a premium of Rs. 16 per share.

You are required to prepare Investment A/c as per AS -13 in the books of Ms. Neha for the year ended 31/03/2025 assuming that the shares are being valued at average cost.

Solution :

Alternative -1

Considering the Examinee has calculated Average Cost directly for shares sold and for Closing Balance of Shares:

Investment Account in Books of Ms. Neha

(Scrip: Equity Shares in Nexus Ltd.)

		No.	Amount			No.	Amount
			Rs.				Rs.
1.4.2024	To Bal b/d	20,000	2,40,000	1.11.2024	By Bank (Sale of shares)	11,500	2,99,000
30.4.2024	To Bonus	4,000	-	31.3.2025	By Bal. c/d	21,500	2,38,455
31.8.2024	To Bank (Rights Shares)	9,000	1,26,000				
1.11.2024	To P&L A/c (Profit on sale of shares)		1,71,455				
		33,000	**5,37,455**			**33,000**	**5,37,455**

Working Notes:

(1) **Bonus Shares** = (20,000) /5 = **4,000** shares

(2) **Right Shares** = $\frac{(20,000+4,000)}{4}$ × 3 = 18,000 shares

(3) **Rights shares sold** = 18,000×50% = 9,000 shares

(4) **Dividend received** = 20,000 × 10 × 15% = Rs. 30,000 will be taken to P&L statement

(5) **Average Cost of shares sold:**

Average Cost = $\frac{(2,40,000+1,26,000)}{33,000}$ x 11,500

= Rs. 1,27,545

(6) **Profit on sale of 11,500 shares**

= Sales proceeds – Average cost

Sales proceeds = Rs. 2,99,000

Profit = Rs. 2,99,000– Rs. 1,27,545= Rs. **1,71,455**.

(7) **Cost of shares on 31.3.2025**

$\frac{(2,40,000+1,26,000)}{33,000}$ x 21,500 = 2,38,455

(8) Sale of rights amounting Rs. 27,000 (Rs. 3 x 9,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Alternative - 2

Calculate Average Cost per Unit first and then worked out the cost of shares sold and closing balance of shares using average unit cost:

Investment Account in Books of Ms. Neha

(Scrip: Equity Shares in Nexus Ltd.)

		No.	Amount			No.	Amount
			Rs.				Rs.

1.4.2024	To Bal b/d	20,000	2,40,000	1.11.2024	By Bank (Sale of shares)	11,500	2,99,000
30.4.2024	To Bonus	4,000	-	31.3.2025	By Bal. c/d	21,500	2,38,435
31.8.2024	To Bank (Rights Shares)	9,000	1,26,000				
1.11.2024	To P&L A/c (Profit on sale of shares)		1,71,435(*)				
		33,000	**5,37,435**			**33,000**	**5,37,435**

(*) rounding off difference of Rs. 30 adjusted i.e. 1,71,465 – 30 = 1,71,435

Working Notes:

(1) **Bonus Shares** = (20,000) /5 = 4,000 shares

(2) **Right Shares** = $\frac{(20,000+4,000)}{4}$ x 3 = 18,000 shares

(3) **Rights shares sold** = 18,000 × 50% = 9,000 shares

(4) **Dividend received** = 20,000 × 10 × 15% = Rs. 30,000 will be taken to P&L statement

(5) **Average Cost per Share:**
= (2,40,000 + 1,26,000) / (20,000 + 4,000 + 9,000)
= (3,66,000 / 33,000)
= 11.09 per share (rounded off to 2-decimal places)
Average Cost = (11,500 × 11.09) = Rs. 1,27,535

(6) **Profit on sale of 11,500 shares**
= Sales proceeds – Average cost
Sales proceeds = Rs. 2,99,000
Profit = Rs. 2,99,000 – Rs. 1,27,535 = Rs. 1,71,465.

(7) **Cost of shares on 31.3.2025**
21,500 x 11.09 = Rs. 2,38,435

(8) Sale of rights amounting Rs. 27,000 (Rs. 3 x 9,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Question 25 : Sept 2025 - RTP

On 1st April 2024, Kesar held 75,000 equity shares of Beta Ltd., recorded at a book value of Rs.15 per share (with a nominal value of Rs. 10 each). The following transactions took place during the year:

1. On 20th June 2024, Kesar purchased 15,000 additional shares of Beta Ltd. at Rs. 16 per share.
2. On 1st August 2024, Beta Ltd. declared a bonus issue of one share for every six shares held.
3. On 31st October 2024, the company announced a rights issue, offering three shares for every seven held at a price of Rs. 15 per share. Shareholders were allowed to fully or partially renounce their rights.

Kesar sold one-third of his rights entitlement to Megha at Rs. 2 per share and subscribed to the remaining rights on 5th November 2024.

You are required to prepare the Investment Account in the books of Kesar for the year ending 31st March 2025.

Solution :

In the books of Kesar

Investment Account

(Equity shares in Beta Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.24	To Balance b/d	75,000	11,25,000	31.3.25	By Balance c/d (Bal. fig.)	1,35,000	18,15,000
20.6.24	To Bank A/c	15,000	2,40,000				
1.8.24	To Bonus issue (W.N.1)	15,000	-				
5.11.24	To Bank A/c (right shares) (W.N.4)	30,000	4,50,000				
		13,50,000	**18,15,000**			**1,35,000**	**18,15,000**

Working Notes:

(1) Bonus shares = $\frac{75,000+15,000}{6}$ = 15,000 shares

(2) Right shares = $\frac{75,000+15,000+15,000}{7}$ x 3 = 45,000 shares

(3) Sale of rights = 45,000 shares × $\frac{1}{3}$ × Rs. 2 = Rs. 30,000 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{2}{3}$ × Rs. 15 = Rs. 4,50,000

Question 26 : Jan 2026 - RTP

Mr. Rohan acquired 200 equity shares of Zeta Technologies Ltd. on a cum-right basis for Rs. 1,40,000 as a long-term investment. Subsequently, the company announced a right issue offering one fresh share for every share held (i.e., in the ratio of 1:1) at a price of Rs. 214 per share.

Mr. Rohan, however, decided not to subscribe to the right shares and instead sold his entire rights entitlement for Rs. 24,000 in the open market.

After the rights issue became ex-rights, the market value of his existing 200 shares fell to Rs. 1,20,000.

You are required to state the appropriate accounting treatment for the sale of rights entitlement and the fall in market value of the existing shares, in accordance with the provisions of Accounting Standard (AS) 13 – Accounting for Investments.

Solution :

As per AS 13, "Accounting for Investments", when investments are acquired on a cum-right basis, and the market value of investments immediately after becoming ex-rights is lower than their cost, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to their market value.

In this case, Mr. Rohan purchased 200 equity shares of Alpha Ltd. on a cum-right basis at a total cost of 1,40,000. Subsequently, when the right issue was announced in the proportion of 1:1 at a

price of 214 per share, he received the right entitlement to acquire 200 shares but decided not to subscribe and instead sold his rights for Rs.24,000.

After the shares became ex-rights, their market value declined to 1,20,000. Therefore, the market value of the shares immediately after becoming ex-rights was 20,000 lower than their cost (1,40,000 – 1,20,000).

Accordingly, in line with AS 13, it would be appropriate to apply 20,000 out of the rights sale proceeds towards reducing the carrying amount of investment from 1,40,000 to 1,20,000, so as to reflect its ex-right market value. The balance amount of 4,000 (24,000 – 20,000) shall be credited to the Profit and Loss Account as income.

Therefore, the investment in 200 equity shares will be shown at a carrying amount of Rs.1,20,000 in the books of Mr. Rohan.

Thanks ....



CHAPTER

15

AS 15 – EMPLOYEE BENEFITS

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Question 1 : May 2024 – RTP

Hello Limited belongs to the manufacturing industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ` 12 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ` 4 lakhs instead of ` 10 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

Solution :

According to AS 15 (Revised 2005) 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, a surplus amount of Rs.12 lakhs is required to be credited to the profit and loss statement of the current year.

Question 2 : Sept 2024 – Paper

Pendora Ltd. has given the following details in respect of employee 5 benefit pension plan:

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

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

Particulars	%
Interest and dividend income (after tax) payable by fund	10.50
Realised gains on plan assets (after tax)	2.00
Fund administrative costs	-2.00

Expected rate of annual return (Interest is compounded annually)	10.50

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

Solution :

Computation of Expected and Actual Returns on Plan Assets Rs.

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

Question 3 : Jan 2025 – Paper

What is the difference between Defined Contribution Plan and Defined Benefit Plan? From the following information calculate the amount of defined benefit liability/asset :

Particulars	Rs.in Lakhs
Present Value of Defined Benefit Obligation as on 31-3-2024	36.0
Fair Value of Plan asset	38.5
Past service cost not yet recognized	7.5
Present value of available future refund from the plan	6.0

Solution :

Difference between Defined Contribution Plan and Defined Benefit Plan:

S No.	Defined Contribution Plan	Defined Benefit Plan
1	Fixed Contributions are paid by the employer into a separate fund and will have no obligation to pay further contributions.	Detailed actuarial calculation is performed to determine the charge.
2	The employer has no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits and the employee has to bear the investment and actuarial risk.	The employer ensures that sufficient funds are available to meet the promised benefits regardless of fund performance and the actuarial and investment risk fall on the employer.

Computation of defined benefit liability /Asset:

Particulars	**Rs.in lakhs**
Present value of the defined benefit obligation as on 31.3.2024	36.00
Less: Past service cost not yet recognized	(7.50)
	28.50
Less: The fair value of plan assets	(38.50)
Defined benefit Asset	**10.00**

In case where fair value of plan assets is high, it may so happen that the net amount under defined benefit liability turns negative (giving rise to net assets).

As per AS 15 the enterprise, in such a situation, should measure the resulting asset **at the lower of:**

(i) the amount so determined, i.e. Rs. 10 lakh; and

(ii) the present value of available future refunds from the plan i.e. Rs. 6 lakh.

Therefore, defined benefit asset will be recognised at Rs. 6 lakhs.

Thanks ....



CHAPTER

16

AS 16 – BORROWING COST

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Question 1 : May 2018 – RTP / Nov 2019 – RTP / Nov 2020 – RTP / Nov 2021 – RTP

In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs.18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to Rs.25 lakhs.

Can Rs.25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be capitalised. Capitalisation should be cease when asset is ready for intended use.

From the facts of the above case it is clear that asset was ready for its intended use on Jan.2017. Hence borrowing cost only to the extend of Rs.18,00,000 can be capitalised. It cannot be extended to Rs.25 lakh. Balance of Rs.7,00,000 should be charged to P & L.

Question 2 : Nov 2018 – RTP

A company incorporated in June 2017, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be capitalised. Qualifying asset is on asset that necessarily takes a substantial period of time to be ready for its intended use or sale.

Generally a period of 12 months is considered substantial. However, a period shorter than 12 months can also be considered substantial on the basis of fact and circumstances of case.
In the above question construction of asset was drastically reduced because of technical innovations. Based on this fact a period of 8 months can be considered substantial and hence borrowing cost should be capitalised.

Question 3 : May 2019 – RTP / May 2020 – RTP / Nov 2020 – Paper

On 15th April, 2019 RBM Ltd obtained a Term loan from the Bank for Rs.320 lakhs to be utilized as under.

	Rs in Lakhs
Construction of factory shed	240
Purchase of machinery	30
Working capital	24
Purchase of vehicles	12
Advance for tools / cranes	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was Rs 40 lakhs.
In the context of provisions of AS 16 – "Borrowing costs" show the treatment of interest and also explain the nature of Assets.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be complete. Qualifying asset are those which takes substantial period of time to be ready for its intended use

		Total	QA	NQA
1)	Construction of factory shed	240	240	-
2)	Purchase of Machinery	30	-	30
3)	Working capital	24	-	24
4)	Purchase of vehicles	12	-	12
5)	Advance for bob/cranes	8	-	8
6)	Purchase of technical know how	6	-	6
	Total	320	240	80

Total Borrowing cost = 40

A) Borrowing cost to be capitalised = $40 \times \frac{240}{320} = 30$

B) Borrowing cost to be charged to P & L = $40 \times \frac{80}{320} = 10$

Question 4 : May 2019 – Paper

First Ltd. began construction of a new factory building on 1st April, 2017. It obtained Rs. 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (Rs.)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (Rs.)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

(1) Calculate the amount of interest to be capitalized.

(2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

Solution :

As per "AS 16 Borrowing Cost" on qualifying asset should be capitalised.

1) An asset was constructed from specific loan and also from general loans.

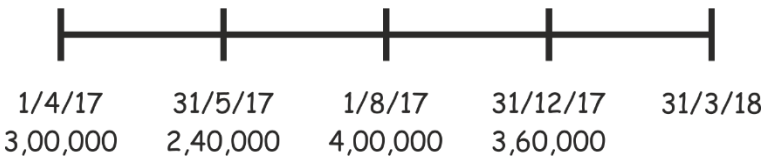
A) Specific loan = Rs.2,00,000 @ 8%

B) General loan = Capitalisation rate

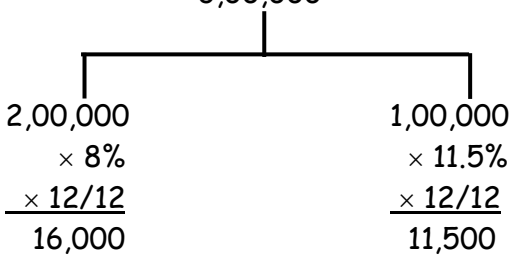
Amount	Rate	Interest
4,00,000	9%	36,000
5,00,000	12%	60,000
3,00,000	14%	42,000
12,00,000		1,38,000

Capitalisation Rate = $\frac{1,38,000}{12,00,000} \times 100 = 11.5\%$

2) Borrowing cost to be capitalisied



A) 1/4/17 3,00,000



B) 31/5/17 = 2,40,000 × 11.5% × 10/12 = 23,000
C) 1/8/17 = 4,00,000 × 11.5% × 8/12 = 30,667
D) 31/12/17 = 3,60,000 × 11.5% × 3/12 = 10,350
Total Borrowing Cost to be capitalised 91,517

3) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2018	Building A/c	Dr.	13,91,517	
	To Bank A/c			13,00,000
	To Borrowing costs A/c			91,517

Question 5 : Nov 2020 – RTP / May 2021 – RTP

When capitalization of borrowing cost should cease as per Accounting Standard 16? Explain in brief.

Solution :

As per "AS 16 Borrowing cost", borrowing cost on qualifying asset should be capitalised.
Further capitalisation of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Question 6 : May 2021 – RTP / Nov 2023 – RTP

Raj & Co. has taken a loan of US$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was Rs. 48 per 1 US$. The exchange rate at the closing of the financial year was Rs. 50 per 1 US$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11% per annum.
Determine the treatment of borrowing cost in the books of accounts.

Solution :

Interest on Foreign Currency Loan:
= US $ 20,000 x Rs. 50 per US $ x 6% = Rs. 60,000.
Foreign Exchange Loss on Foreign currency loan:
= US$ 20,000 x Rs. (50-48) = Rs. 40,000.
Interest that would have been if the loan was taken in Indian currency i.e. local currency:
= US $ 20,000 x 48 x 11% = Rs.1,05,600
Difference between interest on local currency borrowing and foreign currency borrowing:
= Rs. 1,05,600 - Rs. 60,000 = Rs.45,600
The entire exchange difference of 40,000 would be considered as borrowing costs.
The total borrowing cost would be Rs. 100000 (Rs. 60000+ Rs. 40000).

Question 7 : May 2022 – RTP

An enterprise has constructed a complex piece of equipment (qualifying asset) that is to be installed on the production line of a manufacturing plant. The equipment has been constructed over a period of 15 months. However, on installation, certain calibrations are required to achieve the desired level of production before it is finally commissioned. This process is expected to take approximately 2

months during which test runs will be made. Should the borrowing costs attributable to borrowings pertaining to the 2 months test run period be capitalized?

Solution :

As per AS 16 Borrowing Costs "Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". On installation of the equipment, an evaluation has to be made to conclude whether substantially all the activities necessary to prepare the asset are complete. After an equipment has been installed it is usually tested and adjusted for commercial production before it is finally commissioned. The calibrations and adjustments required during this period are performed in order to bring the equipment up to the stage at which it is ready to commence commercial production. Until the asset reaches the stage when it is ready to support commercial levels of production, it is not appropriate to conclude that substantially all the activities necessary to prepare the asset are complete. Thus, the borrowing cost incurred during the normal period of test runs (after the installation) are required to be capitalized.

Question 8 : May 2022 – Paper

Zebra Limited began construction of a new plant on 1st April, 2021 and obtained a special loan of Rs.20,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.
The expenditure that was incurred on the construction of plant was as follows :

	Rs.
1st April, 2021	10,00,000
1st August, 2021	24,00,000
1st January, 2022	4,00,000

The company's other outstanding non-specific loan was Rs.46,00,000 at an interest rate of 12%.
The construction of the plant completed on 31st March, 2022.

You are required to :

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

Solution :

Total expenses to be capitalized for borrowings as per AS 16 "Borrowing Costs":

	Rs.
Cost of Plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalized (W.N.)	3,24,000
	41,24,000

Journal Entry

			Rs.	Rs.
31st March, 2022	Plant A/c	Dr.	41,24,000	
	To Bank A/c			41,24,000
	[Being amount of cost of plant and borrowing cost thereon			

	capitalized]		

Working Note:

Computation of interest to be capitalized:

	Expenditure			Rs.
1st April, 2021	10,00,000	On specific borrowing	Rs.10,00,000 x 10%	1,00,000
1st August, 2021	24,00,000	On specific borrowing	Rs.10,00,000 x 10%	1,00,000
1st August, 2021		On non-specific borrowings	Rs.14,00,000 x $\frac{8}{12}$ x12%	1,12,000
1st January, 2022	4,00,000	On non-specific borrowings	Rs.4,00,000 x $\frac{3}{12}$ x12%	12,000
				3,24,000

Alternatively, interest cost to be capitalized can be derived by computing average accumulated expenses in the following manner.

Computation of Average Accumulated Expenses:

1st April, 2021	10,00,000 x 12/12	10,00,000
1st August, 2021	10,00,000 x 12/12	10,00,000
	14,00,000 x 8/12	9,33,333
1st January, 2022	4,00,000 x 3/12	1,00,000
		30,33,333

Computation of interest to be capitalized:

		Rs.
On specific borrowing	Rs. 20,00,000 x 10%	2,00,000
On non-specific borrowing	Rs. (30,33,333- 20,00,000) x 12%	1,24,000
		3,24,000

NOTE: Since specific borrowings are earmarked for construction of a particular qualifying asset, it cannot be used for construction of any other qualifying asset except for temporary investment. Therefore, once the commencement of capitalization of borrowing cost criteria are met, actual borrowing cost incurred on specific borrowing shall be capitalized irrespective of the fact that amount had been utilized in parts.

Question 9 : Nov 2022 – RTP

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(Rs. in lakhs)

	Phase I Rs.	Phase II Rs.	Phase III Rs.	Phase IV Rs.
Cash expenditure	10	30	25	30

Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Solution :

	Particulars	Rs.
1	Interest expense on loan Rs. 2,00,00,000 at 15%	30,00,000
2	Total cost of Phases I and II (Rs. 34,00,000 +64,00,000)	98,00,000
3	Total cost of Phases III and IV (Rs. 55,00,000 + Rs. 68,00,000)	1,23,00,000
4	Total cost of all 4 phases	2,21,00,000
5	Total loan	2,00,00,000
6	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. **For Phase I and Phase II**
   Since Phase I and Phase II have become operational at the mid of the year, half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs.13,30,317/2) relating to Phase I and Phase II should be expensed during the year.
2. **For Phase III and Phase IV**
   Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Question 10 : May 2023 – RTP

Expert Limited issued 12% secured debentures of Rs. 100 lakhs on 01.06.2021. Money raised from debentures to be utilized as under:

Intended Purpose	Amount Rs. in lakhs
Construction of factory building	40
Working Capital	30
Purchase of Machinery	15
Purchase of Furniture	2
Purchase of truck	13

Additional Information :

(i) Interest on debentures for the Financial Year 2021-2022 was paid by the Company.

(ii) During the year, the company invested idle fund of Rs. 5 lakhs (out of the money raised from debentures) in Bank's fixed deposit and earned interest of Rs. 50,000.

(iii) In March, 2022 construction of factory building was not completed (it is expected that it will take another 6 months).

(iv) In March 2022, Machinery was installed and ready for its intended use.

(v) Furniture was put to use at the end of March 2022.

(vi) Truck is going to be received in April, 2022.

You are required to show the treatment of interest as per AS 16 in respect of borrowing cost for the year ended 31st March, 2022 in the Books of Expert Limited.

Solution :

According to AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. As per the Standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost = Rs. 10,00,000 (100 lakhs x 12% x 10/12) – Rs. 50,000 = Rs. 9,50,000

Particulars	**Nature of assets**	**Interest to be capitalized (Rs.)**	**Interest to be charged to Profit & Loss Account (Rs.)**
Construction of factory building	Qualifying Asset	9,50,000x40/100 = Rs. 3,80,000	Nil
Purchase of Machinery	Not a Qualifying Asset	NIL	9,50,000x15/100 = 1,42,500
Purchase of and furniture	Not a Qualifying Asset	NIL	9,50,000x2/100 =19,000
Purchase of truck	Not a Qualifying Asset	NIL	9,50,000x13/100 = 1,23,500
Working Capital	Not a Qualifying Asset	NIL	9,50,000x30/100 = Rs. 2,85,000
Total		Rs. 3,80,000	Rs. 5,70,000

Question 11 : May 2023 – RTP

ABC Builders Limited had borrowed a sum of US $ 15,00,000 at the beginning of Financial year 2020-21 for its residential project at London Interbank Offered Rate (LIBOR) + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was Rs. 72 per US $ and the rate as on 31st March, 2021 was Rs. 76 per US $. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute

Borrowing Cost and exchange difference for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is 1%).

Solution :

(i) Interest for the period 2020-21
= US $ 15 lakhs x 5% × Rs. 76 per US $ = Rs. 57 lakhs

(ii) Increase in the liability towards the principal amount
= US $ 15 lakhs × Rs. (76 - 72) = Rs. 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency
= US $ 15 lakhs × Rs. 72 x 9.5% = Rs. 102.60 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 102.60 lakhs less Rs. 57 lakhs = Rs. 45.60 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 102.60 lakhs being the aggregate of interest of Rs. 57 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 45.60 lakhs.

Hence, Rs. 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining Rs. 14.4 lakhs (60 - 45.60) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

Question 12 : May 2023 – Paper

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

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

(i) 8% Debentures Rs.15,00,000
(ii) 15% Term Loan Rs.30,00,000
(iii) 10% Other Loans Rs.18,00,000

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

(i) Building Rs.70,00,000
(ii) Furniture Rs.22,00,000
(iii) Plant & Machinery Rs.90,00,000
(iv) Factory Shed t Rs.43,00,000

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

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

Solution :

Interest to be Capitalized (on qualifying asset)

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

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

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

Working note:

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

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

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

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

2. Weighted Average interest rate for non-specific borrowings

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

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

Question 13 : May 2024 – RTP

H Ltd. began the construction of a new building on 1st April 2022. It obtained a special loan of Rs. 6,00,000 on 1st April 2022 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2022 were as follows:

Amount in Rs.	Rate of Interest
30,00,000	14%
54,00,000	16%

The expenditure incurred on the building project was as per detail given below:

	Amount in Rs.
1st May, 2022	12,00,000
1st July, 2022	15,00,000
1st October, 2022	27,00,000
1st March, 2023	7,20,000

The building was completed by 31st March 2023.

Following the provisions of Accounting Standard 16, you are required to calculate the amount of interest to be capitalized and also give one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

Solution :

Interest amount to be capitalized

		Rs.
Specific borrowings (Rs. 6,00,000 x 12%)	=	72,000
Non-specific borrowings		
[Rs. 30,35,000 (Rs. 36,35,000 – Rs. 6,00,000) x 15.29%*]	=	4,64,052
Amount of interest to be capitalized	=	5,36,052

Journal Entry for capitalizing cost and borrowing cost

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2023	Building account	Dr.	66,56,052	
	(Cost of building Rs. 61,20,000 + borrowing cost Rs.5,36,052)			
	To Bank account			66,56,052
	(Being amount of cost of building and borrowing cost thereon capitalized)			

Working notes:

(i) Computation of average accumulated expenses

		Rs.
Rs. 12,00,000 x 11 / 12	=	11,00,000
Rs. 15,00,000 x 9 / 12	=	11,25,000

Rs. 27,00,000 x 6 / 12	=	13,50,000
Rs. 7,20,000 x 1 / 12	=	60,000
61,20,000		36,35,000

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (Rs.)	Rate of interest		Amount of interest (Rs.)
30,00,000	14%	=	4,20,000
54,00,000	16%	=	8,64,000
84,00,000			12,84,000
Weighted average rate of interest $\left(\frac{12,84,000}{84,00,000}\times 100\right)$		=	15.29%* (Rounded off)

Question 14 : May 2024 – Paper

On 1st April, 2021, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of Rs.14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of Rs.15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2023 were as follows:

Amount of Loan	Rate of Interest per
Rs.20,00,000	15%
Rs.30,00,000	8%

The construction of building started on 1st April, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor :

Payment	Amount in Rs.
1st April, 2023	4,00,000
1st August, 2023	10,00,000
1st December, 2023	25,00,000
31st January, 2024	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

Yon are required to :

(i) Calculate the amount of borrowing cost to be capitalized.
(ii) Pass initial journey entry to recognise the cost of building.
(iii) Depreciation on building for the year ending 31st March, 2024.
(iv) Carrying value of building on 31st March, 2024.

Solution :

(i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	Rs.
1st April 2023	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1st August 2023	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1st December 2023	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31st January 2024	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

(ii) Journal Entry

Date	Particulars		Rs.	Rs.
31.1.2024	Building account	Dr.	45,70,000	
	To Bank account			45,70,000
	To Interest payable (borrowing cost)			
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		Rs.	Rs.
31.1.2024	Building account	Dr.	45,70,000	
	To Bank account			45,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

(iii) Depreciation on building for the year ending 31.3.2024

Cost of building 45,70,000
Life of building = 20 years
Depreciation = (45,70,000/20) x 2/12 = 38,083.33

(iv) Carrying Value of Building on 31st March 2024:

Carrying Value = Cost of Building - Accumulated Depreciation
= 45,70,000- 38,083.33
= 45,31,917

Working Notes:

1. Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (Rs.)	Rate of interest		Amount of interest (Rs.)
20,00,000	15%	=	3,00,000
30,00,000	8%	=	2,40,000
50,00,000			**5,40,000**
Weighted average rate of interest $\left(\frac{5,40,000}{50,00,000}\times 100\right)$		=	**10.8%***

2. Total expenses to be capitalized for building

	Rs.
Cost of building Rs. (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000)	44,00,000
Add: Amount of interest to be capitalized	1,70,000
	45,70,000

Question 15 : Sept 2024 – RTP

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

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

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had Rs. 20 lakh overdraft up to 31st December, surplus cash in January and again overdraft of Rs. 14 lakh from 1.2.2024 and Rs. 30 lakh from 1.3.2024. The company had a strike during December and hence could not continue the work during said period. However, the substantial administrative work related to the project was continued. Onsite work was again commenced on 1st January and all the work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month.

Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure.

Solution :

Loyal Ltd.

Month	Actual Expenditure (Rs.)	Interest on outstanding amount @ 15% p.a.	Interest capitalized (Rs.)	Outstanding amount	Cumulative amount (Rs.)
October, 2023	4,00,000	4,00,000*15%*1/12	5,000	4,05,000	4,05,000
November, 2023	7,95,000	(4,05,000 +7,95,000) *15%*1/12	15,000	(4,05,000 + 7,95,000 +15,000	12,15,000
December, 2023	-	(12,15,000) *15%*1/12	15,188	12,15,000 + 15,188	12,30,188

January, 2024	50,000	-	-	12,30,188 + 50,000	12,80,188
February, 2024	2,00,000	14,00,000 *15%*1/12	17,500	12,80,188 + 2,00,000 + 17,500	14,97,688
March, 2024	12,00,000	(14,97,688 + 12,00,000)*15%*1/12	33,721	14,97,688 + 12,00,000 + 33,721	27,31,409
	26,45,000		86,409		

Note:

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

Question 16 : Jan 2025 – RTP

How will interest be capitalized when qualifying assets are funded by borrowings in the nature of bonds that are issued at a discount?

X Ltd. issued in year 1, a 3 year 10% p.a. (interest paid annually) bond with a face value of Rs. 1,00,000 at a price of Rs. 90,000 to finance a qualifying asset which is ready for intended use at the end of year 2. Compute the amount of borrowings costs to be capitalized if the company uses for amortization of discount straight line basis

Solution :

As per AS 16, "Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds". Further, as per para 4 (b) of the standard, "amortization of discounts or premiums relating to borrowings" as a component of borrowing costs. Thus, the borrowing costs comprise the periodic interest payable on the bonds in question and the amount of discount amortised during the period.

Paragraph 6 of the Statement, inter-alia, states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset".

Further, paragraph 19 states that "Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". Thus, only that portion of the amortised discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

Straight line basis

(Amount in Rs.)

Years	Interest	Amortisation of discount	Total borrowing costs
Year 1	10,000	3,333	13,333
Year 2	10,000	3,333	13,333
Year 3	10,000	3,334	13,334

In the above case, the amount of borrowing costs capitalized would be Rs. 13,333 in Year 1 and Year 2. The borrowing costs of Rs. 13,334 incurred in Year 3 would be expensed since the asset is ready for its intended use at the end of Year 2.

Question 17 : May 2025 – RTP

U Limited has obtained a term loan of Rs. 620 lacs for a complete renovation and moderrnisation of its Factory on 1st April, 2023. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 2024. An expenditure of Rs. 510 lacs was incurred on installation of Plant and Machinery, Rs. 54 lacs has been advanced to suppliers for additional assets which were also received and installed before 30th April, 2024 (additional asset has taken substantial period of time in its installation) and the balance loan of Rs. 56 lacs has been used for working capital purposes.

The company has paid total interest of Rs. 68.20 lacs during financial year 2023-2024on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts.

Solution :

Borrowing Cost: As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

Qualifying Asset: A qualifying asset is an asset that necessarily takes a substantial period of time (ordinarily, a period of twelve months unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case) to get ready for its intended use or sale.

When construction of asset completed on 30th April, 2024

The treatment for total borrowing cost of Rs. 68.20 lakhs will be as follows:

Purpose	Nature	Interest to be capitalised Rs. in lakhs	Interest to be charged to profit and loss account Rs. in lakhs
Modernisation and renovation of plant and machinery	Qualifying asset	[68.20 x (510/620)] = 56.10	
Advance to suppliers for additional assets	Assumed as Qualifying asset (Refer Note)	[68.20 x (54/620)] = 5.94	
Working Capital	Not a qualifying asset		[68.20 x (56/620)] = 6.16
		62.04	6.16

Question 18 : Sept 2025 – RTP

Is it permissible to capitalise borrowing costs incurred on assets which are necessary for the construction of qualifying assets? A company is in the process of constructing a large manufacturing plant in a backward area. As a part of this project it has also purchased a residential building, which is to be used for housing the workers engaged in the construction of the plant. The purchase cost of the building is met by raising a long term loan. The company intends to dispose off the building once the construction of the manufacturing plant is complete. If the manufacturing plant meets the definition of a qualifying asset, would the borrowing costs incurred on funds borrowed to purchase the residential building be eligible for capitalisation?

Solution :

As per para 3 of AS 16 "Borrowing Costs" a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, para 5 of the AS explains that "Assets that are ready for their intended use or sale when acquired also are not qualifying assets".

In the given case, prima facie, it may appear that the residential building is ready for use when acquired, and thus, borrowing costs incurred on purchase of residential building should not be capitalised. However, since in the present case provision of housing facilities is necessary for the construction of the plant, the borrowing costs incurred are, in substance, directly attributable to the construction of the manufacturing plant. Accordingly, the company should capitalise, as a part of the cost of the manufacturing plant, borrowing costs incurred on funds borrowed to acquire the residential building upto the period the manufacturing plant is ready for its intended use.

Question 19 : Jan 2026 – RTP

Can interest be included in the cost of inventories?

Solution :

Paragraph 6 of AS 16 states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset". Paragraph 3 of AS 16 defines a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, "inventories that require a substantial period of time to bring them to a saleable condition" are specifically included as an example of qualifying assets (paragraph 5).

In this context, it may be noted that ICAI has issued Accounting Standards Interpretation **(ASI)** 1, 'Substantial Period of Time', paragraphs 5 and 8 of which state as below:

"5. In case of inventories, substantial period of time is considered to be involved where time is the major factor in bringing about a change in the condition of inventories. For example, liquor is often required to be kept in store for more than twelve months for maturing."

"8. Paragraph 5 of AS 16 provides, inter alia, that "inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets." Paragraph 12 of Accounting Standard (AS) 2, Valuation of Inventories, provides that "Interest and other borrowing costs are usually considered as not relating to bringing the • inventories to their present location and condition and are, therefore, usually not included in the cost of inventories". It is only in exceptional cases, where time is a major factor in bringing about change in the condition of inventories that borrowing costs are included in the valuation of inventories."

Thus, interest costs should be included in the cost of inventories, which meet the definition of qualifying assets, in accordance with the provisions of AS 16.

CHAPTER

17

AS 17 – SEGMENT REPORTING

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Question 1 : May 2020 – RTP / Nov 2020 – RTP / Jan 2021 – Paper / May 2023 – RTP / Nov 2023 - RTP

The Accountant of X. Ltd. provides the following data regarding its five segments:

Particulars	A	B	C	D	E	Total (Rs. in Crore)
Segment Assets	50	20	15	10	5	100
Segment Results	(85)	10	10	(15)	5	(75)
Segment Revenue	250	50	40	60	30	430

The accountant is of the opinion that segment 'A' alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS-17 Segment Reporting.

Solution :

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

- Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- Its segment result whether profit or loss is 10% or more of:
  - The combined result of all segments in profit; or
  - The combined result of all segments in loss,

  whichever is greater in absolute amount; or
- Its segment assets are 10% or more of the total assets of all segments.

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

On the basis of revenue criteria, segments A, B and D are reportable segments.

On the basis of the result criteria, segments A, B, C and D are reportable segments (since their results in absolute amount are 10% or more of Rs. 100 crore).

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

Since all the segments except E are covered in at least one of the above criteria. Hence, all segments except E have to be reported upon in accordance with Accounting Standard (AS) 17.
Hence, the opinion of chief accountant that only segment A alone should be reported, is wrong as all segments are reportable except E.

Question 2 : Nov 2020 – Paper

The accountant of Parag Ltd has furnished you with the following data related to its Business Division

(Rs. In lacs)

Division	A	B	C	D	Total
Segment Revenue	100	300	200	400	1000
Segment Result	45	-70	80	-10	45
Segment Assets	39	51	48	12	150

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

Solution :

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:
Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or Its segment result whether profit or loss is 10% or more of:

- The combined result of all segments in profit; or
- The combined result of all segments in loss,

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

Question 3 : Nov 2021 – RTP

Company A is engaged in the manufacture of chemicals. The company manufactures five types of chemicals that have different applications. Can this company include more than one type of chemical in a single business segment? Comment.

Solution :

As per AS 17, "A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products of services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:
(a) the nature of the products of services;

(b) the nature of the productions processes;
(c) the type of class of customers for the products or services;
(d) the methods use to distribute the products or provide the services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities."

As per provisions of the standard, a single business segment does not include products and services with significantly differing risks and returns. Products and services included in a single business segment may be dissimilar with respect to one or several factors listed above but are expected to be similar with respect to majority of the factors.

In the present case, the Company should consider whether the chemicals with different applications, have similar risks end returns. For this purpose, the Company should ascertain whether one or more types of chemicals are related keeping in view the relevant factors including those given in the definition of business segment. Chemicals having different applications can be included in a single business segment if majority of the relevant factors including those listed above are similar. This would ensure that the chemicals having significantly different risks and returns are not included in a single business segment.

Question 4 : Nov 2021 – RTP

Is an enterprise required to disclose changes in the basis of allocation of revenue and expenses to segments? Explain.

Solution :

As per AS 17, "Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed. Such disclosure should include a description of the nature of the change, and the financial effect of the change if it is reasonably determinable." It also states that "some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the enterprise. To enable users to understand and impact of such changes, this Statement requires the disclosure of the nature of change and the financial effect of the change, if reasonably determinable".

In view of the above, a change in the basis of allocation of revenue and expenses to segments is a change in the accounting policy adopted for segment reporting. Accordingly, if the change has a material financial effect on the segment information, a description of the nature of the change, and the financial effect of the change, if it is reasonably determinable, should be disclosed.

Question 5 : May 2022 – RTP

Company A is engaged in the manufacture and sale of products, which constitute two distinct business segments. The products of the Company are sold in the domestic market only. The management information system of the Company is organized to reflect operating information by two broad market segments, rural and urban. Besides the two business segments, how should Company A identify geographical segments? Do geographical segments exist within the same country? Explain in line with the provisions of AS 17.

Solution :

AS 17 explains that, "a single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country". Accordingly, to identity geographical segments, Company A needs to evaluate whether the segments reflected in the management information system function in environments that are subject to significantly differing risks and returns irrespective of the fact whether they are within the same country.

The Standard recognizes that, "Determining the composition of a business or geographical segment involves a certain amount of judgement…". Accordingly, while the management information system of the Company provides segment information for rural and urban geographical segments for the purpose of internal reporting, judgement is required to determine whether these segments are subject to significantly differing risks and returns based on the definition of geographical segment. In making such a judgement, aspect like different pricing and other policies, e.g., credit policies, deployment of resources between different regions etc., may be considered for the purpose identifying 'urban and 'rural' as separate geographical segment.

Company A, in making judgment for identifying geographical segments, should also consider the relevance, reliability and comparability over time of segment information that will be reported. The Standard, explains that, "In making that judgement, enterprise management takes into account the objective of reporting financial information by segment as set forth in the standard and the qualitative characteristics of financial statements. The qualitative characteristics include the relevance, reliability and comparability over time of financial information that is reported about the different groups of products and services of an enterprise and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the enterprise."

Question 6 : May 2022 – RTP

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 20% above cost. You are required to examine whether the policy adopted by the company is correct or not?

Solution :

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

Question 7 : May 2022 – Paper

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 2022 has been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	Profit (Loss) Rs. in lakhs

A	225
B	25
C	(175)
D	(20)
E	(105)

Solution :

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

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

- The combined result of all segments in profit; i.e. Rs. 250 Lakhs or
- The combined result of all segments in loss; i.e. Rs. 300 Lakhs

Whichever is greater in absolute amount i.e. Rs. 300 Lakhs.

Operating Segment	Absolute amount of Profit or Loss (Rs. In lakhs)	Reportable Segment Yes or No
A	225	Yes
B	25	No
C	175	Yes
D	20	No
E	105	Yes

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

Question 8 : Nov 2022 – RTP

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

Solution :

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

Question 9 : Sept 2024 – RTP

Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

Solution :

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the

segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

Question 10 : Jan 2025 – RTP

A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

Solution :

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

Question 11 : Sept 2025 – RTP

The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(Rs. in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

Solution :

As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

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

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

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

Question 12 : Jan 2026 – RTP

Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	1,100	200	3,400
TOTAL	4,500	14,000	44,500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer.

Solution :

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

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

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

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is Rs. 10,500 Lakhs (Rs. 14,000 × 75%) and the total External Revenue from Reportable segments is Rs. 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of Rs. 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of Rs. 44,500 lakhs).

CHAPTER

18

AS – 18 RELATED PARTY DISCLOSURE

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Question 1 : Nov 2018 – Paper

Following transactions are disclosed as on 31st March, 2018:

(i) Mr. Sumit, a relative of Managing Director, received remuneration of Rs. 2,10,000 for his services in the company for the period from 1st April, 2017 to 30th June, 2017. He left the service on 1st July, 2017.
Should the relative be identified as a related party as on closing date i.e. on 31-3-2018 for the purpose of AS-18.

(ii) Goods sold amounting to Rs. 50 lakhs to associate company during the 1st quarter ended on 30th June, 2017. After that related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer.
Decide whether transactions of the entire year have to be disclosed as related party transactions.

Solution :

(i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period, one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.
Hence, Mr. Sumit a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2018 as he received remuneration forhis services in the company from1st April, 2017 to 30th June, 2017and this period comes under the reporting period.

(ii) As per provision of AS 18, the transactions only for the period in which related party relationships exist need to be reported.
Hence, transactions of the entity with its associate company for the first quarter ending 30.06.2017 only are required to be disclosed as related party transactions. Transactions of the entire year need not be disclosed as related party transactions and transactions for the period (after 1st July) in which related party relationship did not exist need not be reported.

Hence transaction of sale of goods with the associate company for first quarter ending 30th June, 2017 for Rs. 50 Lakhs only are required to be disclosed as related party transaction on 31.3.18

Question 2 : May 2019 – RTP / Nov 2019 – RTP / July 2021 – Paper

(i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.

(ii) Shri Bhanu a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

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

Solution :

(i) Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

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

(ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021 as he received remuneration for his services in the company for the period from 1st April,2020 to 30th June,2020.

Question 3 : May 2019 – Paper / Nov 2023 – RTP

Identify the related parties in the following cases as per AS-18

(i) Maya Ltd. holds 61 % shares of Sheetal Ltd.

Sheetal Ltd. holds 51% shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

(Give your answer - Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)

Solution :

(a) Reporting entity- Maya Ltd.
- Sheetal Ltd. (subsidiary) is a related party
- Fair Ltd.(subsidiary) is a related party

(b) Reporting entity- Sheetal Ltd.
- Maya Ltd. (holding company) is a related party
- Fair Ltd. (subsidiary) is a related party

(c) Reporting entity- Fair Ltd.
- Maya Ltd. (holding company) is a related party
- Sheetal Ltd. (holding company) is a related party
- Care Ltd. (investor/ investing party) is a related party

(d) Reporting entity- Care Ltd.
- Fair Ltd. (associate) is a related party

Question 4 : May 2020 – RTP

Arohi Ltd. sold goods for Rs.90 lakhs to Anya Ltd. during financial year ended31-3-2019. The Managing Director of Arohi Ltd. own 100% of Anya Ltd. The sales were made to Anya Ltd. at normal selling prices followed by Arohi Ltd. The Chief accountant of Arohi Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct? Comment in accordance with AS 18.

Solution :

As per AS 18 'Related Party Disclosures', Enterprises over which the key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise. In the given case, Arohi Ltd. and Anya Ltd. are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Arohi Ltd. is wrong.

Question 5 : Nov 2020 – RTP

On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:
X Limited holds 60% shares of Y Limited
Y Limited holds 55% shares of W Limited
Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for Rs.40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.

Solution :

(i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.

(ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. i.e. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party transactions, is wrong.

Question 6 : May 2021 – RTP

R Ltd. has 60% voting right in S Ltd. S Ltd. has 15% voting right in T Ltd. R Ltd. directly enjoys voting right of 10% in T Ltd. T Ltd. is a listed company and regularly supplies goods to R Ltd. The management of T Ltd. has not disclosed its relationship with R Ltd. You are required to assess the situation from the view point of AS 18 on Related Party Disclosures.

Solution :

AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Definition for Control

Here, control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

Nature of Relationship

R Ltd. has direct economic interest in T Ltd. to the extent of 10%, and through S Ltd. in which it is the majority shareholders, it has further control of 9% in T Ltd. (60% of S Ltd.'s 15%). These two taken together (10% + 9%) make the total control of 19%.

Conclusion

In the present case, control of R Ltd. in T Ltd. directly and through S Ltd., is only 19%. Significant influence may also not be exercised as an investing party (R Ltd.) holds, directly or indirectly through intermediaries only 19% of the voting power of the T Ltd. Accordingly, R Ltd. and T Ltd. are not related parties. Hence related party disclosure, as per AS 18, is not required.

Question 7 : Nov 2021 – RTP

Omega Bank Limited holds 25 per cent of the voting power of B Limited. Omega Bank Limited also provides finance by way of a loan to B Limited at market rates of interest, on account of which, Omega Bank Limited would have the power to nominate one person to the board of directors of B Limited. Any major transactions proposed to be entered into by B Limited would need the consent of Omega Bank Limited. Would Omega Bank Limited be considered as related party for B Ltd. (reporting enterprise)?

Solution :

Omega Bank Limited would be a related party of B Limited. As per AS 18 "associates and joint ventures of the reporting enterprise and the investing party of venture in respect of which the

reporting enterprise is an associate or a joint venturer" are related party relationship. Further, an associate has been defined as "an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of the party". Significant influence has been defined to be "participation in the financial and /or operating policy decisions of an enterprise, but not control of those policies". Further, it is given in the standard that significant influence may be gained by share ownership, agreement or statute. As regards share ownership, there is a presumption that ownership of 20 per cent or more of the voting power enables the enterprise to exercise significant influence, unless it could be clearly demonstrated otherwise. In the given example, Omega Bank Limited exercises significant influence over B Limited by virtue of ownership of 25 per cent of the voting power.

Omega Bank Limited is also a provider of finance for B Limited (as it has provided a loan to B Limited), and as per the standard, a provider of finance is deemed not to be a related party during its normal dealings with the enterprise by virtue only of those dealing. However, in this case, the exemption would not be available to Omega Bank Limited as the exercise of significant influence of Omega Bank Limited over B Limited has been demonstrated on account of ownership of more than 20 per cent of voting power. Accordingly, Omega Bank Limited would be construed to be a related party in the financial statements of B Limited and consequently, the latter would be required to disclose the transactions with Omega Bank Limited in its financial statements.

Question 8 : Nov 2021 – RTP

A Limited has two Associates, B Limited and C Limited, and owns 25 per cent of the voting power of B Limited and 30 per cent of the voting power of C Limited. Would B Limited be considered a related party for the purpose of financial statements of C Limited?

Solution :

Both B Limited and C Limited are 'associates' of A Limited. Follow-associates cannot be regarded as a related parties only by virtue of the relationship. AS 18 states that "enterprise that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise" are related parties. Further, it is given that "associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venturer" are also related parties. As B Limited is not an associate of C Limited, nor is it being controlled, directly or indirectly, by C Limited or is not so controlling C Limited, it is not a related party of C Limited.

Question 9 : Nov 2022 – RTP

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

Solution :

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

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

Question 10 : May 2023 – RTP

Is remuneration paid to Board of Directors a related party transaction? Explain.

Solution :

In case of a Company, the Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per Companies Act, 2013, a related party includes a director or his relative. The Act, defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as relate d party transaction.

Question 11 : May 2023 – Paper

Answer the following with respect to AS-18:

(i) ABC Ltd. sold goods of Rs. 2,00,000 to its associate company for the 1stquarter ending 30.06.2022. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

(ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?

(iii) Asha Ltd. sells all the manufactured furniture of Rs. 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement.

Solution :

(i) As per AS 18, parties are considered to be related if any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party. Transactions of ABC Ltd. with its associate company for the first quarter ending 30.06.2022 only are required to be disclosed as related party transactions as the company has the ability to exercise significant influence only till 30.6.2022.

The transactions for the period in which related party relationship did not exist need not be reported.

(ii) In the given case, Arjun Ltd. cannot be said to control the composition of board of directors of Bheem Ltd. as the directors have been appointed in their individual capacity as professionals and not by virtue of their being directors in Arjun Ltd.

Hence, it cannot be concluded that the companies are related merely because the majority of the directors of one company became the majority of the directors of the second in their individual capacity as professionals.

(iii) In the context of AS 18, a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business cannot be construed as Related Party Relationship merely by virtue of the resulting economic dependence. There is an economic dependence between the companies but no one controls or exercise significant influence on the other.

In the given case, Asha Ltd. need not report Sasha Company as its related party in its financial statements.

Question 12 : May 2024 – RTP

(i) A Ltd. enters into an agreement with Mr. Bhola for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Bhola, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Bhola does not have any voting power in A Limited.

(ii) Shri Manoj a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2022 to 30th June, 2022. On 1st July, 2022, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2023 for the purposes of AS 18 'Related Party Disclosures'.

Solution :

(i) Mr. Bhola will not be considered as a related party of A Ltd. in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

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

(ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Manoj, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2023 as he received remuneration for his services in the company for the period from 1st April, 2022 to 30th June, 2022.

Question 13 : Jan 2025 – RTP

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

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

Solution :

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

Question 14 : Jan 2025 – Paper

The following information is provided for the year ended 31st March, 2024 :

(i) AX Limited holds 70% shares of BX Limited
(ii) BX Limited holds 30% shares of CX Limited
(iii) DX Limited holds 40% shares in CX Limited
(iv) DX Limited holds 49% shares in EX Limited

You are required to:

(i) Identify the related parties for the reporting entities – AX Limited, CX Limited and EX Limited
(ii) If DX Limited would have sold its investment in EX Limited on 1st October, 2023, but goods were continued to be supplied by DX Limited to EX Limited throughout the year, will this scenario change your answer with respect to any of the reporting entity mentioned in point (i) ?

Give reasons for your answer as per AS 18.

Solution :

(i)

Reporting entity	Related party
AX Limited	BX Limited (AX Limited controls BX Limited directly as holding company CX Limited (AX Limited has significant influence in CX Limited indirectly through BX Limited)
CX Limited	AX Limited (AX Limited has significant influence in CX Limited indirectly through BX Limited) BX Limited (BX Limited has significant influence in CX Limited)

	DX Limited (DX Limited holds 40% shares, means substantial interest of more than or equal to 20%, hence significant influence exists in this case)
EX Limited	DX Limited (DX Limited holds 49% shares, means substantial interest of more than or equal to 20%, hence significant influence exists in this case)

(ii) No, DX would still be a related party of EX Limited EX Limited will report DX Limited as a related party as per AS 18. However, the transaction for the period in which the related party relationship exists will only be disclosed.

Question 15 : May 2025 – RTP

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

Solution :

Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

Question 16 : Sept 2025 – RTP

X Ltd. sold goods to its associate company for the 1st quarter ending 30.6.2024. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

Solution :

As per para 23 of AS 18 on 'Related Party Disclosures', transactions of X Ltd., with its associate company for the first quarter ending 30.6.2024 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not to be disclosed as related party transaction

Question 17 : Jan 2026 – RTP

Mr. Rajiv KMP of Raijada Limited received a cheque of Rs. 70,000 towards reimbursement of expenses incurred on stay in hotel, conference expenses etc. visiting some meeting on behalf of the company. You are required to guide whether the above transaction is covered under AS-18?

Solution :

As per AS 18 'Related Party Disclosures', enterprises over which KMP & its relatives are able to exercise significant influence are related party transactions (Clause D).

Thus, as per the facts of the case & provisions of AS, KMP is RP of the company.

But, reimbursement is not in the nature of remuneration.

Hence, not to be disclosed in Financial Reporting.

Thanks ....



CHAPTER

19

AS 19 – LEASES

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Question 1 : May 2018 – Paper / Nov 2020 – RTP / Jan 2021 – Paper / May 2022 – RTP / Nov 2023 – RTP

A Ltd. sold JCB having WDV of Rs. 20 lakhs to B Ltd. for Rs. 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if

(i) Sale price of Rs. 24 lakhs is equal to fair value.
(ii) Fair value is Rs. 20 lakhs and sale price is Rs. 24 lakhs.
(iii) Fair value is Rs. 22 lakhs and sale price is Rs. 25 lakhs.
(iv) Fair value is Rs. 25 lakhs and sale price is Rs. 18 lakhs.
(v) Fair value is Rs. 18 lakhs and sale price is Rs. 19 lakhs

Solution :

Following will be the treatment in the given cases:

(i) When sale price of Rs. 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of Rs.4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is Rs. 20 lakhs & sale price is Rs. 24 lakhs then profit of Rs. 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is Rs. 22 lakhs & sale price is Rs. 25 lakhs, profit of Rs. 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of Rs.3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is Rs. 25 lakhs & sale price is Rs. 18 lakhs, then loss of Rs. 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is Rs. 18 lakhs & sale price is Rs. 19 lakhs, then the loss of Rs. 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of Rs. 1 lakhs (19-18) should be amortised/deferred over lease period.

Question 2 : May 2019 – RTP

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

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

Solution :

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year
= Rs. 50,000 x 0.7513
= Rs. 37,565

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565
= Rs. 4,62,435

The percentage of present value of lease payments to fair value of the equipment is
(Rs. 4,62,435/ Rs. 5,00,000) x 100 = 92.487%.

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

Calculation of Unearned Finance Income

Annual lease payment = Rs. 4,62,435/ 2.4868 =Rs. 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value
= (Rs. 1,85,956 × 3) + Rs. 50,000
= Rs. 5,57,868 + Rs. 50,000 = Rs. 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value
= Rs. 6,07,868 – Rs. 5,00,000 = Rs. 1,07,868

Question 3 : May 2019 – Paper / May 2020 – RTP

Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being Rs.11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays Rs.3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of Rs.70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only Rs.25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS - 19.

Solution :

According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease

payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.
In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment Rs.	Internal rate of return (Discount rate @10%)	Present value Rs.
1	3,50,000	0.909	3,18,150
2	3,50,000	0.826	2,89,100
3	3,50,000	0.751	2,62,850
4	4,20,000*	0.683	2,86,860
Total	**14,70,000**		**11,56,960**

Present value of minimum lease payments Rs. 11,56,960 is more than fair value at the inception of lease i.e. Rs. 11,50,000, therefore, the lease liability and machinery should be recognized in the books at Rs. 11,50,000 as per AS 19.

Question 4 : Nov 2019 – Paper

Classify the following into either operating lease or finance lease with reason:

(1) Economic life of asset is 10 years, lease term is 9 years, but asset is not acquired at the end of lease term.

(2) Lessee has option to purchase the asset at lower than fair value at the end of lease term.

(3) Lease payments should be recognized as an expense in the statement of Profit & Loss of a lessee.

(4) Present Value (PV) of Minimum Lease Payment (MLP) = "X".
Fair value of the asset is "Y". And X = Y.

(5) Economic life of the asset is 5 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

Solution :

(i) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(ii) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.

(iii) It is an operating lease under which lease payments are recognized as expense in the profit and loss account of lessee to have better matching between cost and revenue.

(iv) The lease is a finance lease if X = Y, or where X substantially equals Y.

(v) Since the asset is of special nature and has been procured only for the use of lessee, it is a finance lease.

Question 5 : Nov 2020 – RTP

Classify the following into either operating or finance lease:

(i) If Present value (PV) of Minimum lease payment (MLP) = "X" ; Fair value of the asset is "Y" and X=Y.

(ii) Economic life of the asset is 7 years, lease term is 6.5 years, but asset is not acquired at the end of the lease term;

(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

Solution :

(i) The lease is a finance lease if X = Y, or if X substantially equals Y.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

Question 6 : Dec 2021 – Paper

A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost of Rs.2,25,000. Economic life of the machine is 5 years and output from the machine is estimated as 60,000 units, 75,000 units 90,000 units, 1,20,000 units and 1,05,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. You are required to compute the following as per AS-19.

(i) Annual Lease Rent

(ii) Lease Rent income to be recognised in each operating year and

(iii) Depreciation for 3 years of lease

Solution :

(i) Annual lease rent

Total lease rent

= 130% of Rs. 2,25,000 □ Output during lease period/ Total output

= 130% of Rs. 2,25,000 x (60,000 +75,000+ 90,000)/(60,000 + 75,000 + 90,000 + 1,20,000 + 1,05,000)

= 2,92,500 x 2,25,000 units/4,50,000 units = Rs. 1,46,250

Annual lease rent = Rs. 1,46,250 / 3 = Rs. 48,750

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

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 60,000 : 75,000 : 90,000 or 4:5:6

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

Year 1 Rs. 39,000,

Year 2 Rs. 48,750 and

Year 3 Rs. 58,500.

(iii) Depreciation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs. 2,25,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 60 :75: 90 : 120 : 105 .

Depreciation for year 1 is Rs. 30,000, year 2 = 37,500 and year 3 = 45,000.

Question 7 : May 2022 – RTP

Classify the following into either operating or finance lease:

(i) If Present value (PV) of Minimum lease payment (MLP) = "X"; Fair value of the asset is "Y" and X=Y.

(ii) Economic life of the asset is 7 years, lease term is 6.5 years, but asset is not acquired at the end of the lease term;

(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

Solution :

(i) The lease is a finance lease if X = Y, or if X substantially equals Y.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

Question 8 : May 2022 – RTP

Viral Ltd. sold machinery having WDV of Rs. 40 lakhs to Saral Ltd. for Rs. 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

(i) Fair value is Rs. 45 lakhs and sale price is Rs. 39 lakhs.

(ii) Fair value is Rs. 40 lakhs and sale price is Rs. 49 lakhs.

(iii) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

Solution :

As per AS 19, where sale and leaseback results in operating lease, then the accounting treatment in different situations is as follows:

Situation 1: Sale price = Fair Value

Profit or loss should be recognized immediately.

Situation 2: Sale Price < Fair Value

Profit should be recognized immediately. The loss should also be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Situation 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Following will be the treatment in the situations given in the question:

(i) When fair value of leased machinery is Rs. 45 lakhs & sale price is Rs. 39 lakhs, then loss of Rs. 1 lakh (40 – 39) to be immediately recognized by Viral Ltd. in its books provided loss is not compensated by future lease payment.

(ii) When fair value is Rs. 40 lakhs & sale price is Rs. 49 lakhs then, profit of Rs. 9 lakhs is to be deferred and amortized over the lease period.

(iii) When fair value is Rs. 46 lakhs & sale price is Rs. 50 lakhs, profit of Rs. 6 lakhs (46 less 40) to be immediately recognized in its books and balance profit of Rs.4 lakhs (50-46) is to be amortized/deferred over lease period.

Question 9 : May 2022 – Paper

What are the disclosures requirements for operating leases by the lessee as per AS-19 ?

Solution :

As per AS 19, lessees are required to make following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancelable operating leases for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years;
  (iii) later than five years;

(b) the total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date;

(c) lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;

(d) sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;

(e) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
  (i) the basis on which contingent rent payments are determined;
  (ii) the existence and terms of renewal or purchase options and escalation clauses; and
  (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

  Note: The Level II and Level III non-corporate entities (and SMCs) need not make disclosures required by (a), (b) and (e) above.

Question 10 : Nov 2022 – RTP / May 2023 – RTP

WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment's costing Rs. 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be Rs. 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

You are required to compute the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

Solution :

(i) Computation of annual lease payment to the lessor

	Rs.
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (Rs. 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (Rs. 16,99,999.5– Rs. 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = Rs. 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	Rs.
Total lease payments (Rs. 6,43,500 x 3)	19,30,500
Add: Unguaranteed residual value	1,33,500
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (Rs. 1,00,258.5+ Rs. 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

Question 11 : May 2024 – RTP

Sooraj Limited wishes to obtain a machine costing Rs. 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for Rs. 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sooraj Limited is not sure about the treatment of these lease rentals and seeks your advice. (Use annuity factor at @ 15% for 3 years as 2.28)

Solution :

As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment• amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	2.28
Present Value of minimum lease payments (Rs. 3 lakhs each year)	Rs.6.84 lakhs

Thus, the present value of minimum lease payments is Rs. 6.84 lakhs and the fair value of the machine is Rs. 30 lakhs. In a finance lease, the lease term should be for a major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, a lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Question 12 : May 2024 – Paper

Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:

Cost of the machine	Rs. 18,00,000
Lease term	3 Years
Fair market value of the machine	Rs. 18,00,000
Unguaranteed residual value as on 31.3.2024	Rs. 2,00,000
Internal rate of return	12%

Other information:

The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts. The present value of Rs. 1 due at the end of 3rd year at 12% rate of interest is Rs. 0.7118. The present value of annuity of at Rs. 1 due at the end of 3rd year at 12% IRR is Rs. 2.4018.

You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.

Solution :

Computation of Annual Lease Payment

Particulars	Amount
Cost of Equipment	18,00,000
Unguaranteed Residual Value	2,00,000
Present Value of unguaranteed residual value (Rs. 200,000 x 0.7118)	1,42,360
Present Value of Lease Payments (Rs. 18,00,000 – Rs. 1,42,360)	16,57,640
Present Value of Annuity for three years is 2.4018 Annual Lease Payment (16,57,640 / 2.4018)	6,90,165.71

Classification of Lease:

Parameter 1:

The present value of lease payment i.e. Rs. 16,57,649 which equals 92.09% of the fair market value i.e., Rs. 18,00,000.

The present value of minimum lease payments is substantially covers the fair value of the leased asset

Parameter 2:

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

Computation of unearned Finance Income:

Particulars	Amount
Total Lease Payments (Rs. 6,90,165 x 3)	Rs. 20,70,495
Add: Unguaranteed residual value	Rs. 2,00,000
	Rs. 22,70,495
Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640)	Rs. 18,00,000
Unearned Finance Income	Rs. 4,70,495

Question 13 : Jan 2025 – RTP

Money Limited leased a machine to Hello Limited on the following terms:

		(Rs. in lakh)
(i)	Fair value of the machine	24
(ii)	Lease term	5 years
(iii)	Lease rental per annum	4
(iv)	Guaranteed residual value	0.8
(v)	Expected residual value	1.5
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

Solution :

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

Where:

(a) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.
Gross investment = Minimum lease payments + Unguaranteed residual value
= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)
= [(Rs.s4,00,000 × 5 years) + Rs. 80,000] + Rs. 70,000 = Rs. 21,50,000 (a)

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV Rs.	Internal rate of return (Discount factor @ 15%)	Present Value Rs.
1	4,00,000	0.8696	3,47,840
2	4,00,000	0.7561	3,02,440
3	4,00,000	0.6575	2,63,000
4	4,00,000	0.5718	2,28,720
5	4,00,000	0.4972	1,98,880
	80,000 (GRV)	0.4972	39,776
	20,80,000		13,80,656 (i)
	70,000 (URV)	0.4972	34,804 (ii)
	21,50,000	(i)+ (ii)	13,45,852(b)

Unearned Finance Income (a) - (b) = Rs. 21,50,000 – Rs. 13,45,852 = Rs. 8,04,148.

Question 14 : Jan 2025 – Paper

J. Limited availed an equipment on lease from K Limited. The conditions of the lease terms are as under :

(i) Lease starts from 1st April, 2020 for a period of 4 years and useful life of the equipment is 6 years. Both the cost and fair value of equipment are Rs.12,50,000.
(ii) The equipment reverts back to the lessor on termination of the lease.
(iii) The unguaranteed residual value is estimated at Rs.1,20,000 at the end of the financial year 2023-2024.
(iv) The amount will be paid in 4 equal instalments at the end of each year.
(v) Consider IRR = 8%
(vi) The present value of Rs.1 at the end of 4th year at 8% of interest is Rs.0.735.
(vii) The present value of annuity of Rs.1 due at the end of 4th year at 8% IRR is Rs.3.312.

State whether this lease is Operating lease or Finance lease (by applying two deterministic parameters). Also calculate unearned finance Income.

Solution :

Computation of annual lease payment:

Particulars	Rs.
Cost of equipment	12,50,000.00
Unguaranteed residual value	1,20,000.00
Present value of unguaranteed residual value (Rs. 1,20,000 x 0.735)	88,200.00
Present value of lease payments (Rs. 12,50,000 -Rs. 88,200)	11,61,800.00
Present value of annuity for four years is 3.312	
Annual lease payment [11,61,800/3.312]	3,50,785.02

Classification of lease:

Parameter 1:

The present value of the lease payment i.e. Rs. 11,61,800 which equals 92.94% of the fair market value i.e. Rs. 12,50,000.

The present value of minimum lease payments substantially covers the fair value of the leased asset.

Parameter 2:

The lease term (i.e. 4 years) covers the major part of the life of asset (i.e. 6 years).

Therefore, **it constitutes a finance lease.**

Computation of Unearned Finance Income:

Particulars	Rs.
Total lease payments (Rs 3,50,785.02 x 4)	14,03,140.08
Add: Unguaranteed residual value	1,20,000.00
Gross investment in the lease	15,23,140.08
Less: Present value of lease payments and residual value i.e. Net Investment (Rs. 88,200 + Rs. 11,61,800)	(12,50,000.00)
Unearned finance income	2,73,140.08

Question 15 : May 2025 – RTP

Sun Limited wishes to obtain a machine costing Rs. 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for Rs. 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sun Limited is not sure about the treatment of these lease rentals and seeks your advice. (use annuity factor at @ 15% for 3 years as 3.36)

Solution :

As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment• amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	3.36
Present Value of minimum lease payments (Rs. 3 lakhs each year)	Rs. 10.08 lakhs (approx.)

Thus, present value of minimum lease payments is Rs.10.08 lakhs and the fair value of the machine is Rs. 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Question 16 : Sept 2025 – RTP

On 1st April, 2024, Mansi Ltd. sold a plant for Rs. 8,52,800. The carrying amount of the plant on that date was Rs. 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at Rs. 1,60,000 payable annually beginning from 31st March, 2025.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

Solution :

Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is Rs. 8,53,600 [Rs. 1,60,000 x 5.335 (Annuity factor of Rs. 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. Rs. 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of Rs. 6,72,800 (Sale value Rs. 8,52,800 less carrying amount Rs. 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of Rs. 1,06,600 per annum for 8 years (Rs. 8,52,800/8) and amortise profit of Rs. 6,72,800 over the lease term of 8 years, i.e. Rs. 84,100 p.a.

The net effect is a debit of (Rs. 1,06,600-84,100) Rs. 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

Question 17 : Jan 2026 – RTP

On 1st April, 2024, Mansi Ltd. sold a plant for Rs. 8,52,800. The carrying amount of the plant on that date was Rs. 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at Rs. 1,60,000 payable annually beginning from 31st March, 2025.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

Solution :

Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is Rs. 8,53,600 [Rs. 1,60,000 x 5.335 (Annuity factor of Rs. 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. Rs. 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of Rs. 6,72,800 (Sale value Rs. 8,52,800 less carrying amount Rs. 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of Rs. 1,06,600 per annum for 8 years (Rs. 8,52,800/8) and amortise profit of Rs. 6,72,800 over the lease term of 8 years, i.e. Rs. 84,100 p.a.

The net effect is a debit of (Rs. 1,06,600-84,100) Rs. 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

Thanks ....



CHAPTER

20

AS 20 – EARNING PER SHARES

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Question 1 : May 2018 – Paper

As at 1st April, 2016 a company had 6,00,000 equity shares of Rs. 10 each (Rs. 5 paid up by all shareholders). On 1st September, 2016 the remaining Rs. 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2017 was Rs. 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to Rs. 3,40,000.

Compute Basic EPS for the year ended 31st March, 2017 as per Accounting Standard 20 "Earnings Per Share".

Solution :

Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = \text{Rs.4.80 per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	Rs.	Rs.	Rs.
1.4.2016	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2016	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2016	60,000	5	60,000 x 5/10 x 7/12 = 17,500

Total weighted average equity shares	4,57,500

Question 2 : Nov 2018 – Paper / May 2019 – RTP / Nov 2019 – RTP / Nov 2022 – RTP

From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019:

Net Profit for the year after tax : Rs.75,00,000

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

1,00,000, 8% Convertible Debentures of Rs. 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30%.

Solution :

Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

Rs. 75,00,000 / 10,00,000 = Rs. 7.50 per share

Computation of diluted earnings per share Adjusted $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average no. of Equity Shares}}$

Adjusted net profit for the current year

	Rs.
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of Rs.8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= Rs. 80,60,000/ 11,10,000

= Rs. 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

Question 3 : Nov 2019 – Paper / Nov 2020 – RTP / May 2023 - RTP

A-One Limited supplied the following information. You are required to compute the earnings per share as per AS 20:

Net profit attributable to equity shareholders Year 2017-18: Rs.1,00,00,000

Year 2018-19 : Rs.1,50,00,000

Number of shares outstanding prior to Right Issue 50,00,000 shares

Right Issue: One new share for each four outstanding shares i.e., 12,50,000 shares

Right Issue Price – Rs.96

Last date of exercising rights - 30-06-2018

Fair value of one equity share immediately prior to exercise of rights on 30-06-2018 was Rs. 101.

Solution :

Computation of earnings per share :

	2017-18 Rs.	2018-19 Rs.
EPS for the year 2017-18 as originally reported : (Rs. 1,00,00,000 / 50,00,000 shares)	2.00	
EPS for the year 2017-18 restated for rights issue : Rs.1,00,00,000 / (50,00,000 shares x 1.01) *	1.98	
EPS for the year 2018-19 including effects of rights issue : $\frac{Rs.1,50,00,000}{(50,00,000\times1.01\times3/12)+(62,50,000\times9/12)}$		2.52

*Computation of earnings per share in case of Rights Issue requires computation of adjustment factor which is given as working note.

Working Notes :

1. Computation of theoretical ex-rights fair value per share

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

$$\frac{(Rs.101\times50,00,000\text{ shares})+(Rs.96\times12,50,000\text{ shares})}{50,00,000\text{ shares}+12,50,000\text{ shares}}$$

= Rs.62,50,00,000 / 62,50,000 = Rs.100

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{Rs.(101)}{Rs.(100)} = 1.01$$

Question 4 : Dec 2021 – Paper

"At the time of calculating diluted earnings per share, effect is given to all dilutive potential equity shares that are outstanding during the period."

Comment and also calculate the basic and diluted earnings per share for the tear 2020-21 from the following information :

(i)	Net profit after tax for the year	Rs.64,12500
(ii)	No. of equity shares outstanding	15,00,000
(iii)	No. of 9% convertible debentures of Rs.100 issued on 1st July, 2020	75,000
(iv)	Each debenture is convertible into 8 Equity Shares.	
(v)	Tax relating to interest expenses	35%

Solution :

In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period." As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

Basic EPS for the year 2020-21= 64,12,500/15,00,000 = Rs. 4.275 or Rs. 4.28

Computation of diluted earnings per share for year 2020-21

$$\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

Adjusted net profit for the current year will be (64,12,500 + 5,06,250 – 1,77,188) = Rs. 67,41,562

No. of equity shares resulting from conversion of debentures:

6,00,000 Shares (75,000 × 8)

Weighted average no. of equity shares used to compute diluted EPS:

(15,00,000 X12/12+ 6,00,000X9/12) = 19,50,000 Shares

Diluted earnings per share: (67,41,562/19,50,000) = Rs. 3.46

Working Note:

Interest expense for 9 months = 75,00,000×9%×9/12 =Rs. 5,06,250

Tax expense 35 % on interest is Rs.1,77,188 (5,06,250 x 35%)

Question 5 : May 2022 – RTP

Stock options have been granted by AB Limited to its employees and they vest equally over 5 years, i.e., 20 per cent at the end of each year from the date of grant. The options will vest only if the employee is still employed with the company at the end of the year. If the employee leaves the company during the vesting period, the options that have vested can be exercised, while the others would lapse. Currently, AB Limited includes only the vested options for calculating Diluted EPS. Should only completely vested options be included for computation of Diluted EPS? Is this in accordance with the provisions of AS 20? Explain.

Solution :

The current method of calculating Diluted EPS adopted by AB limited is not in accordance with AS 20. The calculation of Diluted EPS should include all potential equity shares, i.e., all the stock options granted at the balance sheet date, which are dilutive in nature, irrespective of the vesting pattern. The options that have lapsed during the year should be included for the portion of the period the same were outstanding, pursuant to the requirement of the standard.

AS 20 states that "A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares". Options including employee stock option plans under which employees of an enterprise are entitled to receive equity shares as part of their remuneration and other similar plans are examples of potential equity shares. Further, for the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

Question 6 : May 2022 – RTP

X Limited, as at March 31, 2021, has income from continuing ordinary operations of Rs. 2,40,000, a loss from discontinuing operations of Rs. 3,60,000 and accordingly a net loss of Rs. 1,20,000. The Company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 2021. You are required to compute Basic and Diluted EPS?

Solution :

As per AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations". As income from continuing ordinary operations, Rs. 2,40,000 would be considered and not Rs. (1,20,000), for ascertaining whether 200 potential equity shares are dilutive or anti-dilutive. Accordingly, 200 potential equity shares would be dilutive potential equity shares since their inclusion would decrease the net profit per share from continuing ordinary operations from Rs. 240 to Rs. 200. Thus the basic E.P.S would be Rs. (120) and diluted E.P.S. would be Rs. (100).

Question 7 : May 2022 – Paper

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

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

During the year 2021-2022, the company had profit after tax of Rs.90,00,000

On 1st January, 2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 2021.

On 1st January, 2022, NAT issued 2,00,000 equity shares of Rs.1 each at their full market price of Rs.7.60 per share.

NAT's shares were trading at Rs.8.05 per share on 31st March, 2022.

Further it has been provided that the basic earnings per share for the year ended 31st March, 2021 was previously reported at Rs.62.30.

You are required to :

(i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March, 2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.

(ii) Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share ?

Solution :

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

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

(b) Adjusted Earnings per share after taking into consideration bonus issue
Adjusted Basic EPS = Earnings for the year 2020-2021 / Total outstanding shares +Bonus issue
= Rs. 6,23,00,000 / (10,00,000+ 5,00,000)
= Rs. 6,23,00,000 / 15,00,000
= Rs. 41.53 per share

(c) Basic EPS for the year 2021-2022

Basic EPS = Total Earnings – Preference Shares Dividend) / (Total shares outstanding at the beginning + Bonus issue + weighted average of the shares issued in January, 2022)
= (Rs. 90,00,000 – Rs. (1,00,00,000 x 8%) / (10,00,000 + 5,00,000 + (2,00,000 x 3/12))
= Rs. 82,00,000 / 15,50,000 shares
= Rs. 5.29 per share

(ii) In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2021, the earliest period reported.
However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e. the time-weighting factor is considered based on the specific shares outstanding as a proportion of the total number of days in the period.

Question 8 : Nov 2022 – Paper

The following information is provided to you :

Net profit for the year 2022 :	Rs.72,00,000
Weighted average number of equity shares outstanding during the year 2022 :	30,00,000 shares
Average Fair value of one equity share during the year 2022 :	Rs.25.00
Weighted average number of shares under option during the year 2022 :	6,00,000 shares
Exercise price for shares under option during the year 2022 :	Rs.20.00

You are required to compute Basic and Diluted Earnings Per Share as per AS-20.

Solution :

Computation of Basic earnings per share

	Earnings Rs.	Shares	Earnings/ Share Rs.
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Basic earnings per share (72,00,000 / 30,00,000)			2.40

Computation of Diluted earnings per share

	Earnings Rs.	Shares	Earnings/Share Rs.
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Number of shares under option		6,00,000	

Number of shares that would have been issued at fair value (6,00,000 x 20.00)/25.00		(4,80,000)	
Diluted earnings per share	72,00,000	31,20,000	2.31 (rounded-off)

Note: The earnings have not been increased as the total number of shares has been increased only by the number of shares (1,20,000) deemed for the purpose of the computation to have been issued for no consideration.

To the extent that partly paid shares are not entitled to participate in dividends during the reporting period they are considered the equivalent of options.

Question 9 : Nov 2023 – RTP

Net Profit for FY 2021-22	30,00,000
Net Profit for FY 2022-23	50,00,000
No. of shares outstanding prior to rights issue	20,00,000 shares
Rights Issue Price	Rs. 20
Last day to exercise rights	1st June, 2022

Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2022 was Rs.26.00.

Compute Basic Earnings Per Share for FY 2016-17, FY 2022-23 and restated EPS for FY 2021-22.

Solution :

Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

	Year 2016-17 Rs.	Year 2017-18 Rs.
EPS for the year 2021-22 as originally reported		
$= \frac{\text{Net Profitof the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$		
= (Rs. 30,00,000 / 20,00,000 shares)	1.5	
EPS for the year 2021-22 restated for rights issue		
= [Rs. 30,00,000 / (20,00,000 shares ´ 1.04 (W.N. 2)]	1.44 (approx.)	
EPS for the year 2022-23 including effects of rights issue		
$\frac{\text{Rs.50,00,000}}{(20,00,000 \text{ shares} \times 1.04 \times 2/12) + (24,00,000 \text{ shares} \times 10/12)}$		
Rs. 50,00,000/ 23,46,667 shares		2.13 (approx.)

Working Notes:

1. Computation of theoretical ex-rights fair value per share

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

$$= \frac{(26 \times 20,00,000 \text{ shares}) + (20 \times 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{\text{Rs.6,00,00,000}}{\text{24,00,000 shares}} = \text{Rs.25}$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}}$$

$$= \frac{\text{Rs.26}}{\text{Rs.25 (Refer Working Note 1)}} = 1.04 \text{ (approx.)}$$

Question 10 : May 2024 – Paper

On 1 April 2023, ABC Limited has given the following information

	Rs.
50,000 equity shares of Rs. 100 each (Rs. 80 paid up shareholders)	40,00,000
2,00,000 8% Preference shares of Rs. 10 each	20,00,000
10,000, 12% Debentures of Rs. 100 each (Each debenture is convertible into 3 equity shares of each)	10,00,000

On 1st July 2023, the remaining Rs. 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of Rs. 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS.

Solution :

$$\text{Basic Earnings per share (EPS)} = \frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{\text{1,84,400}}{\text{46,000 shares (as per working note)}} = \text{Rs.4 per share}$$

Diluted earnings per share

Net profit for the current year	Rs. 3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	Rs. 4
No. of 12% convertible debentures of Rs. 100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	Rs. 1,20,000
Tax relating to interest expense (30%)	Rs. 36,000
Adjusted net profit for the current year	Rs. (1,84,000 + 1,20,000 - 36,000) = Rs. 2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = Rs. 3.53

Working Note:

1. **Net profit attributable to equity share holders = Net profit less preference dividends**
   Total earnings – preference shares dividend
   Rs. 3,44,000 – Rs. (8% x 20,00,000)
   Rs. 3,44,000 - Rs. 1,60,000
   = Rs. 1,84,000

2. **Calculation of weighted average number of equity shares**
   As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	Rs.	Rs.	Rs.
01.04.2023	50,000	80	50,000x 80/100x 3/12 = 10,000
01.07.2023	40,000	100	40,000 x 9/12 = 30,000
01.07.2023	10,000	80	10,000x 80/100x 9/12 = **6,000**
Total weighted average equity shares			**46,000**

Question 11 : Sept 2024 – RTP

The following information is available in respect of High-end Ltd. for the accounting year 2022-2023 and 2023-2024:

Net profit for		Rs.
Year	2022-2023	22,00,000
Year	2023-2024	30,00,000

Number of shares outstanding prior to right issue 10,00,000 shares.
Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.
: Right issue price Rs. 25
: Last date to exercise right 31st July, 2023.
Fair value of one equity share immediately prior to exercise of rights on 31.07.2023 is Rs. 32.
You are required to compute, as per AS 20:
(i) Basic earnings per share for the year 2022-2023.
(ii) Restated basic earnings per share for the year 2022-20223 for right issue.
(iii) Basic earnings per share for the year 2023-2024.

Solution :

	2022-2023 (Rs.)	2023-2024 (Rs.)

EPS for the year 2022-2023 as originally reported = Net profit for the year attributable to equity shareholders / weighted average number of equity shares outstanding during the year = Rs. 22,00,000 / 10,00,000 shares	2.20	
EPS for the year 2022-2023 restated for the right issue = Rs. 22,00,000 / (10,00,000 x 1.04)	2.12	
EPS for the year 2023-2024 (including effect of right issue) = Rs. 30,00,000 / {(10,00,000 x 1.04 x 4/12) + (12,00,000 x 8/12)}		2.62

Working Notes:

1. Computation of theoretical ex-rights fair value per share = (fair value of all outstanding shares immediately prior to exercise of rights + Total value received from exercise of rights) / (number of shares outstanding prior to exercise + number of shares issued on the exercise)
   = (Rs. 32 x 10,00,000 + Rs. 25 x 2,00,000) / (10,00,000 + 2,00,000) = Rs. 30.83
2. Computation of adjustment factor
   = Fair value per share prior to exercise of rights / Theoretical ex-right value per share
   = Rs. 32/Rs. 30.83
   = 1.04 (approx.)

Question 12 : Jan 2025 – RTP

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

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

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

Solution :

Computation of earnings per share

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

As per paragraph 39 of AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

In the above case, if the exercise of options was considered for separate financial statements of XYZ Limited, the diluted loss per share would have reduced to Rs. 33.33 [2,00,00,000/6,00,000]. As this is antidilutive, the options would not be treated as potentially dilutive equity shares. Accordingly, in the separate financial statements of XYZ Limited, the Diluted EPS would be same as Basic EPS.

Question 13 : Jan 2025 – Paper

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

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

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

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

Solution :

Computation of Basic Earnings per Share

	Earnings Rs.	No. of Shares	EPS Rs.
Earnings per share for the year 2023- 2024	31,20,000	6,50,000 (W.N 2)	4.80
Computation of Dilutive Earnings per Share			
	Earnings Rs.	Shares	EPS Rs.
Net profit for the year	31,20,000		
Weighted average number of shares (W.N. 2) outstanding during year on 31.3.2024 (i)		6,50,000	
Number of shares under option		80,000	
Number of shares that would have been issued at fair value: (80,000 x 20.00)/25.00		(64,000)	
No. of incremental shares issued for no consideration (ii)		16,000	

Diluted earnings per share after options	31,20,000	6,66,000 (i +ii)	4.68
12% Convertible Debentures (W.N. 3)	2,52,000	1,20,000	
Diluted earnings	33,72,000	7,86,000	4.29

Working notes:

1. Computation of shares issued on bonus

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

2. Weighted Average number of Equity shares

	Shares	Months	Weighted average
Opening balance as on 1.4.2023	5,00,000 (W.N.1)	12-Dec	5,00,000
Bonus	1,00,000	12-Dec	1,00,000
Further issue of shares on 1.1.2024	2,00,000	03-Dec	50,000
			6,50,000

3. 12% Convertible Debentures

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

Question 14 : May 2025 – RTP

The following information relates to XYZ Limited for the year ended 31st March, 2024:

Net Profit for the year after tax: Rs. 37,50,000

Number of Equity Shares of Rs. 10 each outstanding: Rs. 5,00,000

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

Particulars	Nos.
8% Convertible Debentures of Rs. 100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

Solution :

Net profit for the current year / Weighted average number of equity shares outstanding during the year

Rs. 37,50,000 / 5,00,000 = Rs. 7.50 per share

Computation of diluted earnings per shar $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	Rs.
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of Rs. 4,00,000)	(1,20,000)
Adjusted net profit for the current year	40,30,000

Number of equity shares resulting from conversion of debentures
= 55,000 Equity shares (given in the question)
Weighted average number of equity shares used to compute diluted earnings per share
= 5,55,000 shares (5,00,000 + 55,000)
Diluted earnings per share = 40,30,000/ 5,55,000 = Rs. 7.26 per share
Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

Question 15 : Jan 2026 – RTP

Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders? AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct?

Solution :

The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS
Paragraph 11 of the Statement states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period" With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

Thanks ....

CHAPTER

21

AS 21 – CONSOLIDATION FINANCIAL STATEMENTS

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Question 1 : May 2018 – Paper / Nov 2019 – RTP

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2019:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of Rs.10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,25,000	1,25,000
Total	**22,40,000**	**5,45,000**
	H Ltd. (Rs.)	**S Ltd. (Rs.)**
Assets		
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs.20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	1,64,000	32,000
Total	**22,40,000**	**5,45,000**

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.

Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April,2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs. 40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at
10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.
You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2019

	Particulars	Notes	Rs.
I.	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share Capital		12,00,000
	(1,20,000 equity shares of Rs. 10 each)		
	(b) Reserves and Surplus	1	8,16,200
	(2) Minority Interest (W.N.4)		99,300
	(3) Current Liabilities		
	(a) Trade Payables	2	4,10,000
	Total		**25,25,500**
II.	**Assets**		
	(1) Non-current assets		
	(a) Property, Plant and Equipment		
	(i) Tangible assets	3	13,10,500
	(ii) Intangible assets	4	24,000
	(b) Current assets		
	(i) Inventories	5	3,25,000
	(ii) Trade Receivables	6	6,70,000
	(iii) Cash at Bank	7	1,96,000
	Total		**25,25,500**

Notes to Accounts :

				Rs.
1	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post- acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	

	Add: 80% share of S Ltd.'s post- acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2	Trade Payables			
	H Ltd.		3,25,000	
	S Ltd.		1,25,000	
	Less: Mutual transaction		(40,000)	4,10,000
3	Tangible Assets			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4	Intangible assets			
	Goodwill [WN 5]			24,000
5	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6	Trade Receivables			
	H Ltd.		4,73,000	
	S Ltd.		2,37,000	
				7,10,000
	Less: Mutual transaction			(40,000)
				6,70,000
7	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018**

	Rs.
Machinery	
Revaluation as on 1.4.2018	3,00,000

Less: Book value as on 1.4.2018	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2019

	Pre-acquisition profit upto 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000		35,000
Upward Revaluation of machinery as on 1.4.2018	1,00,000		
Downward Revaluation of Furniture as on 1.4.2018	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

	Rs.
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

5. Cost of Control or Goodwill

	Rs.	Rs.
Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (Rs.64,000 + Rs.72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

Question 2 : Nov 2018 – Paper

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

Rs. in Lakhs

	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225
Balance of Profit	1,800	225

The following information is also given:

(i) A Ltd sold goods of Rs.180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)

(ii) Administrative expenses of B Ltd include Rs.8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include Rs.15 Lakhs paid to B Ltd as commission.

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

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

Solution :

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

	Particulars	Note No.	Rs. in Lacs
I.	Revenue from operations	1	8,797
II.	Total revenue		8,797

III.	Expenses		
	Cost of Material purchased/Consumed	3	1,770
	Changes of Inventories of finished goods	2	(1,794)
	Employee benefit expense	4	1,425
	Finance cost	6	225
	Depreciation and amortization expense	7	225
	Other expenses	5	802
	Total expenses		2,653
IV.	Profit before Tax(II-III)		6,144
V.	Tax Expenses	8	2,100
VI.	Profit After Tax		4,044

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	1,500	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealised profits Rs. 180 × 1/6 x 25/125	(6)	1,794
3	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	BLtd.	300	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	BLtd.	150	450
			1,770
4	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	

	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from BLtd.	(8)	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	75	225
7	Depreciation and Amortisation		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8	Provision for tax		
	A Ltd.	1800	
	B Ltd.	300	2100

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

Question 3 : May 2019 – RTP / Nov 2019 – Paper / Nov 2020 – RTP

From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				1/1/2019		31-12-2019	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				Rs.	Rs.	Rs.	Rs.
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

Solution :

Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2019
B = Profit & loss account balance on 1.1.2019
C = Share capital on 31.12.2019
D = Profit & loss account balance on 31.12.2019

	Minority % Shares Owned [E]	Minority interest as at the date of acquisition [E] x [A + B] Rs.	Minority interest as at the date of consolidation [E] X [C + D] Rs.
Case A [100-90]	10%	22,500	23,500
Case B [100-75]	25%	50,000	40,000
Case C [100-70]	30%	18,000	18,000
Case D [100-95]	5%	4,750	5,750
Case E [100-100]	NIL	NIL	NIL

Question 4 : May 2019 – Paper

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of Rs.5,00,000 when S Ltd. had an equity share capital of Rs.5,00,000 and reserves and surplus of Rs.40,000.
Both the companies follow calendar year as the accounting year.
In the four consecutive years, S Ltd. performed badly and suffered losses of Rs.1,25,000, Rs.2,00,000, Rs.2,50,000 and Rs.60,000 respectively.
Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of Rs.25,000. In the next two years i.e. 2016 and 2017, S Ltd. recorded annual profits of Rs.50,000 and Rs.75,000 respectively.
Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation

Solution :

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
Accordingly,

Year	Profit / (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				Rs.	Balance	
At the time of acquisition on 1.1.2011		1,62,000 (W.N.)				
2011	(1,25,000)	(37,500)	(87,500)			1,22,000 (W.N.)
Balance 2012	(2,00,000)	1,24,500 (60,000)	(1,40,000)			1,22,000

Balance		64,500				
2013	(2,50,000)	(75,000)	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co.	10,500	(10,500)	10,500	10,500	
Balance		Nil	(1,85,500)			
2014	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance		Nil	(60,000)			
2015	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
Balance		Nil	25,000			
2016	50,000	15,000	35,000	(15,000)	6,000	1,22,000
		(15,000)	15,000			
Balance		Nil	50,000			
2017	75,000	22,500	52,500	-6,000	Nil	1,22,000
		(6,000)	6,000			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2011

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	Rs.	Rs.	Rs.
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	28,000	12,000
		3,78,000	1,62,000
Less: Cost of investment		(5,00,000)	
Goodwill		1,22,000	

Question 5 : Nov 2019 – Paper

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2017-18 Amount in Rs.	2018-19 Amount in Rs.
Share Capital		
Issued and subscribed 7500 Equity Shares of Rs.100	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
Assets		
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
Current Assets		
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 Rs.5,000 at the end of 2017-2018 and increased by Rs.12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)

(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 Rs. 25 ,000 in 2017-18 and Rs. 12,500 in 2018-19 being part of initial Sales Promotion expenditure of Rs. 37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 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.

Solution :

Restated Balance Sheet of MNT Ltd.
as at 31st December, 2019

		Particulars	Notes	Rs.
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
		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 $\left(\frac{3,43,00}{98}\times 100\right)$		3,50,000
	c	Cash & Cash Equivalents		42,500
	d	Other current assets	6	52,500
		Total		**23,14,500**

Notes to Accounts

			Rs.
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.:

	Rs.	Rs.
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 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

Question 6 : May 2020 – RTP / Nov 2020 – Paper / May 2022 – RTP

H Ltd acquires 64000 Equity Shares of Rs. 10 each in S Ltd as on 1st October 2019. The Balance Sheets of the two companies as on 31st March 2020 were as under

Particulars	H Ltd (Rs.)	S Ltd (Rs.)
Equities and liabilities		
Equity Share Capital of Rs. 10 each	20,00,000	8,00,000
General Reserve (1st April 2019)	9,60,000	4,20,000
Profit and loss accounts	2,28,000	3,28,000
Preliminary Expenses (1st April 2019)	-	-20,000
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payable	1,66,400	80,000
Total	**36,55,200**	**16,60,000**
Assets		
Land and building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investments in equity shares of S Ltd	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivables	59,200	-
Cash in hand	56,800	32,000
Total	**36,55,200**	**16,60,000**

Additional Information :

1. The Profit & Loss Accounts of S Ltd showed a balance of Rs. 1,20,000 on 1st April 2019. S. Ltd paid a dividend of 10% out of the same on 1st November 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd
2. The Plant & Machinery of S Ltd which stood at Rs. 6,00,000 on 1st April 2019 was considered worth Rs. 5,20,000 on the date of acquisition by H Ltd. S Ltd charges depreciation @ 10% per annum on Plant & Machiney

Prepare consolidated Balance Sheet of H Ltd and its subsidiary S Ltd as on 31st March 2020 as per scheduled III of the companies Act, 2013.

Solution :

Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd.
as at 31st March, 2020

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,98,400
(b) Short term borrowings		3,00,000
Total		**42,02,000**
II. Assets		

(1)	Non-current assets		
	(i) Property, Plant and Equipment	4	29,34,000
	(ii) Intangible assets (W.N.5)		1,60,000
(2)	Current assets		
	(a) Inventories	5	6,24,000
	(b) Trade receivables	6	3,95,200
	(c) Cash & Cash equivalents (Cash)	7	88,800
	Total		**42,02,000**

Note to Accounts

			Rs.	Rs.
1	Share Capital			
	2,00,000 equity shares of Rs.10 each			20,00,000
2	Reserves and Surplus			
	Reserves		9,60,000	
	Profit & loss			
	H Ltd.	2,28,800		
	S Ltd. (As per W.N. 3)	1,18,400	3,47,200	13,07,200
3	Trade Payables			
	H Ltd.		1,66,400	
	S Ltd. (80,000 + 52,000)		1,32,000	2,98,400
4	Property, Plant and Equipment			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
5	Inventories			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
6	Trade Receivables			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200
7	Cash & Cash equivalents			
	Cash			
	H Ltd.		56,800	
	S Ltd.		32,000	88,800

Working Notes:

1. **Share holding pattern**
   Total Shares of S Ltd 80,000 shares
   Shares held by H Ltd 64,000 shares i.e. 80 %;
   Minority Shareholding 16,000 shares i.e. 20 %
2. **Capital profits of S Ltd.**

	Rs.	Rs.
Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2019 is same as of 31st March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		
Total Rs. 3,28,000		
Less: Rs. 40,000 (opening balance)		
Rs. 2,88,000		
Proportionate up to 1st October, 2019 on time basis (Rs. 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 × 80%)		4,27,200
Minority Interest (5,34,000 × 20%)		1,06,800

Note: Preliminary expenses as on 1st April, 2019 amounting Rs. 20,000 have been written off.

3. Revenue profits of S Ltd.

Profit after 1st October, 2019 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on Rs.5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2nd half year on 6,00,000	30,000	4,000
		1,48,000
Holding company's share (1,48,000 X 80%)		1,18,400
Minority Interest (1,48,000 X 20%)		29,600

4. Minority interest

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	29,600
	2,96,400

5. Cost of Control

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 × 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
Cost of Control or Goodwill		1,60,000

6. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1st October, 2019

	Rs.
Value of plant and machinery as on 1st April,2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1st October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1st October,2019	(5,20,000)
Revaluation Loss	50,000

7. Value of plant & Machinery of S Ltd. On 31st March,2020

Value of machinery on 1st October, 2019	5,20,000
Less: depreciation for next six month	(26,000)
	4,94,000

Question 7 : Jan 2021 – Paper

On 31st march, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows :

	H Ltd. Rs.	S Ltd. Rs.
Shareholder's Fund		
Issued and subscribed		
Equity shares of Rs.10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	**25,20,000**	**6,16,800**
Assets		
Non-Currents Assets		
(a) Property, Plant and Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd. (19,200 shares at Rs.20 each)	3,84,000	-
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bills Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
Total	**25,20,000**	**6,16,800**

The following information is also provided to you :

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at Rs.60,000 and Rs.36,000 respectively.

(b) Machinery (Book value Rs.2,40,000) and Furniture (Book value Rs.48,000) of S Ltd. were revalued at Rs.3,60,000 and Rs.36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives : Machinery 10%, Furniture 15%)

(c) On 31st March, 2020, Bills payable of Rs.12,000 in s Ltd.'s Balance Sheet were accepted in favour of H Ltd.

You are required to prepare Consolidate Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars			Note No.	Rs.
I.	**Equity and Liabilities**			
(1)	**Shareholder's Funds**			
	(a)	Share Capital	1	13,40,000
	(b)	Reserves and Surplus	2	8,27,040
(2)	**Minority Interest**			1,15,560
(3)	**Non- Current Liabilities**			
	(a)	12% Debentures		1,00,000
(4)	**Current Liabilities**			
	(a)	Trade Payables	3	3,84,800
	(b)	Short term Borrowings (Bank overdraft)		1,00,000
	Total			**28,67,400**
II.	**Assets**			
(1)	**Non-current assets**			
	(a)			
		(i) Property, Plant and Equipment	4	14,34,600
		(ii) Intangible assets	5	28,800
	Current assets			
	(a)	Inventory (6,00,000+2,00,000)		8,00,000
	(b)	Trade Receivables	6	5,08,000
	(c)	Cash and Cash equivalents		96,000
	Total			**28,67,400**

Notes to Accounts

				Rs.
	Share Capital			
	Equity share capital			13,40,000

	1,34,000 shares of Rs. 10 each fully paid up			
	Reserves and Surplus			
	Reserves		4,80,000	
	Add: 4/5th share of S Ltd.'s postacquisition reserves (W.N.3)		96,000	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s postacquisition profits (W.N.4)		11,040	2,51,040
				8,27,040
	Trade Payables			
	H Ltd.	2,00,000		
	S Ltd.	1,22,000	3,22,000	
	Bills Payables			
	H Ltd.	60,000		
	S Ltd.	14,800	74,800	
			3,96,800	
	Less: Mutual Owings		(12,000)	3,84,800
	Property Plant and Equipment			
	Machinery			
	H. Ltd.		7,20,000	
	S Ltd.	2,40,000		
	Add: Appreciation	1,20,000		
		3,60,000		
	Less: Depreciation (3,60,000 X 10%)	(36,000)	3,24,000	
	Furniture			
	H. Ltd.		3,60,000	
	S Ltd.	48,000		
	Less: Decrease in value	(12,000)		
		36,000		
	Less: Depreciation (36,000 X 15%)	5,400	30,600	14,34,600
	Intangible assets			
	Goodwill [WN 6]			28,800
	Trade receivables			
	H Ltd.	3,00,000		
	S Ltd.	90,000	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	30,000	1,30,000	
			5,20,000	
	Less: Mutual Owings		(12,000)	5,08,000

Working Notes :

1	Pre-acquisition profits and reserves of S Ltd.	Rs.
	Reserves	60,000
	Profit and Loss Account	36,000
		96,000
	H Ltd.'s = 4/5 (or 80%) × 96,000	76,800
	Minority Interest= 1/5 (or 20%) × 96,000	19,200
2	Profit on revaluation of assets of S Ltd.	
	Profit on Machinery Rs. (3,60,000 – 2,40,000)	1,20,000
	Less: Loss on Furniture Rs.(48,000 –36,000)	(12,000)
	Net Profit on revaluation	1,08,000
	H Ltd.'s share 4/5 × 1,08,000	86,400
	Minority Interest 1/5 × 1,08,000	21,600
3	Post-acquisition reserves of S Ltd.	
	Total reserves	1,80,000
	Less: Pre- acquisition reserves	(60,000)
	Post-acquisition reserves	1,20,000
	H Ltd.'s share 4/5 × 1,20,000	96,000
	Minority interest 1/5 × 1,20,000	24,000
4	Post -acquisition profits of S Ltd.	
	Post-acquisition profits (Profit & loss account balance pre-acquisition profits = Rs. 60,000 – 36,000)	24,000
	Add: Excess depreciation charged on furniture @ 15% on Rs. 12,000 i.e. (48,000 – 36,000)	1,800
		25,800
	Less: Under depreciation on machinery @ 10% on Rs. 1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
	Adjusted post-acquisition profits	13,800
	H Ltd.'s share 4/5 × 13,800	11,040
	Minority Interest 1/5 × 13,800	2,760
5	Minority Interest	
	Paid-up value of (24,000 – 19,200) = 4,800 shares held by outsiders i.e. 2,40,000 X 20%	48,000
	Add: 1/5th share of pre-acquisition profits and reserves	19,200
	1/5th share of profit on revaluation	21,600
	1/5th share of post-acquisition reserves	24,000
	1/5th share of post-acquisition profit	2,760
		1,15,560
6	Cost of Control or Goodwill	

	Price paid by H Ltd. for 19,200 shares (A)	3,84,000
	Less: Intrinsic value of the shares	
	Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%	1,92,000
	Add: 4/5th share of pre-acquisition profits and reserves	76,800
	4/5th share of profit on the revaluation	86,400
	Intrinsic value of shares on the date of acquisition (B)	3,55,200
	Cost of control or Goodwill (A – B)	28,800

Question 8 : May 2021 – RTP

A Ltd. acquired 70% equity shares of B Ltd. @ Rs.20 per share (Face value - Rs.10) on 31st March, 2021 at a cost of Rs. 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021:

	Rs. in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

Solution :

Net assets of B Ltd. as on 31st March, 2021

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		340
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd. (Rs.140 lakhs)		(140)
Capital reserve		98

Question 9 : July 2021 – Paper

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under :

	X Limited		Y Limited	
	(Rs. in 000)		(Rs. in 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of Rs.100 each)	-	2,000	-	400

7% Preference share capital	-	-	-	400
Reserve	-	600	-	200
6% Debentures	-	400	-	400
Trade Payable/Trade Receivables	160	180	100	120
Profit & Loss A/c balance	-	40	-	30
Purchases/Sales	1,000	1,800	1,200	1,000
Wages and Salaries	200	-	300	-
Debenture Interest	24	-	24	-
General Expenses	160	-	120	-
Preference share dividend up to 30.09.2020	-	7	14	-
Inventory (as on 31.03.2021)	200	-	100	-
Cash at Bank	27	-	12	-
Investment in Y Limited	1,056	-	-	-
Fixed Assets	2,200	-	1,580	-
Total	**5,027**	**5,027**	**3,450**	**3,450**

Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice valued of such goods being Rs.1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

Solution :

Consolidated Statement of Profit & Loss Account of X Ltd. and Y Ltd.
for the year ended 31st March, 2021

Particulars		Note No.	Rs.
I.	Revenue from operations	1	35,80,000
II.	Total revenue		35,80,000
III.	Expenses		
	Cost of Material purchased/Consumed	2	20,80,000
	Changes of Inventories of finished goods		-
	Employee benefit expense	3	5,00,000
	Finance cost	4	48,000
	Depreciation and amortization expense	5	4,57,000
	Other expenses	6	2,80,000
	Total expenses		33,65,000
IV.	Profit before Tax (II-III)		2,15,000
Profit transferred to Consolidated Balance Sheet			
Profit After Tax			2,15,000
Preference dividend		7,000	

Preference dividend payable	7,000	(14,000)
		2,01,000
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
Profit to be transferred to consolidated balance sheet		1,95,100

Notes to Accounts :

		Rs.	Rs.
1	Revenue from Operations		
	X Ltd.	18,00,000	
	Y Ltd.	19,00,000	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	12,00,000	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	20,80,000
3	Employee benefit and expenses		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	3,00,000	5,00,000
4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	24,000	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	2,37,000	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	1,20,000	2,80,000

Working Notes:

1. **Profit of Subsidiary**

		Rs.
Revenue from Operations		19,00,000

Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	14,000	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss Rs. 9,000)		(1,800)

2. **Inventory reserve** = $\left[\frac{1,20,000}{4} \times \frac{25}{125}\right]$ = Rs. 6,000
3. **Pre-acquisition loss** = 80% of 3 month's profit up to 30th June,2020 i.e. 80 % of $\frac{1}{4}$ of loss Rs. 9,000. Hence, pre-acquisition loss = Rs. 1,800
4. Investment account includes Preference dividend for 3 months prior to acquisition i.e. Rs. 4,00,000 x 50% x 7% x 1/4 = Rs. 3,500

Question 10 : July 2021 – Paper

Long Limited acquired 60% stake in Short Limited for a consideration of Rs.112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was Rs.100 lakhs, Revenue Reserve was Rs.40 lakhs and balance in Profit and Loss Account was Rs.30 lakhs. From the above information you are required to calculate Goodwill/Capital Reserve in the following situations :

(i) On consolidation of Balance Sheet.
(ii) If Long Limited showed the investment in subsidiary at a carrying amount of Rs.104 lakhs.
(iii) If the consideration paid for acquiring the 60% stake was Rs.92 lakhs.

Solution :

	Rs.
60% of the Equity Share Capital Rs. 100 Lakhs	60
60% of Accumulated Reserve Rs. 70 Lakhs (40+30) Lakhs	42
Book value of shares of Short Ltd.	102

(i) Goodwill / Capital Reserve computation on consolidation of balance sheet
Long Ltd. paid a positive differential of Rs. 10 Lakhs (112 - 102). This differential Rs. 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles.

(ii) If Long Ltd. showed the investment in Short Ltd. at carrying amount of Rs. 104 Lakhs, then the goodwill will be Rs. 2 Lakhs.

(iii) If the consideration paid is Rs. 92 lakhs, then there would have been capital reserve amounting Rs. 10 Lakhs (102- 92).

Question 11 : Nov 2021 – RTP

On 31st March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs. 12,00,000. The position of Q Ltd. on that date was as under:

	Rs.
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 2021:

	P Ltd. Rs.	Q Ltd. Rs.
Equity shares of Rs. 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	-
Pre-incorporation profits	-	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	-
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 2021 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

(a) Before issue of bonus shares.

(b) Immediately after issue of bonus shares.

Solution :

Shareholding pattern

	Particulars	Number of Shares	% of holding
a.	P Ltd.		
	(i) Purchased on 31.03.2015	1,05,000	
	(ii) Bonus Issue (1,05,000/2)	52,500	
	Total	1,57,500	70%
b.	Minority Interest	67,500	30%

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

(a) Before issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	63,000	(11,13,000)
	Cost of control		87,000
(ii)	Minority Interest		Rs.
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		6,79,500
			11,56,500
(iii)	Consolidated profit and loss account – P Ltd.		Rs.
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500
			31,60,500

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.
	Face value of investments (Rs. 10,50,000 + Rs. 5,25,000)	15,75,000	
	Capital Profits (W.N.)	63,000	16,38,000
	Less: Investment in Q Ltd.		-12,00,000
	Capital reserve		4,38,000
(ii)	Minority Interest		Rs.
	Share Capital (Rs. 4,50,000 + Rs. 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		4,54,500
			11,56,500
(iii)	Consolidated Profit and Loss Account – P Ltd.		Rs.
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500
			26,35,500

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits (Before and after issue of bonus shares) Rs.	Revenue Profits	
		Before Bonus Issue Rs.	After Bonus Issue Rs.
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	60,000		

	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000

Profit for period of 1st April, 2015 to 31st March, 2021 (Rs. 4,20,000 – Rs. 60,000)		3,60,000	3,60,000
		22,65,000	15,15,000
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Question 12 : Dec 2021 – Paper

Moon ltd. and its subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021.

Particulars	Moon Ltd. (Rs.)	Star Ltd. (Rs.)
Equity Share Capital	20,00,000	6,000,000
Finished goods Inventory as on 01.04.2020	4,200,000	3,010,000
Finished Goods Inventory as on 31.03.2021	8,575,000	3,762,500
Dividend Income	1,680,000	437,500
Other non-operating Income	350,000	105,000
Raw material consumed	13,930,000	4,725,000
Selling and Distributed Expenses	3,325,000	1,575,000
Production Expenses	3,150,000	1,400,000
Loss on sale of investments	262,500	Nil
Sales and other operating income	33,250,000	19,075,000
Wages and Salaries	13,300,000	2,450,000
General and Administrative Expenses	2,800,000	1,225,000
Royalty paid	Nil	50,000
Depreciation	315,000	140,000
Interest expense	175,000	52,500

Other information :

- On 1st September, 2018 Moon Ltd. acquired 50,000 equity shares of Rs.100 each fully paid up in Star Ltd.
- Star Ltd. paid a dividend of 10% for the year ended 31st March, 2020. The dividend was correctly accounted for by Moon Ltd.
- Moon Ltd. sold goods of Rs.17,50,000 to Star Ltd. at a profit of 20% on selling price. Inventory of Star Ltd. includes goods of Rs.7,00,000 received from Moon Ltd.
- Selling and Distribution expenses of Star Ltd. include Rs.2,12,500 paid to Moon Ltd. as brokerage fees.
- General and Administrative expenses of Moon Ltd. include Rs.2,80,000 paid to Star Ltd. as consultancy fees.
- Star Ltd. used some resources of Moon Ltd. and Star Ltd. paid Rs.50,000 to Moon Ltd. as royalty.

Prepare consolidated statement of Profit and Loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended 31.03.2021 as per schedule II of the Companies Act, 2013.

Solution :

Consolidated statement of profit and loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended on 31st March, 2021

Particulars	Note No.	Rs.
Revenue from operations	1	5,00,32,500
Other Income	2	23,10,000
Total revenue (I)		5,23,42,500
Expenses:		
Cost of material purchased/consumed	3	2,14,55,000
Changes (Increase) in inventories of finished goods	4	-49,87,500
Employee benefit expense	5	1,57,50,000
Finance cost	6	2,27,500
Depreciation and amortization expense	7	4,55,000
Other expenses	8	84,32,500
Total expenses (II)		4,13,32,500
Profit before tax (II-III)		1,10,10,000

Notes to Accounts:

			Rs.	Rs.
1	Revenue from operations			
	Sales and other operating revenues1			
	Moon Ltd.		3,32,50,000	
	Star Ltd.		1,90,75,000	
			5,23,25,000	
	Less: Inter-company sales		(17,50,000)	
	Consultancy fees received by Star Ltd. from Moon Ltd.		(2,80,000)	
	Royalty received by Moon Ltd. from Star Ltd.		(50,000)	
	Brokage received by Moon Ltd. from Star Ltd.		(2,12,500)	5,00,32,500
2	Other Income			
	Dividend income:			
	Moon Ltd.	16,80,000		
	Star Ltd.	4,37,500	21,17,500	
	Loss on sale of investments Star Ltd.		(2,62,500)	
	Other Non-operating Income			
	Moon Ltd.	3,50,000		
	Star Ltd.	1,05,000	4,55,000	23,10,000
3	Cost of material purchased/consumed			

	Moon Ltd.	1,39,30,000		
	Star Ltd.	47,25,000		
		1,86,55,000		
	Less: Purchases by Star Ltd. From Moon Ltd.	(17,50,000)	1,69,05,000	
	Direct expenses (Production)			
	Moon Ltd.	31,50,000		
	Star Ltd.	14,00,000	45,50,000	
4	Changes (Increase) in inventories of finished goods			
	Moon Ltd.		43,75,000	
	Star Ltd.		7,52,500	
			51,27,500	
	Less: Unrealized profits Rs. 7,00,000 × 20/100		(1,40,000)	49,87,500
5	Employee benefits and expenses			
	Wages and salaries:			
	Moon Ltd.		1,33,00,000	
	Star Ltd.		24,50,000	1,57,50,000
6	Finance cost			
	Interest:			
	Moon Ltd.		1,75,000	
	Star Ltd.		52,500	2,27,500
7	Depreciation			
	Moon Ltd.		3,15,000	
	Star Ltd.		1,40,000	4,55,000
8	Other expenses			
	General & Administrative expenses:			
	Moon Ltd.	28,00,000		
	Star Ltd.	12,25,000		
		40,25,000		
	Less: Consultancy fees received by Star Ltd. from Moon Ltd.	(2,80,000)	37,45,000	
	Royalty:			
	Star Ltd.	50,000		
	Less: Received by Moon Ltd.	(50,000)	Nil	
	Selling and distribution Expenses:			
	Moon Ltd.	33,25,000		
	Star Ltd.	15,75,000		
		49,00,000		
	Less: Brokerage received by Moon Ltd. from Star Ltd.	(2,12,500)	46,87,500	84,32,500

Question 13 : May 2022 – Paper

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. (Rs.)	Black Ltd. (Rs.)
(I)	**Equity and Liabilities**		
	(1) Shareholder's fund		
	Share capital (Equity shares of Rs.100 each fully paid up)	6,50,000	3,00,000
	Reserves and Surplus		
	General Reserve	60,000	30,000
	Profit and loss account	1,50,000	90,000
	(2) Current Liabilities		
	Trade payables	1,15,000	75,000
	Due to White Ltd.	-	30,000
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 :

(i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for Rs.39,000, the transaction being completed on 30th March, 2021.

(ii) Cash in transit from Black Ltd. to White Ltd. was Rs.6,000 on 31st March, 2021.

(iii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserves and Profit and Loss account as on 1st April, 2020 were as follows:

	Reserves Rs.	Profit and loss a/c Rs.
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.

Solution :

Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.
as at 31st March, 2021

Particulars			Note No.	Rs.
I.	**Equity and Liabilities**			
	(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
		Total		12,00,000
II.	**Assets**			
	(1)	**Non-current assets**		
		(a) Property, Plant and Equipment	5	9,31,000
	(2)	**Current assets**		
		(a) Inventory	6	1,70,000
		(b) Cash & cash equivalent	7	99,000
		Total		12,00,000

Notes to Accounts

			Rs.
1	**Share capital**		
	6,500 equity shares of Rs. 100 each, fully paid up		6,50,000
	Total		6,50,000
2	**Reserves and Surplus**		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	37,500	1,87,500
	Capital reserve (W.N. 5)		7,500
	Total		2,55,000
3	**Minority interest in Black Ltd. (WN 4)**		1,05,000
4	**Trade payables**		
	White Ltd.	1,15,000	
	Black Ltd.	75,000	1,90,000
5	**Property, plant and equipment**		
	White Ltd.	5,80,000	
	Black Ltd.	3,51,000	9,31,000
6	**Inventory**		
	White Ltd.	50,000	
	Black Ltd.	1,20,000	1,70,000
7	**Cash & cash equivalent**		
	White Ltd.	39,000	

	Black Ltd.	54,000	
	Cash in transit	6,000	99,000

Working Notes :

1	**Post-acquisition profits of Black Ltd.**		**Rs.**
	profits earned during the year = Rs. 90,000 + Rs.10,000		1,00,000
	Pre-acquisition profits (1.4.20 to 30.9.20)		50,000
	Post-acquisition profits (1.10.20 to 31.3.21)		50,000
	White Ltd.'s share 75% of 50,000		37,500
	Minority Interest 25% of 50,000		12,500
2	**Pre-acquisition profits and reserves of Black Ltd.**		
	Reserves as on 1.4.2020		30,000
	Profit and Loss Account		40,000
	[10,000 (loss as on 1.4.20) +50,000 (6 month Adjusted pre-acquisition profits)]		
			70,000
	White Ltd.'s = (75%) × 70,000		52,500
	Minority Interest= (25%) × 70,000		17,500
3	**Post-acquisition reserves of Black Ltd.**		
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 30,000 – 30,000)		nil
4	**Minority Interest**		
	Paid-up value of (3,000 – 2,250) = 750 shares		
	held by outsiders i.e. 750 × Rs. 100		75,000
	Add: 25% share of pre-acquisition reserves & Profit		17,500
	25% share of post-acquisition profit		12,500
			1,05,000
5	**Capital Reserve**		
	Price paid by White Ltd. for 2,250 shares (A)		2,70,000
	Intrinsic value of the shares-		
	Paid-up value of 2,250 shares held by White Ltd.	2,25,000	
	i.e. 2,250 × Rs. 100		
	Add 75% share of pre-acquisition reserves & profit		
	(70,000 x 75%) (B)	52,500	2,77,500
	Capital reserve (A – B)		7,500

Question 14 : Nov 2022 – RTP

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Equity Share Capital – Authorised	5,000	3,000

Issued and subscribed in Equity Shares of Rs. 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021 at which date the following balances stood in the books of S Ltd.:
General Reserve Rs. 1,500 thousand; Profit and Loss Account Rs. 633 thousand.

(b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of Rs. 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2021, the Inventory of S Ltd. included goods purchased for Rs. 50 thousand from H Ltd., which had made a profit of 25% on cost.

(e) Details of Trade payables and Trade receivables :

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
	611	507
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as on 31st March, 2022.

Solution :

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars	Note No.	(Rs. in 000's)
I Equity and Liabilities		
(1) Shareholder's Funds		

	(a) Share Capital		1	4,000
	(b) Reserves and Surplus		2	3,063
(2)	Minority Interest (W.N.6)			1,560
(3)	Current Liabilities			
	Trade payables		3	1,118
	Short term provisions		4	482
		Total		10,223
II.	Assets			
(1)	Non-current assets			
	PPE		5	5,904
(2)	Current assets			
	(a) Inventories		6	1,759
	(b) Trade receivables		7	1,598
	(c) Cash and cash equivalents		8	512
	(d) Short term loans and advances		9	450
		Total		10,223

Notes to Accounts :

			(Rs. in 000's)	(Rs. in 000's)
1	Share Capital			
	Authorised share capital			
	5 lakhs equity shares of Rs. 10 each			5,000
	Issued, Subscribed and Paid up			
	4 lakhs equity shares of Rs. 10 each fully paid			4,000
2	Reserves and surplus			
	Capital Reserve (Note 5)		679.8	
	General Reserve		928	
	Profit and Loss Account:			
	H Ltd.	Rs. 1,305		
	Add: Share in S Ltd	Rs. 340.20		
		Rs. 1,645.20		
	Less: Dividend wrongly credited	Rs. (180)		
		Rs. 1,465.20		
	Less: Unrealised profit (50 X 1/5)	Rs. (10)	1,455.20	3,063
3	Trade payables			
	H Ltd.		611	
	S Ltd.		507	1,118

4	Short –term provisions				
	Provision for Taxation	H Ltd.	Rs. 220		
		S Ltd.	Rs. 180	400	
	Other Provisions	H Ltd	Rs. 65		
		S Ltd.	Rs. 17	82	482
5	PPE				
	Plant and Machinery				
		H Ltd.	Rs. 2,541		
		S Ltd.	Rs. 2,450	4,991	
	Furniture and fittings				
		H Ltd.	Rs. 615		
		S Ltd.	Rs. 298	913	5,904
6	Inventories				
	Inventory	H Ltd.	Rs. 983		
		S Ltd.	Rs. 786	1,769	
	Less: Unrealised profit (Rs. 50 x 1/5)			(10)	1,759
7	Trade receivables				
		H Ltd.		820	
		S Ltd.		778	1,598
8	Cash and cash equivalents				
	Cash and Bank Balances				
		H Ltd		410	
		S Ltd.		102	512
9	Short term loans and advances				
	Sundry Advances				
		H Ltd.		260	
		S Ltd.		190	450

Working Notes:

Share holding pattern

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2021	90,000	
(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60% (1,44,000 /2,40,000*x 100)
b. Minority Interest	96,000	40%

*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

1. **S Ltd. General Reserve**

	(Rs. in 000)		(Rs. in 000)

To Bonus to equity shareholders $\left(\frac{2,400\times3}{8}\right)$	900	By Balance b/d	1,500
To Balance c/d	690	By Profit and Loss A/c (Balancing figure)	90
	1,590		**1,590**

2. **S Ltd.'s Profit and Loss Account**

	(Rs. in 000)		(Rs. in 000)
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2021 $\frac{1,500\times20}{100}$	300	By Net Profit for the year (Balancing figure)	567*
To Balance c/d	810		
	1,200		**1,200**

* Out of Rs. 5,67,000 profit for the year, Rs. 90,000 has been transferred to reserves by S Ltd.

3. **Distribution of Revenue Profits**

	Rs. in '000
Revenue Profit as above	567
Share of H Ltd. (60%)	340.2
Share of Minority shareholders (567- 340.20)	226.8

4. **Computation of Capital Profits**

	Rs. in 000	Rs. in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

5. **Computation of Capital Reserve**

		Rs. in '000
60% of share capital of S Ltd.		1,440
Add: Share of H Ltd. in the capital profits as in working note (4)		559.80
		1,999.80

Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits $\frac{Rs.300 \times 60}{100}$	(180)	(1,320)
		679.80

6. **Calculation of Minority Interest**

	Rs. in '000
40% of share capital of S Ltd.	960.00
Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	1560.00

Question 15 : May 2023 – Paper

G Ltd. and its subsidiary K Ltd. give the following information for the year ended 31stMarch, 2023:

(Rs. in crores)

Particulars	G Ltd.	K Ltd
Sales and other Income	3000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

(i) G sold goods of Rs. 200 crores to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)

(ii) G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is Rs. 800 crores on 01.04.2022 (date of acquisition of shares)

(iii) Administrative expenses of K Ltd. include Rs. 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include Rs. 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K. Ltd. for the year ended 31st March, 2023.

Solution :

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars		Note No	Rs. in Crores
I.	**Revenue from operations**	1	3,525
II.	**Total Income**		3,525
III.	**Expenses**		

	Cost of material purchased/consumed	2	650
	Changes of inventories of finished goods	3	(842)
	Employee benefit expense	4	675
	Finance cost	5	105
	Depreciation and amortization expense	6	105
	Other expenses	7	225
	Total expenses		918
IV.	**Profit before tax (II-III)**		2,607

Notes to Accounts

		Rs. in Crores	Rs. in Crores
1	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			650
3	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits Rs. 40 crores × 25/125	(8)	842
4	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105

7	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd. Selling and distribution Expenses:	(5)	120
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Note: The information (i) given in the question states that G Ltd. sold goods of Rs. 200 crores to K Ltd. at cost plus 25%. In the above solution it has been considered that the amount of Rs. 200 crores is sale value. Alternatively, Rs. 200 crores may be assumed as the cost of the goods sold. In that case, the solution will differ and will be as follows:

Alternative solution:

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

	Particulars	Note No	Rs. in Crores
I.	**Revenue from operations**	1	3,475
II.	**Total Income**		3,475
III.	**Expenses**		
	Cost of material purchased/consumed	2	600
	Changes of inventories of finished goods	3	(840)
	Employee benefit expense	4	675
	Finance cost	5	105
	Depreciation and amortization expense	6	105
	Other expenses	7	225
	Total expenses		870
IV.	**Profit before tax (II-III)**		2,605

Notes to Accounts

		Rs. in Crores	Rs. in Crores
1	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd.	(5	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2	Cost of material purchased/consumed		
	G Ltd.	600	

	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			600
3	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits Rs. 40 crores × 25/125	(10)	840
4	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd. Selling and distribution Expenses:	(5)	120
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Question 16 : May 2023 – Paper

H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd.Rs.	S Ltd.Rs.
Equity and Liabilities:		
Equity Share Capital	9,00,000	2,50,000
(Fully paid shares of Rs. 10 each)		
General Reserve	1,60,000	40,000

Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	**12,30,000**	**3,65,000**
Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	**12,30,000**	**3,65,000**

The following additional information is provided to you:

(i) General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.

(ii) Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to Rs. 20,000.

(iii) H Ltd. sold goods to S Ltd. costing Rs. 8,000 for Rs. 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.

(iv) Creditors of S Ltd. include Rs. 4000 due to H Ltd. on account of these goods.

(v) Out of Bills payable issued by S Ltd. Rs. 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, Rs. 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2023

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	9,00,000
(b) Reserves and Surplus	2	2,73,500
(2) Minority Interest	3	1,26,000
(3) Current Liabilities		
(a) Trade Payables	4	1,29,000
Total		**14,28,500**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	10,20,000
(2) Current assets		
(i) Inventory	6	1,49,500
(ii) Trade Receivables	7	1,29,000
(iii) Cash & cash equivalent	8	1,30,000

	Total		**14,28,500**

Notes to Accounts

				Rs.
1	**Share capital**			
	Authorised, issued, subscribed and paid up capital			
	90,000 equity shares of Rs. 10 each, fully paid up			9,00,000
2	**Reserves and Surplus**			
	General Reserves		1,60,000	
	Profit and Loss Account (W.N.5)		88,500	
	Capital Reserve (W.N. 4)		25,000	2,73,500
3	**Minority interest in S Ltd. (WN 3)**			1,26,000
4	**Trade payables**			
	Bills Payable			
	H Ltd.	40,000		
	S Ltd.	20,000		
		60,000		
	Less: Mutual payables	(7,000)	53,000	
	Trade Creditors			
	H Ltd.	50,000		
	S Ltd.	30,000		
		80,000		
	Less: Mutual owing	(4,000)	76,000	1,29,000
5	**Property, plant and equipment**			
	Machinery H Ltd.	7,00,000		
	S Ltd.	1,50,000	8,50,000	
	Furniture H Ltd.	1,00,000		
	S Ltd.	70,000	1,70,000	10,20,000
6	**Inventory**			
	H Ltd.		1,00,000	
	S Ltd.		50,000	
	Less: Unrealized profit (2,000x 25%)		(500)	**1,49,500**
7	**Trade receivables**			
	Bills receivable			
	H Ltd.	25,000		
	S Ltd.	20,000		
		45,000		
	Less: Mutual payables	(7,000)	**38,000**	
	Debtors			

	H Ltd.	60,000		
	S Ltd.	35,000		
		95,000		
	Less: Mutual owing	(4,000)	**91,000**	1,29,000
8	**Cash & cash equivalent**			
	Cash at Bank H Ltd.		90,000	
	S Ltd.		40,000	**1,30,000**

Working Notes:

1. Percentage of holding

	No. of Shares	Percentage
Holding Co. :	15,000	(60%)
Minority shareholders :	10,000	(40%)
Total Shares :	25,000	

2. Analysis of Profits

	Pre-acquisition profits and reserves of S Ltd. Rs.	Post-acquisition profits of S Ltd. Rs.
General Reserve	40,000	---
Opening balance of Profit and Loss	5,000	---
Current Year's profit (in 1:3)	5,000	15,000
	50,000	15,000
H Ltd.'s share (60%)	30,000	9,000
Minority Interest (40%)	20,000	6,000

3. Minority Interest

Paid up value of 10,000 shares @ Rs. 10 each	Rs. 1,00,000
Add: Share in pre-acquisition profits and reserve (40%)	Rs. 20,000
Add: Share in post-acquisition profits (40%)	Rs. 6,000
	Rs. 1,26,000

4. Capital Reserve for H Ltd.

(A)	Cost of acquiring 15,000 shares of S Ltd.	Rs. 1,55,000
(B)	Paid up value of 15,000 shares of S Ltd. @ Rs. 10 each	Rs. 1,50,000
	Add: Share in pre-acquisition profit and reserves of S Ltd.	Rs. 30,000
		Rs. 1,80,000
	Capital Reserve (B-A)	Rs. 25,000

5. Consolidated Balance of Profits of H Ltd.

Balance as per Statement of Profit and Loss	Rs. 80,000
Add: Share in post-acquisition profits of S Ltd.	Rs. 9,000
Less: Unrealised Profit in unsold stock of S Ltd.	Rs. (500)
	Rs. 88,500

Question 17 : Nov 2023 – RTP

Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2023

Particulars	Chand Ltd (Rs.)	Sitara Ltd. (Rs.)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 2020 Chand Ltd., acquired 5,000 equity shares of Rs. 100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of Rs. 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of Rs. 70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include Rs. 21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include Rs. 28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid Rs. 5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013.

Solution :

Consolidated statement of profit and loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	Rs.
Revenue from operations	1	50,03,250
Other Income	2	1,81,000
Total revenue (I)		51,84,250

Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	8,43,250
Total expenses (II)		41,33,250
Profit before tax (II-III)		10,51,000

Notes to Accounts:

			Rs.	Rs.
	Revenue from operations			
1	Sales and other operating revenues			
	Chand Ltd.		33,25,000	
	Sitara Ltd.		19,07,500	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Sitara Ltd. from Chand Ltd.		(28,0000	
	Royalty received by Chand Ltd. from Sitara Ltd.		(5,0000	
	Brokage received by Chand Ltd. from Sitara Ltd.		(21,250)	50,03,250
2	Other Income			
	Dividend income:			
	Chand Ltd.	1,68,000		
	Sitara Ltd.	43,750	2,11,750	
	Loss on sale of investments Sitara Ltd.		(26,2500	
	Other Non-operating Income			
	Chand Ltd.	35,000		
	Sitara Ltd.	10,500		
	Less: Dividend realized from Sitara Ltd. 5,00,000 x 10%)	(50,000)	4,500	1,81,000
3	Cost of material purchased/consumed			
	Chand Ltd.	13,93,000		
	Sitara Ltd.	4,72,500		
		18,65,500		
	Less: Purchases by Sitara Ltd. From Chand Ltd.	(1,75,000)	16,90,500	
	Direct expenses (Production)			
	Chand Ltd.	3,15,000		
	Sitara Ltd.	1,40,000	4,55,000	21,45,500
4	Changes (Increase) in inventories of finished goods			
	Chand Ltd.		4,37,500	
	Sitara Ltd.		75,250	
			5,12,750	

	Less: Unrealized profits Rs. 7,00,00 × 20/100		(14,000)	4,98,750
5	Employee benefits and expenses			
	Wages and salaries:			
	Chand Ltd.		13,30,000	
	Sitara Ltd.		2,45,000	15,75,000
6	Finance cost			
	Interest:			
	Chand Ltd.		17,500	
	Sitara Ltd.		5,250	22,750
7	Depreciation			
	Chand Ltd.		31,500	
	Sitara Ltd.		14,000	45,500
8	Other expenses			
	General & Administrative expenses:			
	Chand Ltd.	2,80,000		
	Sitara Ltd.	1,22,500		
		4,02,500		
	Less: Consultancy fees received by Sitara Ltd. from Chand Ltd.	(28,000)	3,74,500	
	Royalty:			
	Sitara Ltd.	5,000	Nil	
	Less: Received by Chand Ltd.	(5,000)		
	Selling and distribution Expenses:			
	Chand Ltd.	3,32,500		
	Sitara Ltd.	1,57,500		
		4,90,000		
	Less: Brokerage received by Chand Ltd. from Sitara Ltd.	(21,250)	4,68,750	8,43,250

Question 18 : May 2024 – RTP

Zoom Ltd. acquired 70% shares of Star Ltd. @ Rs. 30 per share. Following is the extract of Balance Sheet of Star Ltd.:

	Rs.
15,00,000 Equity Shares of Rs. 10 each	1,50,00,000
15% Debentures	15,00,000
Trade Payables	82,50,000
Property, Plant and Equipment	1,05,00,000
Investments	67,50,000
Current Assets	1,02,00,000
Loans and Advances	33,00,000

On the same day Star Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market

value of Rs. 90,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements.

Solution :

As per para 13 of AS 21 any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements.

Since dividend is declared by Star Ltd. on the date of acquisition itself, it would be out of the divisible profits of Star Ltd. existing on the date of acquisition i.e., pre-acquisition profits from the perspective of Zoom Ltd. Accordingly, as per para 12 of AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

Calculation of Goodwill or Capital Reserve	**Rs.**	**Rs.**
Cost of Investment in Star Ltd. (70% stake):		
15,00,000 Equity Shares x 70% x Rs. 30 per share	3,15,00,000	
Less: Pre-acquisition dividend:		
10,50,000 shares x Rs. 2	(21,00,000)	2,94,00,000
Less: Share of Zoom Ltd. in Net Assets of Star Ltd (W.N)		(1,55,40,000)
Goodwill on Date of Acquisition		1,38,60,000

Working Note:

Calculation of net asset	**Rs.**	**Rs.**
Assets		
Property, Plant and Equipment	1,05,00,000	
Less: Value written off (Rs. 105 lakhs x 10%)	(10,50,000)	
	94,50,000	
Investments at Market Value	90,00,000	
Current Assets	1,02,00,000	
Loans and Advances	33,00,000	3,19,50,000
Less: Liabilities Trade Payables	82,50,000	
15% Debentures	15,00,000	(97,50,000)
Net Assets of Star Ltd.		2,22,00,000
Share of Zoom Ltd. in Net Assets of Star Ltd.: 70%		1,55,40,000

Note: In the absence of information about the reserves, it is presumed that the given extract of the Balance Sheet of Star Ltd. is after considering the effects of the dividend declared on the date of acquisition.

Question 19 : May 2024 – Paper

The Balance Sheets of Art Limited and Craft Limited as on 31 March 2024 are as below:

Particulars	Note No	Art Limited (Rs.)	Craft Limited (Rs.)
I Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		11,77,000	7,40,000
II Assets			
a. Non-current Assets			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
b. Current Assets			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables	6	1,33,500	1,68,300
iii. Cash & Cash equivalent		24,500	6,700
		11,77,000	7,40,000

Notes to Accounts:

		Art Limited (Rs.)	Craft Limited (Rs.)
1	Share capital		
	6,500 shares of Rs. 100 each fully paid up	6,50,000	
	4,000 shares of Rs. 100 each fully paid-up	-	4,00,000
	Total	6,50,000	4,00,000
2	Reserves and Surplus		
	General Reserve	1,20,000	40,000
	Profit and Loss account	1,92,000	2,08,000
	Total	3,12,000	2,48,000
3	Short term borrowings		-
	Bank Overdraft	70,000	
4	Property Plant & Equipment		
	Land & Building	1,90,000	1,35,000
	Plant & Machinery	2,31,000	2,25,000
	Total	4,21,000	3,60,000
5	Non-current investments		-
	Investment in Craft Limited (Cost)	4,32,000	
6	Cash & Cash equivalents		
	Cash	24,500	6,700

Additional information:

(i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of Rs. 40,000 and Rs. 58,700 respectively as on 1st April, 2023.

(ii) The Plant & Machinery of Craft Limited which stood at Rs. 2,50,000 as on 1st April, 2023 was considered worth Rs. 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.

(iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.

(iv) On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated Balance Sheet as on 31st March 2024.

Solution :

Consolidated Balance Sheet of Art and Craft Ltd
As on 31st March, 2024

	Particulars	Note no.	Rs.
I.	**Equity & Liabilities**		
	(1) Shareholders' fund		
	(a) Share Capital	1	6,50,000
	(b) Reserves & Surplus	2	3,73,460
	(2) Minority Interest	3	1,26,740
	(3) Current Liabilities		
	(a) Short term borrowings	4	70,000
	(b) Trade Payables (1,45,000 + 92,000)		2,37,000
	Total		14,57,000
II.	**Assets**		
	(1) Non-current Assets		
	(a) Property, Plant & Equipment	5	7,65,000
	(2) Current Assets		
	(a) Inventories	6	3,57,500
	(b) Trade Receivables	7	3,03,500
	(c) Cash & Cash Equivalents	8	31,200
	Total		14,57,200

Notes to Accounts

Sr. No.	Particulars	Rs.
1	Share Capital	
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	6,500 Equity Shares of Rs. 100 each	6,50,000
2	Reserves & Surplus	
	Profit & Loss A/c (WN 5)	2,40,100
	General Reserve (WN 5)	1,20,000

	Capital Reserve (W.N. 3)		13,360
			3,73,460
3	Minority interest in Craft Ltd. (W.N.4)		1,26,740
4	Short-term borrowings		
	Bank Overdraft		70,000
5	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	1,35,000	3,25,000
	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	2,09,000	4,40,000
			7,65,000
6	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	-13,500	3,57,500
7	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	1,70,000	3,03,500
8	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	6,700	31,200

Working Notes:

1. Shareholding Pattern

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

2. Analysis of Profit

	General reserve	Profit and loss account
Opening balance	40,000	58,700
Closing balance	40,000	2,08,000
Changes during the year		1,49,300

Analysis of Profit

Particulars	Pre acquisition profit (6 months) (Rs.)	Post acquisition profit (6 months) (Rs.)
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed	850	850

(1,700) (W.N. 8)		
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	-	1,500
Total	1,56,700	77,000
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

3. Cost of Control

Particulars	**Rs.**	**Rs.**
Cost of Investment (Given)		4,32,000
Less: Share in Net Assets:		
a) Share Capital (3,200 shares × Rs.100)	3,20,000	
b) Capital Profit (W.N. 2)	1,25,360	-4,45,360
Capital Reserve		13,360

4. Minority Interest

Particulars	**Rs.**
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	15,400
Total	**1,26,740**

5. Consolidated Profit and General Reserve of Art Ltd

Particulars	**Profit and loss account Rs.**	**General reserve Rs.**
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	(13,500)	
Total	2,40,100	1,20,000

6. Calculation of Revaluation Profit /Loss

Particulars	**Rs.**
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	(12,500)
WDV as on date of acquisition	2,37,500
Revalued amount	2,20,000
Revaluation Loss	17,500

7. Savings in Depreciation

= Depreciation Provided for 6 months – Depreciation Should be
= 12,500 – (2,20,000 × 10% × 6/12)
= 1,500

8. Calculation of provision reversed

Trade Receivable (Given) =1,68,300 it is after provision i.e. 99%
So, 100% will be 1,70,000 therefor provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements: Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

Question 20 : Sept 2024 – Paper

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

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

Additional information :

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

You are required to calculate :
(1) Trade Payable (Consolidated)
(2) Current Assets (Consolidated)

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

Solution :

1. Trade payable (Consolidated)

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

2. Current assets (Consolidated)

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

3. Minority interest Cool Ltd

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

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

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

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

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

6. Profit and Loss Account (Consolidated)

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd {(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58,000

7. General Reserve (Consolidated)

Best limited	2,69,000

With reference to para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

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

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

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

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

Question 21 : Jan 2025 – Paper

The summarised Balance Sheet of Super Limited and Clear Limited as on 31st March, 2024 is as below :

Particulars	Notes	Super Limited (Rs.)	Clear Limited (Rs.)
Equity and Liabilities			
Shareholders' Funds			Rs.
Share Capital	1	95,00,000	50,00,000
Reserves ad Surplus	2	25,75,000	12,25,000
Non-Current Liabilities			
Long term borrowings	3	5,00,000	2,00,000
Current Liabilities			
Short term borrowings		4,50,000	-
Trade Payables		3,65,000	2,45,000
Total		**1,33,90,000**	**66,70,000**
Assets			
Non-current assets			
(a) Property, Plant and Equipment	4	77,00,000	54,00,000
(b) Non-Current Investment	5	41,50,000	-
Current Assets			
(a) Inventories		6,75,000	5,65,000
(b) Trade Receivables		5,85,000	4,90,000
(c) Cash and Cash equivalents		2,80,000	2,15,000
Total		**1,33,90,000**	**66,70,000**

Notes to Accounts :

Particulars	Super Limited (Rs.)	Clear Limited (Rs.)
1. **Share Capital**		
8,00,000 Equity Shares of Rs.10 each fully paid up	80,00,000	-
5,00,000 Equity Shares of Rs.10 each fully paid up	-	50,00,000
15,000 Preference Shares of Rs.100 each fully paid up	15,00,000	-
	95,00,000	**50,00,000**
2. **Reserves and Surplus**		
General Reserve	15,50,000	6,50,000
Profit and Loss Account	10,25,000	5,75,000

		25,75,000	**12,25,000**
3.	**Long term borrowings**		
	10% Debentures	5,00,000	-
	9% Debentures	-	2,00,000
4.	**Property, Plant & Equipment**		
	Land and Building	65,00,000	45,50,000
	Plant and Machinery	9,50,000	6,75,000
	Furniture & Fittings	2,50,000	1,75,000
		77,00,000	**54,00,000**
5.	**Non-Current Investment**		
	Investment in Clear Limited	41,50,000	-

Additional Information :

(a) Super Limited holds 75% of Equity Shares in Clear Limited since the incorporation of Clear Limited.

(b) 25% of Trade Receivables of Super Limited is due from Clear Limited.

(c) During the year Super Limited sold inventory costing Rs.2,00,000 to Clear Limited at a price of 15% above cost. The entire inventory remains unsold with Clear Limited at the end of financial year.

You are required to prepare Consolidated Balance Sheet of Super Limited and Clear Limited as on 31st March, 2024.

Solution :

Consolidated Balance Sheet of Super Ltd.
and its subsidiary Clear Ltd. as at 31st March, 2024

Particulars			**Note No.**	**Rs.**
I.	Equity and Liabilities			
	(1)	Shareholders' Funds		
		(a) Share Capital	1	95,00,000
		(b) Reserves and Surplus	2	34,63,750
	(2)	Minority Interest [W.N.4]		15,56,250
	(3)	Non-current Liabilities		
		(a) Long term borrowings	3	7,00,000
	(4)	Current Liabilities		
		(a) Short-term borrowings		4,50,000
		(b) Trade payables	4	4,63,750
				1,61,33,750
II.	Assets			
	(1)	Non-current assets		
		(a) Property, Plant & Equipment	5	1,31,00,000
		(b) Intangible Assets – Goodwill		4,00,000
	(2)	Current assets		
		(a) Inventory	6	12,10,000

(b) Trade Receivables	7	9,28,750
(c) Cash and Cash Equivalents		4,95,000
		1,61,33,750

Notes to Accounts :

		Rs.	Rs.
1	Share Capital		
	Equity Share Capital		
	8,00,000 Equity Shares of Rs. 10 each fully paid up		80,00,000
	Preference Share Capital		
	15,000 Preference Shares of Rs. 100 each fully paid up		15,00,000
	Total		95,00,000
2	Reserves and Surplus		
	General Reserve (WN 5)		20,37,500
	Profit & Loss A/c (WN 5)		14,26,250
	Total		34,63,750
3	Long term borrowings		
	10% Debentures		5,00,000
	9% Debentures		2,00,000
	Total		7,00,000
4	Trade payables		
	Super Ltd.	3,65,000	
	Clear Ltd.	2,45,000	
	Less: Mutual Owing	(1,46,250)	4,63,750
5	Property Plant & Equipment		
	Land & Building		
	Super Ltd.	65,00,000	
	Clear Ltd.	45,50,000	1,10,50,000
	Plant & Machinery		
	Super Ltd.	9,50,000	
	Clear Ltd.	6,75,000	16,25,000
	Furniture & Fittings		
	Super Ltd.	2,50,000	
	Clear Ltd.	1,75,000	4,25,000
6	Inventory		
	Super Ltd.	6,75,000	
	Clear Ltd.	5,65,000	
	Less: Unrealized profit	(30,000)	12,10,000
7	Trade Receivables		
	Super Ltd.	5,85,000	
	Clear Ltd.	4,90,000	
	Less: Mutual Owing	(1,46,250)	9,28,750

Working Notes:

1. Shareholding Pattern

Super Ltd	5,00,000 Shares
Holding 75%	3,75,000 shares
Minority Interest 25%	1,25,000 shares

2. Analysis of Profit of Clear Ltd.

	Capital Profit	Revenue Reserve	Revenue Profit
Opening Balance of General Reserve	-	6,50,000	-
Opening Balance of P&L	-	-	5,75,000
Total Rs.		6,50,000	5,75,000
Share of Minority (25%)		1,62,500	1,43,750
Share of Holding (75%)		4,87,500	4,31,250

3. Computation of Cost of Control (Goodwill / Capital Reserve)

	Computation	Rs.
Cost of Investment	Given	41,50,000
Less: Share of Equity Capital in Clear Ltd.	50,00,000 × 75%	(37,50,000)
Less: Pre -acquisition Profit	WN 2	-
Goodwill		4,00,000

4. Calculation of Minority Interest

Particulars		Rs.
Share in Equity Share Capital	50,00,000 × 25%	12,50,000
Share in Revenue Reserve	6,50,000 × 25%	1,62,500
Share in profit & loss	5,75,000 × 25%	1,43,750
Total		15,56,250

5. General Reserve and Consolidated Profit & Loss A/c

Particulars	General Reserve	Profit & Loss A/c
Balance from Balance Sheet	15,50,000	10,25,000
Revenue Profit (WN 2)	-	4,31,250
Revenue Reserve (WN 2)	4,87,500	-
Unrealized Profit	-	(30,000)
Total	20,37,500	14,26,250

Question 22 : May 2025 – Paper

Birds Ltd. and its subsidiary Rooster Ltd provided the following information for the year ended 31/03/2025.

Particulars	Birds Ltd. (Rs.)	Rooster Ltd. (Rs.)
Equity Share Capital	10,00,000	3,00,000
Sales	28,40,000	10,40,000

Purchases (Finished Goods)	9,15,000	1,75,000
Salaries	7,75,000	3,78,000
Rent received	5,40,000	
General and Administration expenses	2,81,500	1,98,000
Selling and Distribution Expenses	2,21,000	90,000
Dividend Income	1,35,000	28,000
Finished Goods Inventory on 01/04/2024	3,35,000	1,20,000
Finished Goods Inventory on 31/03/2025	7,85,000	2,90,000
Other Non-operating Income	2,38,000	57,000

Other Information:

- On 1st April 2022 Birds Ltd. acquired 2,500 shares of Rs. 100 each fully paid up in Rooster Ltd.
- Rooster Ltd. paid a dividend of 12% for the year ended 31/03/2024. The dividend was correctly accounted for by Birds Ltd.
- Rooster Ltd. pays Rs. 11,250 per month to Birds Ltd. towards rent for the portion of premises occupied.

Selling and Distribution Expenses of Rooster Ltd. include Rs. 15,000 received from Birds Ltd.
Prepare Consolidated Profit and Loss Account of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended 31/03/2025.

Solution :

Consolidated statement of profit and loss of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended on 31st March, 2025

Particulars	**Note No.**	**Rs.**
Revenue from operations	1	38,80,000
Other Income	2	8,33,000
Total revenue (I)		47,13,000
Expenses:		
Cost of material purchased/consumed	3	10,90,000
Changes (Increase) in inventories of finished goods	4	(6,20,000)
Employee benefit expense	5	11,53,000
Other expenses	6	6,55,500
Total expenses (II)		22,78,500
Profit before tax (II-III)		24,34,500

Notes to Accounts

			Rs.	**Rs.**
1	Revenue from operations			
	Sales and other operating revenues			
	Birds Ltd.		28,40,000	
	Rooster Ltd.		10,40,000	38,80,000
2	Other Income			

	Dividend income:			
	Birds Ltd.	1,35,000		
	Less: Dividend received from Rooster Ltd. (2,50,000 × 12%)	(30,000)		
	Rooster Ltd.	28,000	1,33,000	
	Other Non-operating Income			
	Birds Ltd.	2,38,000		
	Rooster Ltd.	57,000	2,95,000	
	Rent received			
	Birds Ltd.	5,40,000		
	Less: Rent received by Birds Ltd. from Rooster Ltd. (11,250 x 12)	(1,35,000)	4,05,000	8,33,000
3	Cost of material purchased/consumed			
	Birds Ltd.	9,15,000		
	Rooster Ltd.	1,75,000		10,90,000
4	Changes (Increase) in inventories of finished goods			
	Birds Ltd. (7,85,000 - 3,35,000)		4,50,000	
	Rooster Ltd. (2,90,000 -1,20,000)		1,70,000	6,20,000
5	Employee benefits and expenses Salaries:			
	Birds Ltd.		7,75,000	
	Rooster Ltd.		3,78,000	11,53,000
6	Other expenses			
	General & Administrative expenses:			
	Birds Ltd.	2,81,500		
	Rooster Ltd.	1,98,000		
	Less: Rent paid to Birds Ltd.	(1,35,000)	3,44,500	
	Selling and distribution Expenses:			
	Birds Ltd.	2,21,000		
	Less: paid to Rooster Ltd	(15,000)		
	Rooster Ltd.	90,000		
	Add: Received from Birds Ltd.	15,000	3,11,000	6,55,500

Note:

An amount of Rs. 15,000 was added under Selling and Distribution Expenses of Rooster Ltd. due to a rectification entry, while Rs. 15,000 was deducted from Birds Ltd. under the same head to account for the set-off of inter-company transactions.

Question 23 : Sept 2025 – Paper

The following are the summarized Balance Sheets of Seva Lighted and its subsidiary Meva Limited as at 31st March 2025 :

Particulars	Seva Limited	Meva Limited
	(Rs.in Lakh)	(Rs.in Lakh)
Equity Shares of Rs.10 each, fully paid up	6,000	4,000

General Reserve	1,500	1,200
Profit and Loss Account	2,000	1,500
10% Debentures of Rs.10 each	1,180	820
Trade Payable	1,500	1,080
Total	**12,180**	**8,600**
Land and Building	4,000	4,150
Plant & Machinery	1,460	1,650
Non-current investments	3,000	—
(Shares in Meva Limited)		
Inventories	1,400	1,100
Trade Receivable	1,420	1,000
Cash at Bank	550	600
Cash in Hand	350	100
Total	**12,180**	**8,600**

The following information are provided :

(i) The Authorised Share Capital of Seva Limited is Rs.9,000 Lakh divided into Equity Scares of Rs.10 each and that of Meva Limited is Rs.6,000 Lakh divided into Equity Shares of Rs.10 each.

(ii) Seva Limited acquired 80% equity shares of Meva Limited Oil 1st April 2024, On that date, General Reserve and Profit & Loss Account of Meva Limited stood at Rs.2,000 lakh and Rs.800 lakh respectively.

(iii) On 1st November 2024 Meva Limited issued one fully paid up bonus share for every three shares held out of balances of its general reserve as on 31st March 2024.

(iv) On 31st March 2025 Seva Limited's inventory include goods which it has purchased for Rs.125 lakh from Meva Limited, Meva Limited made a profit of Rs.25 lakh.

You are required to prepare Consolidated Balance Sheet of Seva Limited and its subsidiary Meva Limited as on 31st March 2025 as per Schedule III of the Companies Act, 2013.

Solution :

Consolidated Balance Sheet of Seva Ltd.
and its subsidiary Meva Ltd. as at 31st March, 2025

Particulars	Note No.	(Rs. in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,000
(b) Reserves and Surplus	2	5,840
(2) Minority Interest [W.N.6]		1,335
(3) Non-current liabilities		
(a) Long term borrowings	3	2,000
(4) Current Liabilities		
(a) Trade payables	4	2,580

		Total		17,755
II.	**Assets**			
	(1)	Non-current assets		
		(a) Property, Plant and Equipment	5	11,260
	(2)	Current assets		
		(a) Inventories	6	2,475
		(b) Trade receivables	7	2,420
		(c) Cash and cash equivalents	8	1,600
		Total		17,755

Notes to Accounts

			(Rs. in lacs)	(Rs. in lacs)
1	Share Capital			
	Authorized share capital			
	900 Equity shares of Rs.10 each, fully paid up			9,000
	Issued and Subscribed:			
	600 Equity shares of Rs. 10 each, fully paid up			6,000
	Total			6,000
2	Reserves and surplus			
	Capital Reserve (Note 5)		1,640	
	General Reserve (Note 8)		1,660	
	Profit and Loss Account (Note 8)		2,540	
	Total			5,840
	Long term Borrowings			
3	10% Debentures of Rs. 10 each (1,180 + 820)			2,000
4	Trade payables			
	Seva Ltd.		1,500	
	Meva Ltd.		1,080	2,580
5	Property, plant and equipment			
	Land and Buildings			
	Seva Ltd.	4,000		
	Meva Ltd.	4,150	8,150	
	Plant and Machinery			
	Seva Ltd.	1,460		
	Meva Ltd.	1,650	3,110	
	Total			11,260
6	Inventories			
	Seva Ltd.		1,400	
	Meva Ltd.		1,100	
			2,500	
	Less: Unrealized profit		(25)	2,475

7	Trade receivables		
	Seva Ltd.	1,420	
	Meva Ltd.	1,000	2,420
8	Cash and cash equivalents		
	Cash at Bank (550 + 600)	1,150	
	Cash in hand (350+100)	450	1,600

Working Notes:

1. Meva Ltd.'s General Reserve Account

	Rs. in lakhs		Rs. in lakhs
To Bonus to equity shareholders (WN-8)	1,000	By Balance b/d	2,000
To Balance c/d	1,200	By Profit and Loss A/c	200
	2,200		2,200

2. Meva Ltd.'s Profit and Loss Account

	Rs. in lakhs		Rs. in lakhs
To General Reserve [WN 1]	200	By Balance b/d	800
To Balance c/d	1,500	By Net Profit for the year (Balancing figure)	900
	1,700		1,700

3. Distribution of Revenue profits

		Rs.in lakhs
Revenue profits (W. N. 2)		900
Less: Share of Seva Ltd.		
Share in General Reserve (80% of 200) =	160	
Share in P&L A/c (80% of 700) =	560	(720)
Share of Minority Shareholders (20%)		180

4. Calculation of Capital Profits

	Rs. in lakhs
General Reserve on the date of acquisition less bonus shares (2,000 – 1,000)	1,000
Profit and loss account on the date of acquisition	800
	1,800

Seva Ltd.'s share = 80% of Rs. 1,800 lakhs = Rs. 1,440 lakhs
Minority interest = Rs. 1,800 – Rs. 1,440 = Rs. 360 lakhs

5. Calculation of capital reserve

	Rs. in lakhs
Paid up value of shares held (80% of Rs. 4,000)	3,200
Add: Share in capital profits [WN 4]	1,440
	4,640

Less: Cost of shares	-3,000
Capital reserve	1,640

6. Calculation of Minority Interest

	Rs. in lakhs
20% of share capital (20% of 4,000)	800
Add: Share in revenue profits [WN 3]	180
Share in capital profits [WN 4]	360
	1,340
Less: Unrealized profit (80% of 25)	5
Minority Interest	1,335

7. Unrealized profit in respect of inventory

Rs. 25 lakhs (80% Related to Seva Ltd. and 20% related to Meva Ltd)

8. Calculation of Consolidated General Reserve and Profit & Loss A/c of Seva Ltd.

	General Reserve	P&L A/c
Balance on reporting date	1,500	2,000
Share in post-acquisition or revenue profits of Meva Ltd.	160	560
	1,660	2,560
Less: Unrealized profit	-	20
Closing Balance	1,660	2,540

9. Computation of bonus to equity shareholders

	Rs. In lakhs
Shares as on 31 March 2025 including bonus share issued on 1 Nov. 2024	4,000
Or we can say these are 1 + 1/3 or 4/3	
i.e. Shares before bonus issue should have been $\frac{4,000}{4} \times 3$ =	3,000
Accordingly, bonus issue would be (4,000-3,000)	1,000

Thanks ....

CHAPTER

22

AS 22 – ACCOUNTING FOR TAXES ON INCOME

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Question 1 : May 2020 – RTP / Jan 2021 – Paper / Nov 2022 – Paper

The following information is furnished in respect of Mohit Limited for the year ending 31st March, 2022.

(i) Depreciation as per accounting records Rs.56,000
Depreciation for income tax records Rs.38,000
The above depreciation does not include depreciation on new addition.

(ii) A new machinery purchased on 1st April, 2021 costing Rs.24,000 on which 100% depreciation is allowed in the 1st Year for income tax purpose, whereas straight line method of depreciation is considered appropriate for accounting purpose with a life estimation of 4 years.

(iii) The company has made a profit of Rs.1,28,000 before depreciation and taxes.

(iv) Donation to private trust during the year is Rs.15,000 (not allowed under Income tax laws.)

(v) Corporate tax is 40%.

Prepare relevant extract of statement of Profit & Loss for the year ending 31st March, 2022. Also show the effect of the above items on Deferred Tax Liability / Assets as per AS - 22.

Solution :

Statement of profit and Loss for the year ended 31st March, 2022 (An Extract)

	Rs.
Profit before taxes and depreciation	1,28,000
Less: Depreciation (56,000+ 6,000)	62,000
Profit before tax	66,000
Less: Current tax (W.N)	(32,400)
Deferred Tax	Nil
Profit after tax	33,600

Working Note:

Computation of taxable income

	Rs.
Profit before taxes and depreciation	1,28,000

Less: Depreciation (38,000+ 24,000)	(62,000)
	66,000
Add: Donation*	15,000
	81,000
Current tax (40%)	32,400

Note: The profit of Rs. 1,28,000 given in the question is before depreciation and taxes. It has been considered that this amount is after making adjustment of donation amounting Rs. 15,000.

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

	Transactions	Nature of difference	Effect	Amount
(1)	Difference in depreciation (old machinery)	Timing difference	Reversal of DTL	Rs. 18,000 56,000 – 38,000) ´ 40% = (+) Rs. 7,200
(2)	Depreciation on new machinery	Timing difference	Creation of DTL	Rs. 18,000 (24,000 – 6,000) x 40% = (-) Rs. 7,200
(3)	Donation to private trusts	Permanent difference	Not applicable	--
Net Effect of Deferred Tax				Nil

Question 2 : Nov 2020 – RTP

Write short note on Timing differences and Permanent differences as per AS 22.

Solution :

Accounting income and taxable income for a period are seldom the same. Permanent differences are those which arise in one period and do not reverse subsequently. For e.g., an income exempt from tax or an expense that is not allowable as a deduction for tax purposes. Timing differences are those which arise in one period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

Question 3 : Nov 2020 – RTP

Rama Ltd., has provided the following information:

	Rs.
Depreciation as per accounting records	6,00,000
Depreciation as per income tax records	10,00,000
Unamortized preliminary expenses as per tax record	60,000

There is adequate evidence of future profit sufficiency. You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 30%.

Solution :

Table showing calculation of deferred tax asset / liability

Particulars	Amount Rs.	Timing differences	Deferred tax	Amount @ 30% Rs.

Excess depreciation as per tax records (Rs.10,00,000 – Rs.6,00,000)	4,00,000	Timing	Deferred tax liability	1,20,000
Unamortized preliminary expenses as per tax records	60,000	Timing	Deferred tax asset	(18,000)
Net deferred tax liability				1,02,000

Question 4 : Nov 2020 – Paper / Nov 2023 – RTP

From the following details of Aditya Limited for accounting year ended on 31st March, 2023:

Particulars	Rs.
Accounting profit	15,00,000
Book profit as per MAT	7,50,000
Profit as per Income tax Act	2,50,000
Tax Rate	20%
MAT Rate	7.50%

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

Solution :

Tax as per accounting profit 15,00,000 × 20%= Rs. 3,00,000
Tax as per Income-tax Profit 2,50,000 × 20% =Rs. 50,000
Tax as per MAT 7,50,000 × 7.50%= Rs. 56,250
Tax expense= Current Tax + Deferred Tax
Rs. 3,00,000 = Rs. 50,000 + Deferred tax
Therefore, Deferred Tax liability as on 31-03-2023
= Rs. 3,00,000 – Rs. 50,000 = Rs. 2,50,000
Amount of tax to be debited in Profit and Loss account for the year 31-03-2023
Current Tax + Deferred Tax liability + Excess of MAT over current tax

Question 5 : May 2021 – RTP

What are the disclosure requirements for deferred tax assets and deferred tax liabilities in the balance sheet as per AS 22?

Solution :

The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts. Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

Question 6 : May 2021 – RTP / July 2021 – Paper / May 2022 – RTP

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

	(Rs. in Lakhs)

Deferred Tax Liability (Cr.)	28.00
Deferred Tax Assets (Dr.)	14.00

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

(i) Depreci0ation as per books was Rs.70 Lakhs whereas Depreciation for Tax purpose was Rs.42 Lakhs. There were no additions to Fixed Assets during the year.

(ii) Expense disallowed in 2019-20 and allowed for tax purpose in 2020-21 were Rs.14 Lakhs.

(iii) Share issue expenses allowed under section 35(D) of the Income Tax Act, 1963 for the year 2020-21 ($1/10^{th}$ of Rs.70.00 lakhs incurred in 2019-20)

(iv) Repairs to Plant and Machinery were made during the year for Rs.14.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, the entire expenditure was allowed for income-tax purpose in the year 2020-21.

Tax Rate to be taken at 40%.

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

Solution :

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

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

Question 7 : Nov 2021 – RTP

Can an enterprise offset deferred tax assets and deferred tax liabilities? If yes, prescribe the conditions required for such offset as per provisions of AS 22.

Solution :

Yes. It can offset deferred tax assets and deferred tax liabilities.

As per AS 22, an enterprise should offset deferred tax assets and deferred tax liabilities if:

(i) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and

(ii) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

Question 8 : Nov 2022 – RTP

Define followings as per AS 22:

(i) Accounting income (loss)

(ii) Taxable income (tax loss)

(iii) Tax expense (tax saving)

Solution :

Accounting income (loss) is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income-tax expense or adding income tax saving.

Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income-tax payable (recoverable) is determined.

Taxable expenses is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

Question 9 : Sept 2024 – Paper

Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for Rs.34 Lakhs, Rs.50 Lakhs and Rs.65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of Rs.30 Lakhs, Rs.52 Lakhs and Rs.67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset I Liability and Total Tax Expenses -for the years ending 31st March 2021, 2022 and 2023.

Solution :

Calculation of Deferred Tax Asset/Liability in Delta Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2021	34,00,000	30,00,000	4,00,000	4,00,000	1,20,000	1,20,000
2022	50,00,000	52,00,000	-2,00,000	2,00,000	(60,000)	60,000

2023	65,00,000 1,49,00,000	67,00,000 1,49,00,000	-2,00,000	NIL	(60,000)	NIL

Calculation of total tax

Year	Deferred Tax	Current tax expense	Total tax
2021	1,20,000	9,00,000 (30,00,000 x 30%)	10,20,000
2022	(60,000)	15,60,000 (52,00,000 x 30%)	15,00,000
2023	(60,000)	20,10,000 (67,00,000 x 30%)	19,50,000

Note: It is assumed that the revenue and the taxable profit is the same.

Question 10 : Jan 2025 – RTP

ABC Ltd. prepares its accounts annually on 31st March. On 1st April, 2022, it purchases a machine at a cost of Rs. 1,50,000. The machine has a useful life of three years and an expected scrap value of zero. Although it is eligible for a 100% first year depreciation allowance for tax purposes, the straight line method is considered appropriate for accounting purposes. ABC Ltd. has profits before depreciation and taxes of Rs. 2,00,000 each year and corporate tax rate is 40 percent each year. The purchase of machine at a cost of Rs. 1,50,000 in 2022 gives rise to a tax saving of Rs. 60,000. The corporate tax rate has been assumed to be same in each of the three years. Calculate deferred tax and pass necessary journal entries.

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

Solution :

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

Statement of Profit and Loss

(for the three years ending 31st March, 2022, 2023, 2024)

		(Rs. in thousand)		
		2022	2023	2024
	Profit before depreciation and taxes	200	200	200
Less :	Depreciation for accounting purposes	50	50	50
	Profit before taxes	150	150	150
Less :	Tax expense			
	Current tax:			
	0.40 x (200 -150)	20		
	0.40 x 200		80	80
	Deferred tax:			
	Tax effect of timing differences originating during the year leading to DTL			
	0.40 (150-50)	40		

Tax effect of timing differences reversing during the year			
0.40 (0-50)	-	(20)	(20)
Tax expense	60	60	60
Profit after tax	90	90	90
Net timing differences	100	50	0
Deferred tax liability balance	40	20	0

In 2022, the amount of depreciation allowed for tax purposes exceeds the amount of depreciation charged for accounting purpose by Rs. 1,00,000 and, therefore, taxable income is lower than the accounting income. This gives rise to a deferred tax liability of Rs. 40,000. In 2023 and 2024 accounting income is lower than taxable income because the amount of depreciation charged for accounting purposes exceeds the amount of depreciation allowed for tax purposes by Rs. 50,000 each year. Accordingly, deferred tax liability is reduced by Rs. 20,000 each in both the years. As may be seen, tax expense in based on the accounting income of each period.

In 2022, the profit and loss account is debited and deferred tax liability account is credited with the amount of tax on the originating timing difference of Rs. 1,00,000 while in each of the following two years, deferred tax liability account is debited and profit and loss account is credited with the amount of tax on the reversing timing difference of Rs. 50,000.

The following Journal entries will be passed:

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

Presentation:

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

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

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

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

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

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

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

Question 11 : Sept 2025 – Paper

Amber Limited purchases a building at a cost of Rs.20,00,000 on 1st April 2021, its useful life is four years and an expected scrap value is zero. Depreciation is allowed @ 50% in 1st year and rest balance in 2nd year for Tax purpose. Straight-line method is considered for accounting purpose. Amber Limited profit before depreciation and taxes are as follow :

Year	**Profit (in Rs.)**
2021 -2022	18,00,000
2022-2023	22,00,000
2023 - 2024	25,00,000
2024 - 2025	30,00,000

The corporate tax rate is 30% in all 4 years.

You are required to calculate Current Tax, Deferred Tax Assets/Liability and Tax Expense for each year.

Solution :

As per AS 22 "Accounting for Taxes on Income", computation of Current Tax, Deferred Tax Liability (DTL), and Total Tax Expense of Amber Limited is as under :

	2021-2022 (Rs.)	2022-2023 (Rs.)	2023-2024 (Rs.)	2024-2025 (Rs.)
Profit before depreciation and taxes	18,00,000	22,00,000	25,00,000	30,00,000
Less: Depreciation for accounting purposes	5,00,000	5,00,000	5,00,000	5,00,000
Profit before Taxes (i)	13,00,000	17,00,000	20,00,000	25,00,000
Less: Tax Expenses				
(a) Current tax for the year	2,40,000	3,60,000	7,50,000	9,00,000

(b) Deferred Tax Liability/ Asset(b)	1,50,000	1,50,000	-1,50,000	-1,50,000
Tax expense (a+b) (ii)	**3,90,000**	**5,10,000**	**6,00,000**	**7,50,000**
Profit after tax (i) – (ii)	9,10,000	11,90,000	14,00,000	17,50,000

Working notes:

1. **Calculation of current tax at 30%**

Year	Taxable Income	Current Tax (Rs.)
2021-22	8,00,000(18,00,000-10,00,000)	2,40,000
2022-23	12,00,000(22,00,000-10,00,000)	3,60,000
2023-24	25,00,000	7,50,000
2024-25	30,00,000	9,00,000

2. **Calculation of Timing Difference and Deferred Tax Assets/Liability**

Year	Timing Difference (Tax Depreciation- Accounting Depreciation)	DTL/(DTA) Deferred Tax = Timing Difference × 30%
2021-22	10,00,000 -5,00,000= 5,00,000	1,50,000
2022-23	10,00,000 -5,00,00=5,00,000	1,50,000
2023-24	0 - 5,00,000= (5,00,000)	(1,50,000)
2024-25	0- 5,00,000 = (5,00,000)	(1,50,000)

Thanks ....

CHAPTER

23

AS 23 – ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

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Question 1 : Sept 2024 – RTP

Hill Ltd. has a share capital of 50,000 shares @ Rs. 100 per share. Sun Ltd. acquired 15% shares in Hill Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of Rs. 100 each of Hill Ltd. These debentures will be converted at par into equity shares of Hill Ltd. after 3 years. State whether, as per AS 23, Hill Ltd. is an Associate of Sun Ltd. or not with reasons?

Solution :

As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words, the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, Sun Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in Hill Ltd. However, the current outstanding securities with voting rights in Hill Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of Sun Ltd. on Hill Ltd. Hence, Hill Ltd. is not an associate of Sun Ltd.

Working Note:

Calculation of percentage of holding of shares after conversion

	Rs.
Current holding is 15% i.e. 7,500 shares of Rs. 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of Rs. 100 each	5,00,000
	12,50,000

Total share capital of Hill Ltd. after conversion of debentures into equity shares will be = Rs. 50,00,000 + Rs. 5,00,000 = Rs. 55,00,000

Percentage of holding = Rs. (12,50,000/55,00,000) x 100 = 22.7% approx.

Question 2 : Jan 2025 – RTP

A Ltd. invested Rs. 1,00,000 to acquire 10% stake (Investment I) in B Ltd. and later invested Rs. 3,00,000 to acquire additional 20% (Investment II). The net asset value of the B ltd. at the respective investment dates was Rs. 7,50,000 and Rs. 12,50,000 respectively. Determine whether B Ltd. is an associate of A Ltd. Also, calculate goodwill arising on the acquisition of the associate.

Solution :

As per para 3 of AS 23 an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. In this case, A Ltd. has invested 30 % in B Ltd. so B Ltd. is to be considered as an associate of A Ltd.

The goodwill arising on the acquisition of the associate will be computed as follows:

		Rs.
Investment I		1,00,000
Share of net assets	(10 percent of Rs. 7,50,000)	(75,000)
Goodwill (A)		25,000
Investment II		3,00,000
Share of net assets	(20 percent of Rs. 12,50,000)	(2,50,000)
Goodwill (B)		50,000
Total goodwill (A + B)		75,000

Thanks ....

CHAPTER

24

AS 24 – DISCONTINUING OPERATIONS

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Question 1 : May 2020 – RTP / Nov 2020 – RTP / Nov 2021 – RTP / May 2022 – RTP / Nov 2022 – RTP

(i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?

(ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

Solution :

(i) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per AS 17 'Segment Reporting';

(c) the date and nature of the initial disclosure event;

(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(ii) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to AS 24, examples of activities that do not necessarily

satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

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

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

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

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

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

Question 2 : May 2021 – RTP / July 2021 – Paper

Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However no specific plans have been drawn up for sale of neither the division not its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacturer of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment :

(i) If mere gradual phasing out in itself can be considered as a 'discounting operation' within the meaning of AS – 24.

(ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?

(iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

Solution :

(i) As per AS 24, a discontinuing operation is a component of an enterprise:

(a) that the enterprise, pursuant to a single plan, is:

(i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or

(ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or

(iii) terminating through abandonment; and

(b) that represents a separate major line of business or geographical area of operations; and

(c) that can be distinguished operationally and for financial reporting purposes.

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

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

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

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

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the company's strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

(ii) No, the resolution is silent about stoppage of the car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.
Hence, AS 24 will not be applicable and it cannot be considered as discontinuing operation.

(iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.
Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operation as per AS-24.

Question 3 : May 2023 – RTP

A consumer goods producer has changed the product line as follows

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2021 - September 2021	2,00,000	2,00,000
October 2021 - December 2021	1,00,000	3,00,000
January 2022 - March 2022	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2021 to this effect. The company follows calendar year as its accounting year.
You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

Solution :

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a **single plan**, is:
  (1) disposing of substantially in its entirety,
  (2) disposing of piecemeal, or
  (3) terminating through abandonment; and

(ii) that represents a separate **major line** of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If

it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

Question 4 : May 2024 – RTP

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

Solution :

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

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

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

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

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

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

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment, i.e. the commercial vehicle production line in a new factory has not started.

Question 5 : Sept 2024 – RTP

Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

Solution :

Mere gradual phasing out is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operations'.

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

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

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

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

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

In view of the above the answers are:

(i) No, the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.

(ii) No, the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, closure road map and new segment starting roadmap are missing. Hence, AS 24 will not be applicable.

(iii) Yes, phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap. Hence, this action will attract compliance of AS 24.

Question 6 : Jan 2025 – RTP

What are the disclosure and presentation requirements of AS 24 for discontinuing operations?

Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

Solution :

(i) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15) occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;

(c) the date and nature of the initial disclosure event;

(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(ii) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

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

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

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

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

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

Thanks ....



CHAPTER

25

AS 25 – INTERIM FINANCIAL REPORTING

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Question 1 : May 2025 – Paper

XY Limited reported a Profit Before Tax (PBT) of Rs. 18 lakhs for the third quarter ending 31st December 2024. Following observations are noted;

(i) Dividend income of Rs. 8 lakhs received during the quarter has been recognized to the extent of Rs. 2 lakh only.

(ii) Sales promotion expenses Rs. 15 lakhs incurred in the third quarter, 70% has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of Rs. 4 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only Rs. 1 lakhs.

(iv) Rs. 3 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of Rs. 5 lakhs. Out of this loss Rs. 2 lakhs relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of Rs. 30 lakhs. The company had apportioned this equally to the four quarters.

Calculate the result of the third quarter as per AS 25 and also comment on the company's view on each observation.

Solution :

As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year.

Comments on observations:

(i) Dividend income received during 3rd quarter should be recognised in the 3rd quarter only.

(ii) Sales promotion expenses cannot be deferred on the basis that fourth quarter has more sales. This expense should be recognized in 3rd quarter only.

(iii) Further, as per AS 10, Property, Plant and Equipment, if there is change in the depreciation method, such a change should be accounted for as a change in accounting estimate in

accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, and applied prospectively. Therefore, no adjustment would be required due to change in the method of depreciation.

(iv) Extra ordinary gain of Rs. 3 lakhs should be wholly recognized in 3rd quarter only.

(v) Loss of Rs. 2 lakhs belong to previous quarters and not 3rd quarter, so it should not be deducted from the profit of 3rd quarter.

(vi) Gain on sale of investment is in the nature of occasional gain, so it cannot be deferred and hence the amount of Rs. 7.5 lakhs considered as income of 1st quarter, will be reversed from the profit of the 3rd quarter.

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

Statement showing Adjusted Profit Before Tax for the third quarter

	Rs.
Profit before tax (as reported)	18,00,000
Add: Dividend income Rs. (8,00,000 - 2,00,000)	6,00,000
Excess depreciation charged in the 3rd quarter, due to	-
change in the method	
Extra ordinary gain Rs. (3,00,000-1,50,000)	1,50,000
Cumulative loss due to change in the method of inventory	
valuation should be applied retrospectively	
Rs. (5,00,000-3,00,000)	2,00,000
	27,50,000
Less: Sales promotion expenses (70% of Rs. 15 lakhs)	(10,50,000)
Gain on sale of investment (occasional gain should not be	
deferred)	(7,50,000)
Adjusted Profit before tax for the third quarter	9,50,000

Thanks ....

CHAPTER

26

AS 26 – INTANGIBLE ASSETS

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Question 1 : May 2018 – Paper / May 2020 - RTP

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

Solution :

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

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

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost Rs.128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

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

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

Total	250,00,000	1.000	160,00,000

Question 2 : May 2019 – RTP

A Company with a turnover of Rs. 375 crores and an annual advertising budget of Rs. 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 37.5 croes from the new product. The company had debited to its
Profit and Loss account the total expenditure of Rs. 3 crores incurred on extensive special initial advertisement campaign for the new product.
Is the procedure adopted by the Company correct?

Solution :

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".
In the given case, advertisement expenditure of Rs. 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of Rs.37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.
Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of Rs.3 crores to the Profit and Loss account of the year is correct.

Question 3 : Nov 2019 – RTP

K Ltd. launched a project for producing product X in October, 2018. The Company incurred Rs.40 lakhs towards Research and Development expenses upto 31st March, 2019. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.
Advise the Company as per the applicable Accounting Standard.

Solution :

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.
Hence, the expenses amounting Rs. 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2019.

Question 4 : Nov 2019 – Paper / May 2023 – RTP

As per provisions of AS-26, how would you deal to the following situations:
(1) Rs. 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2021-22, a company spent Rs. 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.

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

(4) A company with a turnover of Rs. 200 crores and an annual advertising budget of Rs. 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of Rs. 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of Rs. 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

Solution :

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

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

(ii) The company is required to expense the entire amount of Rs. 7,00,000 in the Profit and Loss account for the year ended 31st March, 2022 because no benefit will arise in the future.

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

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

Question 5 : Nov 2020 – RTP

X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya''. One month before, the company comes to know through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya"'. X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. How should X Ltd. account for these legal costs incurred relating to the two trademarks?

Solution :

As per AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance or

can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.
The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs incurred for both trademarks must be recognized as an expense.

Question 6 : Nov 2020 – Paper

M/s. Pasa Ltd is developing a new production process. During the financial year ended 31st March 2019, the total expenditure incurred on the process was Rs. 80 lakhs. The production process met the criteria for recognition as on intangible asset on 01st November 2018. Expenditure incurred till this date was Rs. 42 lakhs.
Further expenditure incurred on the process for the financial year ending 31st March 2020 was Rs. 90 Lakhs. As on 31.03.2020, the recoverable amount of know how to embodied in the process is estimated to be Rs. 82 lakhs. This includes estimates of future cash outflows and inflows
You are required to work out:

1. What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March 2019?
2. What is the carrying amount of the intangible asset as on 31st March 2019?
3. What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March 2020?
4. What is the carrying amount of the intangible asset as on 31st March 2020?

Solution :

As per AS 26 'Intangible Assets'

(i) Expenditure to be charged to Profit and Loss account for the year ending 31.03.2019

Rs. 42 lakhs is recognized as an expense because the recognition criteria were not met until 1st November, 2018. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) Carrying value of intangible asset as on 31.03.2019

At the end of financial year, on 31st March 2019, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of Rs. 38 (80-42) lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st November 2018)

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020

	(Rs. in lacs)
Carrying Amount as on 31.03.2019	38
Expenditure during 2019 – 2020	90
Book Value	128
Recoverable Amount	(82)
Impairment loss to be charged to Profit and loss account	46

(iv) Carrying value of intangible asset as on 31.03.2020

	(Rs. in lacs)
Book Value	128
Less: Impairment loss	(46)
Carrying amount as on 31.03.2020	82

Question 7 : Nov 2020 – Paper / Nov 2023 – RTP

Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of Rs. 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (Rs. in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be Rs. 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.

Solution :

Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (Rs. in lakhs)	Amortization Ratio	Amortized Amount (Rs. in lakhs)
1	300	.25	150
2	300	.25	150
3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	.05	30
		1.00	600

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150).The unamortized amount of the patent after third year will be Rs. 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

Question 8 : Jan 2021 – Paper

A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as Rs.100 per £. The seller allowed trade discount @ 2.5%. The other expenditure were :

(i) Import Duty 10%
(ii) Additional Import Duty 5%
(iii) Entry Tax 2% (Recoverable later from tax department).
(iv) Installation expense Rs.1,50,000.
(v) Professional fees for clearance from customs Rs.50,000.

Computer the cost of software to be Capitalised as per relevant AS.

Solution :

Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	£ 1,50,000
Less: Trade discount @ 2.5%	£ (3,750)
	£1,46,250
Cost in Rs. (UK £1,46,250 x Rs. 100)	1,46,25,000
Add: Import duty on cost @ 10% (Rs.)	14,62,500
	1,60,87,500
Add: Additional import duty @ 5% (Rs.)	8,04,375
	1,68,91,875
Add: Installation expenses (Rs.)	1,50,000
Add: Professional fee for clearance from customs (Rs.)	50,000
Cost of the software to be capitalized (Rs.)	1,70,91,875

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset

Question 9 : May 2021 – RTP

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

(i) Naresh Ltd. acquired running business of Sunil Ltd. for Rs. 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was Rs. 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

(ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for Rs. 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were Rs. 60,000 during the financial year 2019-2020.

(iii) On 20th August, 2019, Naresh Ltd, incurred costs of Rs. 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.

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

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

Solution :

Naresh Ltd.

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

	Note No.	Rs.
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extract)

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

Working Notes :

		Rs.
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

Question 10 : Nov 2021 – RTP

A company is showing an intangible asset at Rs. 88 lakhs as on 01.04.2021. This asset was acquired for Rs. 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

Solution :

As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at Rs. 72 lakhs i.e. Rs. 120 lakhs less Rs. 48 lakhs $\left(\frac{\text{Rs.120 Lakhs}}{\text{10 years}} \times \text{4 years} = \text{48 lakhs}\right)$

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

Question 11 : Dec 2021 – Paper

Surgical Ltd. is developing a new production process of surgical equipment. During the financial year ended 31st March, 2020 the total expenditure incurrent on the process was Rs.67 lakhs. The production process met the criteria for recognition as an intangible assets on 1st January, 2020. Expenditure incurred till this date was Rs.35 lakhs.

Further expenditure incurrent on the process for the financial year ending 31st March, 2021 was Rs.105 lakhs. As on 31st March, 2021, the recoverable amount of technique embodied in the process is estimated to be Rs.89 lakhs. This includes estimates of further cash outflows and inflows.

Under the provisions of AS 26, you are required to ascertain :

(i) The expenditure to be charged to Profit and Loss account for the year ended 31st March, 2020;

(ii) Carrying amount of the intangible asset as on 31st March, 020;

(iii) Expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2021;

(iv) Carrying amount of the intangible asset as on 31st March, 2021.

Solution :

As per AS 26 'Intangible Assets'

(i) **Exhpenditure to be charged to Profit and Loss account for the year ended 31.03.2020**

Rs. 35 lakhs is recognized as an expense because the recognition criteria were not met until 1stJanuary 2020. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) **Carrying value of intangible asset as on 31.03.2020**

At the end of financial year, on 31st March 2020, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of Rs. 32 (67-35) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1stJanuary 2020).

(iii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2021**

	(Rs. in lacs)
Carrying Amount as on 31.03.2020	32
Expenditure during 2020 – 2021	105
Book Value	137
Recoverable Amount	(89)
Impairment loss	48

Rs. 48 lakhs to be charged to Profit and loss account for the year ending 31.03.2021.

(iv) Carrying value of intangible asset as on 31.03.2021

	(Rs. in lacs)
Book Value	137
Less: Impairment loss	(48)
Carrying amount as on 31.03.2021	89

Question 12 : Sept 2024 – Paper

In the following cases, record Journal Entries for amortization in the books of Huge Ltd. for the year ended 31st March, 2024 with reference to AS-26 :

(i) The company had acquired Patent Rights for ? 340 lakhs on 01.04.2022. The estimated product life is 4 years. Amortization was decided in the ratio of estimated future cash flows which are as under:

1st Year	Rs.140 Lakhs
2nd Year	Rs.350 Lakhs
3rd Year	Rs.280 Lakhs
4th Year	Rs.420 Lakhs

(ii) The company had developed know-how by incurring expenditure of ? 80 lakhs. The know-how has been used by the company since 01.04.2018. Its useful life is 8 years from the year of commencement of its use. The company has not amortised the asset until 31.03.2024.

Solution :

(i) Journal Entry for the year ended on 31st March 2024

			Rs. in lakhs	Rs. in lakhs
31.3.24	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised Rs. 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

Rs. 340 x 350 /1,190 (140+350+280+420) = Rs. 100 lakhs

(ii)

Particulars		Rs. in Lakhs	Rs. in Lakhs
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			
Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

Question 13 : Jan 2025 – RTP

During 2023-2024, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (Rs.)
Completion of detailed programme and design (Phase 1)	25,000
Coding and Testing for establishing technical feasibility (Phase 2)	20,000
Other coding costs (Phase 3)	42,000
Testing costs (Phase 4)	12,000
Product masters for training materials (Phase 5)	13,000
Duplication of computer software and training materials, from product masters (2,000 units) (Phase 6)	40,000
Packing the product (1,000 units) (Phase 7)	11,000

After completion of phase 2, it was established that the computer software is technically feasible for the market. What amount should be capitalized as software costs in the books of the company, on the Balance Sheet date?

Solution :

As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, Rs. 45,000 would be recorded as an expense (Rs. 25,000 for completion of detailed program design and Rs. 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (Rs. 42,000 + Rs. 12,000 + Rs. 13,000) Rs. 67,000. Duplication of computer software and training materials, from product masters and packing the products are the cost incurred after development phase. Hence, the same shall be expensed off during the year it is incurred.

Question 14 : Jan 2026 – RTP

Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of Rs. 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (Rs. in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be Rs. 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.

Solution :

Year	Estimated future cash flow (Rs. in lakhs)	Amortization Ratio	Amortized Amount (Rs. in lakhs)
1	300	.25	150
2	300	.25	150
3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	.05	30
		1.00	600

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150).The unamortized amount of the patent after third year will be Rs. 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

Thanks ....



CHAPTER

27

AS 27 – FINANCIAL REPORTING OF INTEREST IN JOINT VENTURE

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Question 1 : Jan 2026 – RTP

Briefly explain scope and forms of Joint Venture as per AS 27.

Solution :

Scope of AS 27: As per AS 27 'Financial Reporting of Interests in Joint Ventures', this Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. The provisions of this AS need to be referred to for consolidated financial statements only when CFS is prepared and presented by the venturer.

Forms of Joint Venture as per AS 27: Joint ventures take many different forms and structures. This Standard identifies three broad types-

(i) **Jointly controlled operations:** Under this set up, venturers do not create a separate entity for their joint venture business but they use their own resources for the purpose. They raise any funds required for joint venture on their own, they incur any expenses and sales are also realised individually, they use same set of fixed and employees for joint venture business and their own business. They do not maintain a separate set of books for joint venture.

(ii) **Jointly controlled assets:** Separate legal entity is not created in this form of joint venture but venturer owns the assets jointly, which are used by them for the purpose of generating economic benefit to each of them. They take up any expenses and liabilities related to the joint assets as per the contract.

(iii) **Jointly controlled entities:** This is the format where venturer creates a new entity for their joint venture business. All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity. The net result of the entity is shared by the

venturers in the ratio agreed upon in the contractual agreement. This contractual agreement also determines the joint control of the venturer. Being a separate entity, separate set of books is maintained for the joint venture.

Thanks ....



CHAPTER

28

AS 28 – IMPAIRMENT OF ASSETS

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Question 1 : Sept 2024 – RTP

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

Whether it will be a cash-generating unit as per AS 28?

Solution :

It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

Question 2 : Jan 2025 – RTP

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for Rs. 600 lakhs and FA 2 is being carried at Rs. 300 lakhs

As at 31st March 2024, the value in use for FA 1 is Rs. 500 lakhs and the net selling price is Rs. 550 lakhs. The Company did upward revaluation last year for Rs. 20 lakhs for FA 1.

As at 31st March 2024, the value in use for FA 2 is Rs. 350 lakhs and the net selling price is Rs. 320 lakhs.

(a) How much is the total Impairment loss for current year for FA 1:

(i) Rs. 100 Lakhs (ii) Rs. 50 Lakhs

(iii) Rs. 30 lakhs (iv) Nil

(b) How much impairment loss will be charged to profit and loss for current year for FA1:

(i) Rs. 100 Lakhs (ii) Rs. 50 Lakhs

(iii) Rs. 30 lakhs (iv) Nil

(c) How much is the total Impairment loss for current year for FA 2:

(i) Rs. 50 Lakhs (ii) Rs. 30 Lakhs

(iii) Rs. 20 lakhs (iv) Nil

(d) What will be the carrying value on 1st April 2024 for FA 1:

(i) Rs. 550 Lakhs (ii) Rs. 530 Lakhs

(iii) Rs. 520 lakhs (iv) Rs. 500 lakhs

Solution :

(a) ii (b) iii (c) iv (d) i

Question 3 : Sept 2025 – Paper

Grace Limited acquired business (cash-generating units) of Venus Limited on 31st March 2023 for Rs.8,000 Lakhs. The details of acquisition are as under :

Fair value of identifiable asset : Rs.6,000 Lakhs

Goodwill (to be amortized in 5 ,years) : Rs.2,000 Lakhs

The anticipated useful life of acquired assets is 8 years with no residual value. Grace Limited uses straight-line method of depreciation. On 31st March 2025, Grace Limited estimated significant decline in production due to change in Government policies, the net selling price of identifiable asset is Rs.3,000 lakhs. Grace Limited closes its books on 31st March of each year.

The cash flow forecast based on recent financial budget for next 6 years are :

Year	Estimated cash flow (Rs.in Lakhs)
2025-2026	1,000
2026-2027	800
2027-2028	700
2028-2029	800
2029-2030	600
2030-2031	500

You are required to calculate :

(i) Value in use if discounting rate is 10% on 31st March 2025.

(ii) Impairment loss to be recognized for the year ended 31st March 2025.

(iii) Revised carrying amount of asset on 31st March 2025.

(P.V. factor @ 10% 0.909,0.826, 0.751, 0.683,0.621, 0.564)

Solution :

(i) Calculation of Value in Use (VIU) as at 31-03-2025

Year	Cash flow (Rs. in lakhs)	PV factor @10%	PV (Rs. in lakhs)
2025-26	1,000	0.909	909.00
2026-27	800	0.826	660.80

2027-28	700	0.751	525.70
2028-29	800	0.683	546.40
2029-30	600	0.621	372.60
2030-31	500	0.564	282.00
Total VIU			3296.50

Value in Use (rounded) = Rs. 3,297 lakhs

(ii) Impairment loss to be recognised for the year ended 31st March, 2025

Impairment loss required = Carrying amount – Recoverable amount

= Rs. 5,700 – Rs. 3,297 = 2,403 lakhs.

(iii) Revised carrying amount of identifiable asset

= Rs. 4,500 – Rs.1,203

= Rs. 3,297 lakhs

Calculation of Impairment Loss and revised carrying amount

	Goodwill	Identifiable Assets	CGU Total
Acquisition cost on 31st March'2023	2,000	6,000	
Less: Amortization- (Cost/5)*2 / Depreciation (Cost/8)*2 for 2 years	800	1500	
	1,200	4,500	5,700
Recoverable Amount (See Note below)			3,297
Impairment Loss to be recognised	1,200	1,203	2,403
Allocation of impairment loss (See Note)			
Carrying amount after impairment	0	3,297	

Note:

1. Recoverable amount and impairment test

- Fair value less costs to sell for the identifiable asset given = Rs. 3,000 lakhs. (Note: fair value less costs to sell of whole CGU not provided; value in use of CGU computed above.)
- Recoverable amount of the CGU = higher of Value in Use (3,297) and Fair value less costs to sell (use value for comparison). → Recoverable amount = Rs. 3,297 lakhs (since 3,297 > 3,000).
- Carrying amount (pre-impairment) = 5,700 lakhs.
- Impairment loss required = Carrying amount – Recoverable amount = 5,700 – 3,297 = 2,403 lakhs.

2. Allocation of impairment loss

As per AS 28 impairment loss for a cash-generating unit is allocated first to reduce goodwill carrying amount to zero, and then to other assets of the unit pro-rata (or as required) so that carrying amount after allocation equals recoverable amount.

Question 4 : Jan 2026 – RTP

X Ltd. purchased a fixed asset four years ago for Rs. 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at Rs. 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is Rs. 67.50 lakhs and expected disposal costs are Rs. 3 lakhs. What

will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at Rs. 60 lakhs?

Solution :

Treatment of Impairment Loss

As per para 57 of AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is Rs. 64.50 lakhs (Rs. 67.50 lakhs – Rs. 3 lakhs) and value in use is Rs. 60 lakhs. Therefore, recoverable amount will be Rs. 64.50 lakhs. Impairment loss will be calculated as Rs. 10.50 lakhs [Rs. 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less Rs. 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of Rs. 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the fixed asset at the end of the fourth year on revaluation

	(Rs. in lakhs)
Purchase price of a fixed asset	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

Thanks ....



CHAPTER

29

AS 29 – PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS

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Question 1 : May 2019 – RTP

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of Rs.200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

Solution :

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of Rs. 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

Question 2 : Nov 2019 – RTP / May 2021 – RTP

The company has not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier.

You are required to **examine** in line with the provisions of AS 29.

Solution :

As per provisions of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.

Question 3 : Nov 2019 – Paper / May 2023 – RTP

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	**Amount (Rs.)**
11th Feb, 2020	60,000
25th Dec, 2020	40,000
04th Oct, 2021	1,35,000

Calculate the provision to be made for warranty under AS-29 as at *31st* March, 2021 and *31st* March, 2022. Also compute amount to be debited to P & L account for the year ended *31st* March, 2022

Solution :

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2021 = Rs. 60,000 x .02 + Rs. 40,000 x .03
= Rs. 1,200 + Rs. 1,200 = Rs. 2,400

As at 31st March, 2022 = Rs. 40,000 x .02 + Rs. 1,35,000 x .03
= Rs. 800 + Rs. 4,050 = Rs. 4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2022

	Rs.
Balance of provision required as on 31.03.2022	4,850
Less: Opening Balance as on 1.4.2021	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2022 in respect of sales amounting Rs. 60,000 made on 11th February, 2020 as the warranty period of 2 years has already expired.

Question 4 : May 2020 – RTP / Nov 2020 – Paper / Nov 2023 – RTP

With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:

(i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.

(ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

Solution :

(i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.

The expenditures of training the staff related to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required.

Question 5 : Nov 2020 – RTP

How will you distinguish contingent assets with Contingent Liabilities. Explain in brief.

Solution :

A Contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

A present obligation that arises from past events but is not recognized because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) A reliable estimate of the amount of the obligation cannot be made.

An enterprise should not recognize a contingent liability but should be disclosed. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain. An enterprise should not recognize a contingent asset, since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving
authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable. Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Question 6 : Nov 2020 – RTP

Alpha Ltd. has entered into a sale contract of Rs. 7 crores with Gamma Ltd. during 2018-19 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2019-20 financial year. In case of failure of Alpha Ltd. to deliver within the schedule, a compensation of Rs.2 crores is to be paid to Gamma Ltd. Alpha Ltd. planned to manufacture the goods during the last month of 2018-19 financial year. As on balance sheet date (31.3.2019), the goods were not manufactured and it was unlikely that Alpha Ltd. will be in a position to meet the contractual obligation. You are required to advise Alpha Ltd. on requirement of provision for contingency in the financial statements for the year ended 31st March, 2019, in line with provisions of AS 29?

Solution :

AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognized. Alpha Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Alpha Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Alpha Ltd. should provide for the contingency amounting Rs. 2 crores as per AS 29.

Question 7 : May 2021 – RTP

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

(i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation;

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.

Solution :

(i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation – Provision is recognised. Disclosures are required for the provision.

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources – No provision is recognised. Disclosures are required for the contingent liability.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote – No provision is recognised. No disclosure is required.

Question 8 : Nov 2021 – RTP

A company, incorporated as NPO under the Companies Act, is having main objective to promote the trade by organizing trade fairs / exhibitions. While organizing the trade fair and exhibitions, it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The accounting treatment and disclosure was made by the company in its financial statements as: (i) 5% contingency charges are treated as income and matching provision for the same is also being made in accounts and (ii) suitable disclosure to this effect is also made in the notes forming part of accounts.

You are required to comment whether creation of provision for contingencies considering the facts and circumstances of the case is required in line with AS 29.

Solution :

As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", a provision should be recognized when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognized.

From the above, it is clear that for the contingencies considered by the company, neither a present obligation exists because of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognized for such contingencies under the facts and circumstances of the case.

Question 9 : Nov 2021 – RTP

An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. On 31st March 2021, it is virtually certain that a law requiring a

clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary considering the circumstances in line with provisions of AS 29?

Solution :

As per AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event. However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted. In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted.

Question 10 : May 2022 – Paper

Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31st March, 2022 and needs your advice on the following issues in line with the provisions of AS-29 .

(i) On 1st April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31st March, 2022, the company does not provide any provision for replacement of lining of the furnace.

(ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of 50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of Rs.5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalisation of the case. There are 70% chances that the penalty may not be levied.

Solution :

(i) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29. The cost of replacement of lining of furnace is not recognized as a provision because it is a future obligation. Even a legal requirement does not require the company to make a provision for the cost of replacement because there is no present obligation. Even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining.

(ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 70% chances that the penalty may not be levied. Accordingly, Alloy Fabrication Ltd. should not make the provision for penalty. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

However, a provision should be made for remaining 40% fees of the lawyer amounting Rs. 2,00,000 in the financial statements of financial year 2021-2022.

Question 11 : May 2022 – RTP / Nov 2022 – RTP

Chaos Limited is in the process of finalizing its accounts for the year ended 31st March, 2022. It seeks your advice in the following cases:

(i) Chaos Limited entered into an agreement to supply 1 lac face masks to D Limited by 30th April, 2022 failing which it will have to pay a penalty of Rs. 10 per item not supplied. On 31st March, 2022 Chaos Limited assessed that it could only supply 50,000 face masks to D Limited by 30th April, 2022.

(ii) Chaos Limited has filed a court case in 2014-2015 against its competitors. It is evident to its lawyers that Chaos Limited may lose the case and would have to pay Rs. 3,00,000 being the cost of litigation. No entries/provisions have been made in the books.

(iii) A new regulation has been passed in 2021-22 by the healthcare ministry to upgrade facilities. Deadline set by the government is 31.03.2023. The company estimates an expenditure of Rs. 10,00,000 for the said upgrade.

Kindly give your answer for each of above with proper reasoning according to the relevant Accounting Standard. Also state the principles for recognition of provision, as per AS 29.

Solution :

Principles for recognition of provisions:

As per AS 29, "a provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised."

Accounting treatment under the given scenarios:

(i) In this case, there is no present obligation arising out of a past event as the goods are scheduled for delivery on 30th April, 2022 and there is no delay as at 31st March, 2022. Hence, there is no present obligation to pay the penalty in the current year. Therefore, no provision can be recognized in the instant case.

(ii) On 31st March, 2022, since it is evident to the lawyer that Chaos Limited may lose the case and also a reliable estimate of the outflow can be made as Rs. 3,00,000, there is a present obligation. Hence, provision should be recognised for Rs. 3,00,000 for the amount which may be required to settle the obligation.

(iii) Under new regulation, an entity is required to upgrade its facilities by 31st March, 2023. However, on 31st March, 2022, i.e. at the end of the reporting period, there is no obligation because there is no obligating event either for the costs of upgrading the facilities or for fines under the regulations. Hence, no provision should be recognised on 31st March, 2022 for upgrading the facilities by 31st March, 2023.

Question 12 : Nov 2022 – Paper

At the end of the financial year ending on 31st March, 2022, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows :

Particulars	Probability	Loss (Rs.)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	50%	-
Lose (Low damages)	40%	12,00,000
Lose (High damages)	10%	20,00,000
Remaining five cases		
Win	50%	-
Lose (Low damages)	30%	10,00,000
Lose (High damages)	20%	21,00,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS - 29.

Solution :

According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

(i) There is a present obligation arising out of past events but not recognized as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is not remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 50% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

Expected loss in next ten cases = 40% of Rs. 12,00,000 + 10% of Rs. 20,00,000
= Rs. 4,80,000 + Rs. 2,00,000
= 6,80,000

Expected loss in remaining five cases = 30% of Rs. 10,00,000 + 20% of Rs. 21,00,000
= Rs. 3,00,000 + Rs. 4,20,000
= Rs. 7,20,000

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of 1,04,00,000 (Rs.6,80,000 × 10 + Rs.7,20,000 × 5) as contingent liability.

Question 13 : Sept 2024 – RTP

A company incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in

respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.
The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.
The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.
2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

(i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29.

(ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

Solution :

(i) Para 14 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.
From the above, it is clear that in the contingencies considered by the company, neither a present obligation exists as a result of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognised for such contingencies under the facts and circumstances of the case.

(ii) "Provision" is the amount retained by the way of providing for any known liability. Since the contingencies stipulated by the company are not known at the balance sheet date, the provision in this regard cannot be created. Therefore, the provision so created by the company shall be treated as a 'Reserve'.

Question 14 : Jan 2025 – RTP

During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2023 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2023, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.
QA Ltd. has estimated that it's probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.
On 1st October, 2023, QA Ltd. has estimated that the damages it would have to pay K would be Rs. 5 crore. This estimate was revised to Rs. 5.2 crore as on 31st March, 2024 and Rs. 5.25 crore as at

15th May, 2024. This case was eventually settled on 1st June, 2022, when the Company paid damages of Rs. 5.3 crore to K.

On 1st December, 2023, QA Ltd. had estimated that it would receive damages of Rs. 3.5 crore from F. This estimate was revised to Rs. 3.6 crore as at 31st March, 2024 and Rs. 3.7 crore as on 15th May, 2024. This case was eventually settled on 1st June, 2022 when F paid Rs. 3.75 crore to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31st March, 2024, provided Rs. 3.6 crore as the financial statements were approved by the Board of Directors on 26th April, 2024.

(i) Whether the Company is required to make provision for the claim from customer K as per applicable AS? If yes, please give the rationale for the same.

(ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2024?

(iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable AS?

Solution :

(i) Yes, QA Ltd. is required to make provision for the claim from customer K as per AS 29 since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Further, a reliable estimate of Rs. 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31st March, 2024.

(ii) Statement of Profit and Loss A/c Dr. Rs. 5.2 crore

To Current Liability A/c Rs. 5.2 crore

(iii) As per para 30 of AS 29, QA Ltd. shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized.

Question 15 : Jan 2025 – Paper

An Engineering goods company provides 'after sales warranty' for 2 years to its customers. Based on the past experience, the company has been following policy for making provision for warranties on the Invoice amount on the remaining balance warranty period :

Invoice less than 1 year : 2.5% provision

Invoice more than 1 year : 4.5% provision

The Company has raised Invoices as under :

Invoice Date	**Rs.**
20th February, 2021	42,000
17th July, 2021	25,000
27th January, 2022	47,000
1st March, 2023	1,10,000
24th August, 2023	34,000
20th March, 2024	75,000

You are required to:

(i) Calculate the provision to be made for warranty under AS 29 as at 31st March, 2023 and 31st March, 2024 :

(ii) Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2024.

Solution :

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March 2023 = Rs. 25,000 x 2.5% + Rs. 47,000 x 2.5% + Rs. 1,10,000 x 4.5%
= Rs. 625 + Rs. 1,175+ Rs. 4,950 = Rs. 6,750

As at 31st March 2024 = Rs. 1,10,000x 2.5% + Rs. 34,000 x 4.5% +Rs. 75,000 x 4.5%
= Rs. 2,750 + Rs. 1,530+ Rs. 3,375 = Rs. 7,655

Amount debited to Statement of Profit and Loss for year ended 31st March 2024

	Rs.
Balance of provision required as on 31.03.2024	7,655
Less: Opening Balance as on 1.4.2023	(6,750)
Amount debited to Statement of Profit and loss	905

Note: No provision will be made on 31st March 2024 in respect of sales amounting Rs. 42,000,25,000 and 47,000 made on as the warranty period

Question 16 : May 2025 – RTP

Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2023 and needs your expert advice on the following issues:

(i) The company has its plants at 3 different locations. It has to shut down one of its plants due to internal reasons. The said plant site is under a rental agreement till 31.3.2024. The rent per month is Rs. 80,000. If the company cancels the agreement, it has to pay a penal amount equal to six month's rent. The company also has an option to sub-let the site at a rent of Rs. 45,000 per month.

(ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of Rs. 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of Rs. 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.

(iii) The company had committed to supply a consignment worth Rs. 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% of the value is to be paid. While the consignment was in transit, one of the trucks carrying goods worth Rs. 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed for the compensation.

Give your answers based on relevant Accounting standard.

Solution :

(i) As per AS 29, an 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract is the lower of net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

In the given case, Saharsh Ltd. is required to pay:

In case of cancellation of agreement:

= Rs. 80,000 x 6 months = Rs. 4,80,000

In case of continuance of agreement (in case of sub-let):

Net of rent paid over rent collected from sub-tenant (Rs. 80,000 -45,000) x 12 = Rs. 4,20,000.

Lower of the above is to be provided for i.e. Rs. 4,20,000 is to be provided for.

(ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2023-2024.

(iii)

Loss due to accident	Rs. 30,00,000
Insurance claim receivable by company = Rs. 30,00,000 x 90% =	Rs. 27,00,000
Loss to be recognised in the books for 2023-2024	Rs. 3,00,000
Insurance claim receivable to be recorded in the books	Rs. 27,00,000
Compensation claim by dealer against company to be provided for in the books = Rs. 30,00,000 x 15%=	Rs. 4,50,000*

***Note:** Alternatively, the compensation @ 15% can be computed on the whole contract amount of Rs. 1 crore. In such a situation, the compensation should be Rs. 15,00,000 (1 crore x 15%).

Question 17 : Jan 2026 – RTP

An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. At 31st March 2025, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary?

Solution :

As per para 29 of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event.

However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted.

In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted.

Thanks ....



CHAPTER

30 PREPARATION OF FINANCIAL STATEMENTS

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Question 1 : May 2018 – RTP / May 2021 – RTP

Kapil Ltd. has authorized capital of Rs.50 lakhs divided into 5,00,000 equity shares of Rs.10 each. Their books show the following balances as on 31st March, 2017:

Particulars	Rs.	Particulars	Rs.
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ Rs.2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000
Furniture & Fixtures	1,50,000	Bank Overdraft	12,67,000
Purchases	12,32,500	Trade Payables (for goods)	2,40,500
Wages	13,68,000	Sales	36,17,000
Freehold Land	16,25,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement	15,000	Bad debts	25,500
Commission & Brokerage	67,500		
Business Expenses	56,000		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs.7,08,000. Outstanding liabilities for wages Rs.25,000 and business expenses Rs.36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off Rs.16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

Solution :

Kapil Ltd.

Balance Sheet as at 31st March, 2017

	Particulars	Note No.	Rs.
I	**Equity and Liabilities**		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	59,586
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	4,07,414
	Total		**40,25,500**
II	**ASSETS**		
	(1) Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	29,30,000
	(2) Current Assets		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500
	(c) Cash and Cash Equivalents	7	28,000
	Total		**40,25,500**

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		-43,000
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes to Accounts :

1. Share Capital :

Authorized Capital	
5,00,000 Equity Shares of Rs.10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of Rs.10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs.10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs.10 each Rs.8 paid	40,000
(Call unpaid Rs.10,000)	19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax (Working note)	(48,614)	52,586
		59,586

3. Other Current Liabilities :

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

4. Short-term Provisions :

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	48,614
	4,07,414

5. Tangible Asset

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivables :

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. Cash and Cash Equivalent :

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income :

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses :

Wages	13,68,000
Add : Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Working Note :

Calculation of grossing-up of dividend:

Particulars	**Rs.**
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend 2,38,800 x [15/(100-15)]	42,141

Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	48,614

Question 2 : Nov 2018 – RTP

You are required to prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd. :

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Fixed Assets (WDV)	2,26,00,000
General Reserve	62,00,000	Finished Goods	30,00,000
Capital Work-in- progress	8,00,000		

Additional Information :-

1. Share Capital consist of-
   (a) 1,20,000 Equity Shares of Rs.100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of Rs.100 each fully paid up.
2. The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
3. Depreciate Assets by Rs.20,00,000.

Solution :

Balance Sheet of Mehar Ltd. as at 31st March, 2018

			Note	Rs.
(I)	**EQUITY AND LIABILITIES:**			
	(1)	(a) Share Capital	1	1,60,00,000
		(b) Reserves and Surplus	2	98,64,424
	(2)	**Non-current Liabilities**		
		Long term Borrowings-		40,00,000
		Terms Loans (Secured)		
	(3)	**Current Liabilities**		
		(a) Trade Payables	-	45,80,000
		(b) Other current liabilities	3	20,03,576
		(c) Short-term Provisions (Provision for taxation)		10,20,000
		Total		**3,74,68,000**
(II)	**ASSETS**			
	(1)	**Non-current Assets**		
		(a) Fixed Assets:		
		(i) Tangible Assets	4	2,06,00,000
		(ii) Capital WIP		8,00,000

		(b) Non- current Investments		9,00,000
	(2)	**Current Assets:**		
		(a) Inventories	5	48,00,000
		(b) Trade Receivables	6	48,20,000
		(c) Cash and Cash Equivalents		38,40,000
		(d) Short-term Loans and Advances	7	17,08,000
		Total		**3,74,68,000**

Note to accounts

				Rs.
	Share Capital			
1	Authorized, issued, subscribed & called up			
	1,20,000, Equity Shares of Rs. 100 each		1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each		40,00,000	1,60,00,000
2	**Reserves and Surplus**			
	Securities Premium Account		19,00,000	
	General reserve		62,00,000	
	Profit & Loss Balance			
	Opening balance			
	Profit for the period	32,00,000		
	Less: Miscellaneous Expenditure written off	(2,32,000)		
		29,68,000		
	Less: Appropriations			
	Dividend	(10,00,000)		
	Dividend distribution tax	(2,03,576)	17,64,424	98,64,424
3	**Other current liabilities**			
	Loan from other parties		8,00,000	
	Dividend		10,00,000	
	Dividend Distribution tax [W.N]		2,03,576	20,03,576
4	**Tangible assets**			
	Fixed Assets			
	Opening balance		2,26,00,000	
	Less: Depreciation		(20,00,000)	2,06,00,000
	Closing balance			
5	**Inventories**			
	Finished Goods		30,00,000	
	Stores		16,00,000	
	Loose Tools		2,00,000	48,00,000
6	**Trade Receivables**			

	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7	**Short term loans & Advances**		
	Staff Advances	2,20,000	
	Other Advances	14,88,000	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend :

		Rs.
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	4,00,000	10,00,000
Add: Increase for the purpose of grossing up of dividend 10,00,000 x [15 /(100-15)]		1,76,470
Gross dividend		11,76,470

(ii) Dividend distribution tax @ 17.304% 2,03,576

Question 3 : Nov 2018 – RTP / Nov 2019 – RTP / Nov 2020 – RTP / Dec 2021 – Paper

The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	**Rs.**
Authorized capital:	
15,000, 14% preference shares of Rs.100	15,00,000
1,50,000 Equity shares of Rs.100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs.100 each fully paid	15,00,000
1,20,000 Equity shares of Rs.100 each, Rs.80 paid-up	96,00,000
Capital reserves (Rs.1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

Solution :

Computation of Effective Capital

	Rs.
Paid-up share capital-	
15,000, 14% Preference shares	15,00,000
1,20,000 Equity shares	96,00,000

Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
	(A)	1,76,95,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A-B)	86,70,000

Question 4 : May 2019 – RTP / Nov 2021 – RTP

Om Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Redeemable Preference shares of Rs. 100 each and 90,000 equity Shares of Rs.10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	**Dr.**	**Cr.**
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Sundry Debtors and Sundry Creditors	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends received		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

Other Information:

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include Rs. 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

Solution :

Balance sheet of Om Ltd. as at 31st March, 2021

		Note	Rs.
(I)	**Equity and Liabilities**		
	(1) Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
	(2) Non-current liabilities:		
	Long term borrowings	3	4,50,000
	(3) Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		**24,88,950**
(II)	**ASSETS**		
	(1) Non- Current Assets:		
	(a) Pro perty, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
	(2) Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	Total		**24,88,950**

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs. 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases of Inventory (14,71,500 - Advertisement Expenses 15,000)		14,56,500

	(b) Changes in Inventories of finished Goods / Work progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses	11	56,100
	(f) Other Expenses	12	3,02,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	Profit before tax		28,650

Notes to accounts

	Particulars		**Rs.**
1	**Share Capital**		
	Authorized capital:		
	90,000 Equity Shares of Rs. 10 each.	9,00,000	
	6,000 6% Preference shares of Rs. 100 each	6,00,000	
	Issued, subscribed & called up:		
	60,000, Equity Shares of Rs. 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	
			12,00,000
2	**Reserves and Surplus**		
	Balance as on 1st April, 2020	85,500	
	Add: Surplus for current year	28,650	
	Balance as on 31st March, 2021		1,14,150
3	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4	**Short Term Borrowings**		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5	**Other Current liabilities**		
	Interest due on Borrowings (5% Debentures)		11,250
6	**Property, plant and equipment Furniture**		
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance	1,05,000	
	Add: Depreciation	45,000	
	Cost of Furniture	1,50,000	

	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c		1,56,000	
	Accumulated Depreciation Account: Opening Balance- given in Trial Balance	45,000		
	Depreciation for the year:			
	On Opening WDV at 10% i.e. 10% x 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000)	600		
	Less: Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900
7	**Intangible Assets**			
	Technical knowhow		4,50,000	
	Less: Written off		45,000	4,05,000
8	**Trade Receivables**			
	Sundry Debtors (a) Debt outstanding due more than six months		18,000	
	(b) Other Debts (refer Working Note)		1,34,550	
	Bills Receivable (1,24,500 - 4,500)		1,20,000	2,72,550
9	**Employee benefit expenses**			
	Salaries & Wages		1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised		6,000	
	Less: Directors' Remuneration shown separately		30,000	
	Balance amount			1,20,000
10	**Finance Costs**			
	Interest on bank overdraft		29,400	
	Interest on debentures		22,500	
				51,900
11	**Depreciation & Amortisation Expenses**			
	Depreciation [10% of (1,05,000 + 6,000)]		11,100	
	Technical knowhow written of (4,50,000/10)		45,000	56,100
12	**Other Expenses**			
	Payment to the auditors		18,000	
	Director's remuneration		30,000	
	Selling expenses		2,37,300	
	Advertisement (Goods and Articles Distributed)		15,000	
	Bad Debts (4,500 x 50%)		2,250	3,02,550

Working Note :

Calculation of Sundry Debtors-Other Debts	
Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	4,500
	1,54,800
Less: Bad Debts written off – 50% Rs.4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

Question 5 : Nov 2019 – RTP / Nov 2019 – Paper

From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013 :

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Equity share capital (face value of Rs.10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	**25,90,800**	**25,90,800**

The following additional information is also provided :

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of Rs.55,000 are due for more than six months.

(3) The cost of building and plant & machinery is Rs.5,50,000 and Rs.6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of Rs.2,10,000 in this account is inclusive of Rs.10,000 for interest accrued but not due.

(5) Balance at Bank included Rs.15,000 with Aakash Bank Ltd., which is not a scheduled bank.

Solution :

Prashant Ltd.

Balance Sheet as on 31st March, 2019

	Particulars	**Notes**	**Rs.**
I	**Equity and Liabilities**		

	1	**Shareholders' funds**		
	(a)	Share capital	**1**	14,95,000
	(b)	Reserves and Surplus	**2**	3,76,800
	2	**Non-current liabilities**		
		Long-term borrowings	**3**	3,65,000
	3	**Current liabilities**		
	(a)	Trade Payables		2,67,000
	(b)	Other current liabilities	**4**	10,000
	(c)	Short-term provisions	**5**	72,000
		Total		**25,85,800**
II	**Assets**			
	1	**Non-current assets**		
		Property, Plant and Equipment	**6**	15,95,000
	2	**Current assets**		
	(a)	Inventories		3,15,000
	(b)	Trade receivables	**7**	2,95,000
	(c)	Cash and bank balances	**8**	3,22,300
	(d)	Short-term loans and advances		58,500
		Total		**25,85,800**

Notes to accounts :

			Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of Rs.10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
	Total		**3,76,800**
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		
	(Secured by hypothecation of Plant and Machinery)		2,00,000
	Unsecured Loan		1,65,000
	Total		**3,65,000**
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		

	Land			5,50,000
	Building		5,50,000	
	Less: Depreciation(b.f.)		(65,000)	4,85,000
	Plant & Machinery		6,25,000	
	Less: Depreciation (b.f.)		(65,000)	5,60,000
		Total		**15,95,000**
7	Trade receivables			
	Outstanding for a period exceeding six months			55,000
	Other Amounts			2,40,000
		Total		**2,95,000**
	Cash and bank balances			
	Cash and cash equivalents			
	Cash at bank			2,85,000
	Cash in hand			37,300
	Other bank balances			Nil
		Total		**3,22,300**

Question 6 : May 2020 – RTP / Nov 2020 – Paper

The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

	Rs.		Rs.
To Administrative, Selling and distribution expenses	41,12,710	Balance b/d	28,61,750
To Directors fees	6,73,900	Balance from Trading A/c	201,26,825
To Interest on debentures	1,56,200	Subsidies received from Govt.	13,69,625
To Managerial remuneration	14,26,750		
To Depreciation on fixed assets	26,12,715		
To Provision for Taxation	62,12,500		
To General Reserve	20,00,000		
To Investment Revaluation Reserve	62,500		
To Balance c/d	71,00,925		
	243,58,200		**243,58,200**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

Solution :

Calculation of net profit u/s 198 of the Companies Act, 2013

		Rs.	Rs.
Balance from Trading A/c			201,26,825
Add: Subsidies received from Government			13,69,625
			214,96,450
Less:	Administrative, selling and distribution expenses	41,12,710	
	Director's fees	6,73,900	

Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Question 7 : May 2020 – RTP / May 2023 – RTP / May 2023 – Paper / Nov 2023 – RTP

On 31st March 2022, Hari Ltd. provides you the following particulars:

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Inventory:			
Raw Materials	62,500		
Finished Goods	2,50,000	3,12,500	
Provision for Taxation			1,60,000
Trade Receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375
Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan (Long-term)			1,51,250
Trade Payables			2,50,000

The following additional information is also provided:

(i) 2,500 Equity shares were issued for consideration other than cash.

(ii) Debtors of Rs. 65,000 (included in trade receivables) are due for more than 6 months.

(iii) The cost of the assets were:
Building Rs. 7,50,000, Plant & Machinery Rs. 8,75,000 and Furniture Rs. 78,125

(iv) The balance of Rs. 1,87,500 in the Loan Account with State Finance Corporation is inclusive of Rs. 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Hari Ltd. as on 31st March, 2022 as per Schedule III to the Companies Act, 2013.

Solution :

Hari Ltd.

Balance Sheet as on 31st March, 2022

	Particulars	Notes	Rs.
1	**Equity and Liabilities**		
	Shareholders' funds		

	(a)	Share capital	1	12,48,750
	(b)	Reserves and Surplus	2	3,70,875
2		**Non-current liabilities**		
		Long-term borrowings	3	3,29,375
3		**Current liabilities**		
	(a)	Trade Payables		2,50,000
	(b)	Other current liabilities	4	9,375
	(c)	Short-term provisions	5	1,60,000
		Total		**23,68,375**
		Assets		
1		**Non-current assets**		
		Property, Plant & Equipment (PPE)	6	14,06,250
2		**Current assets**		
	(a)	Inventories	7	3,12,500
	(b)	Trade receivables	8	2,50,000
	(c)	Cash and cash equivalents	9	3,46,250
	(d)	Short-term loans and advances		53,375
		Total		**23,68,375**

Notes to accounts

			Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	12,500 Equity Shares of Rs. 100 each		
	(of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan		1,78,125
	(1,87,500–9,375)		
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		9,375

5	**Short-term provisions**		
	Provision for taxation		1,60,000
6	**PPE**		
	Land and Building	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant & Machinery	8,75,000	
	Less: Depreciation	2,18,750)	6,56,250
	Furniture & Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials		62,500
	Finished goods		2,50,000
	Total		**3,12,500**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
	Total		**2,50,000**
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	3,06,250	
	with others (Global Bank Ltd.)	2,500	3,08,750
	Cash in hand		37,500
	Total		**3,46,250**

Question 8 : Nov 2020 – RTP

On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances :

	Rs.
Equity shares capital (fully paid shares of Rs. 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation	15,75,000
(Secured by hypothecation of Plant & Machinery - Repayable within one year Rs. 3,00,000)	
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses (Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances :

	Rs.
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

(i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building Rs. 42,00,000
Cost of Plant & Machinery Rs. 73,50,000
Cost of Furniture & Fixture Rs. 6,56,250

(iii) Trade receivables for Rs. 5,70,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes Rs. 27,000 with a bank which is not a scheduled Bank and the deposits of Rs. 7,50,000 are for a period of 9 months.

(v) Unsecured loan includes Rs. 3,00,000 from a Bank and Rs. 1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

Solution :

Om Ltd.

Balance Sheet as on 31st March, 2020

		Particulars	Notes	Figures at the end of current reporting period (Rs.)
I.		**Equity and Liabilities**		
1		**Shareholders' funds**		
	a	Share capital	1	1,04,89,500
	b	Reserves and Surplus	2	32,34,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	25,45,500
3		**Current liabilities**		
	a	Trade Payables		21,00,000
	b	Other current liabilities	4	3,00,000
	c	Short-term provisions	5	12,25,350
		Total		**1,98,94,350**
II.		**Assets**		

1		**Non-current assets**		
	a	Property, Plant and Equipment	6	1,12,12,500
	b	Intangible assets (Patents & Trade Marks)		6,00,000
2		**Current assets**		
	a	Inventories	7	26,25,000
	b	Trade receivables	8	21,00,000
	c	Cash and cash equivalents	9	29,08,500
	d	Short-term loans and advances		4,48,350
		Total		**1,98,94,350**

Note to Accounts :

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and called up		
	10,50,000 Equity Shares of Rs. 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		**1,04,89,500**
2	**Reserves and Surplus**		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		**32,34,000**
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		
	(Rs. 15,75,000 less Rs. 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		**25,45,500**
4	**Other current liabilities**		
	Loan Instalment repayable within one year		3,00,000
5	**Short-term provisions**		
	Provision for taxation		12,25,350
6	**Property, Plant and Equipment**		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500

	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		**1,12,12,500**
7	**Inventories**		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		**21,00,000**
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting Rs. 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		**29,08,500**

Question 9 : May 2021 – RTP

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 Rs. 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%.

Solution :

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

Profits available

Current year profit Rs. 1,42,500

Amount which can be utilized from reserves (Rs. 5,00,000 – 1,42,500) Rs. 3,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

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. Rs. 7,50,000 [10% of (50,00,000 + 25,00,000)]

Condition III

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

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

Question 10 : July 2021 – Paper

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 Rs.100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c. (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at Cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31.03.2020)	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	
Debentures 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 Rs.100 each	5,00,000
10,000, equity shares of Rs.100 each	10,00,000

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

(ii) On 31st March 2021, the Erectors 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 vainer wishes to revalue the land at Rs.36,00,000.

(iv) Suspense account of Rs.40,000 represents amount received for the sale of some of the machines on 1-4-2020, the cost of the machinery was Rs.1,00,000 and the accumulated depreciation thereon being Rs.30,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

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

Solution :

M/s.H Ltd.

Balance Sheet as on 31.03.2021

	Particulars	Note	(Rs.)
I	**EQUITY AND LIABILITES**		
	(1) Shareholder's Funds		
	(a) Share Capital	1	13,00,000
	(b) Reserves and Surplus	2	53,81,900
	(2) Non-Current Liabilities		
	(a) Long term Borrowings	3	4,00,000
	(3) Current Liabilities		
	(a) Trade Payables	-	10,40,000
	(b) Other Current Liabilities	4	80,000
	Total		82,01,900
II	**ASSETS**		
	(1) Non-current Assets		
	(a) Property, Plant & Equipment	5	40,61,000
	(b) Intangible Assets	6	10,00,000
	(2) Current Assets		
	(a) Inventories		9,50,000
	(b) Trade Receivables		19,60,000
	(c) Cash & Cash Equivalents		2,30,900
	Total		82,01,900

Income Statement for year ended 31/3/2021

	Particulars	Note	(Rs.)
	Income		
1)	Revenue from operation		60,00,000
2)	Other income		-
	Total		**60,00,000**
	Expenses		
1)	Adjusted purchase		22,32,100
2)	Finance Cost	7	36,000
3)	Depreciation & Amortization	8	3,17,000
4)	Other Expenses	9	32,30,000
	Total		**58,15,100**
	Net Profit for the year		1,84,900

Notes to Accounts :

	Particulars		(Rs.)
1)	**Share Capital**		
	Authorised :		
	5,000, 6% Preference share of Rs.100 each		5,00,000
	10,000, equity shares of Rs.100 each		10,00,000
			15,00,000
	Issued, Subscribed & Paid up		
	5,000, 6% Preference share of Rs.100 each		5,00,000
	8,000 equity of Rs.100 each		8,00,000
			13,00,000
2)	**Reserves and surplus**		
	Capital Reserve		5,000
	General Reserve		40,00,000
	Profit & Loss A/c	72,000	
	+ Profit	1,84,900	
	– Dividend	80,000	1,76,900
	Revaluation Reserve		12,00,000
	Total		53,81,900
3)	**Long Term Borrowing**		
	9% Debenture		4,00,000
4)	**Other Current Liability**		
	Dividend on Equity		80,000
5)	**Property, Plant & Equipment**		
	Land & Building	24,00,000	
	+ Revaluation	12,00,000	36,00,000
	Plant & Machinery (7,70,000 – 1,00,000)	6,70,000	
	– PFD (1,72,000 – 30,000 + 67,000)	2,09,000	4,61,000
			40,61,000
6)	**Intangible Assets**		
	Goodwill	12,50,000	
		2,50,000	10,00,000
7)	**Finance Cost**		
	Debenture Interest		36,000
8)	**Depreciation & Amortization**		
	Depreciation on Property, Plant & Equipment		67,000
	Amortization of goodwill		2,50,000
			3,17,000
9)	**Other Expenses**		

	Factory Expenses	15,00,000
	Administrative expenses	3,00,000
	Selling expenses	14,00,000
	Loss on sale of Asset	30,000
		32,30,000

Working Note :

Sale of Asset					
Wrong Entry	=	Bank A/c	Dr.	40,000	
		To Suspense			40,000
Right Entry	=	Bank A/c	Dr.	40,000	
		PFD A/c	Dr.	30,000	
		Loss A/c	Dr.	30,000	
		To Asset			1,00,000
Reverse of wrong	=	Suspense A/c	Dr.	40,000	
		To Bank			40,000
Rectified	=	Suspense A/c	Dr.	40,000	
		PFD A/c	Dr.	30,000	
		Loss A/c	Dr.	30,000	
		To Asset			1,00,000

Question 11 : Nov 2021 – RTP

Star Ltd. gives the following information the year ended 31st March, 2021:

	Rs.
Gross profit	60,38,048
Subsidies received from Govt.	4,10,888
Administrative, Selling and distribution expenses	12,33,813
Directors' fees	2,02,170
Interest on debentures	46,860
Managerial remuneration	4,28,025
Depreciation on Property, plant and equipment (PPE)	7,83,815
Provision for Taxation	18,63,750
Transfer to General Reserve	6,00,000
Transfer to Investment Revaluation Reserve	18,750

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was Rs. 8,63,018

You are required to calculate the maximum amount of the managerial remuneration as allowed as per Companies Act, 2013.

Solution :

(a) Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.
Gross profit		60,38,048
Add: Subsidies received from Government		4,10,888
Less: Administrative, selling and distribution expenses	12,33,813	64,48,936
Director's fees	2,02,170	
Interest on debentures	46,860	
Depreciation on PPE as per Schedule II	8,63,018	(23,45,861)
Profit u/s 198		41,03,075

Maximum Managerial remuneration under Companies Act, 2013 = 11% of Rs.41,03,075 = Rs.4,51,338

Question 12 : Nov 2021 – RTP

State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.
(ii) Share option outstanding account.
(iii) Unpaid matured debenture and interest accrued thereon.
(iv) Uncalled liability on shares and other partly paid investments.
(v) Calls unpaid.

Solution :

(i) Current Liabilities/ Other Current Liabilities
(ii) Shareholders' Fund / Reserve & Surplus
(iii) Current liabilities/Other Current Liabilities
(iv) Contingent Liabilities and Commitments
(v) Shareholders' Fund / Share Capital

Question 13 : May 2022 – RTP

Following is the trial balance of Delta limited as on 31.3.2021.

(Figures in Rs. '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of Rs. 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 :

(i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.

(ii) The company revalued the land at Rs. 9,60,000.

(iii) Equity share capital includes shares of Rs. 50,000 issued for consideration other than cash.

(iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes Rs. 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @30%.

(viii) Trade receivables of Rs. 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 Ill. Ignore previous year's figures & taxation.

Solution :

Delta Limited

Balance Sheet as at 31st March 2021

Particulars	Note No.	(Rs. in '000)
A. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.000
(b) Short- term provision	4	163.800
Total		1796.000
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables	6	120.00
(c) Cash and Cash equivalents	7	30.00
Total		1,796.00

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

Particulars	Note No.	(Rs. in '000)

I.	Revenue from Operations		1200.00
II.	Other Income	8	6.00
III.	Total Income (I +II)		1206.00
IV.	Expenses:		
	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		**(Rs. in '000)**
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of Rs. 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of Rs. 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 Rs. (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	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		

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

Question 14 : May 2022 – RTP

The following is the extract of Balance Sheet of Jupiter Ltd. as at 31st March 2021:

	Rs.
Equity and Liabilities	
Authorized Capital:	
40,000, 14% preference shares of Rs. 100	40,00,000
4,00,000 Equity shares of Rs. 100 each	4,00,00,000
	4,40,00,000
Issued and Subscribed Capital:	
30,000, 14% Preference Shares of Rs.100 each, fully paid up	30,00,000
2,40,000 Equity Shares of Rs.100 each, Rs.80 paid-up	1,92,00,000
Share Suspense Account	40,00,000
Reserve & Surplus:	
Capital reserves (60% is revaluation reserve)	5,00,000
Securities Premium	1,00,000
Secured loans:	
15% Debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000

Cash credit loan from IDBI (short term)	9,30,000
Current Liabilities:	
Trade payables	6,90,000
Assets	
Investment in Shares, debentures, etc.	1,50,00,000
Profit and Loss Account	30,50,000
Preliminary expenses not written off	1,10,000

Share Suspense Account represents application money received on shares, the allotment of which is not yet made.

Jupiter Ltd. has been incurring losses for the last few years. Jupiter Ltd. has only one whole-time director.

You are required to compute effective capital as per provisions of schedule V to the Companies Act, 2013. Would your answer differ if Jupiter Ltd. is an investment company? Also calculate the amount of maximum remuneration that can be paid if no special resolution is passed at the general meeting of the company in respect of payment for a period not exceeding three years.

Solution :

Calculation of effective capital

Particulars	**Where Jupiter Ltd. is a non-investment Company (Rs.)**	**Where Jupiter Ltd. is an investment Company (Rs.)**
Paid-up share capital		
30,000, 14% Preference Shares	30,00,000	30,00,000
2,40,000 Equity Shares	1,92,00,000	192,00,000
Capital Reserves excluding revaluation reserve	2,00,000	2,00,000
Securities Premium	1,00,000	1,00,000
15% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
Total (A)	362,40,000	362,40,000
Investments	1,50,00,000	
Profit and Loss Account (Dr. balance)	30,50,000	30,50,000
Preliminary Expenses not written off	1,10,000	1,10,000
Total (B)	181,60,000	31,60,000
Effective Capital [A – B]	1,80,80,000	3,30,80,000

Effective capital of the company for both the situations is less than 5 crores. Hence maximum remuneration payable to director should be @ Rs. 60,00,000 per annum.

Question 15 : May 2022 – Paper

The following information is provided by Exe Limited for 31st March, 2022 :

Particulars	**Rs.**
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	9,40,000
Depreciation provided in the Books	4,05,000

Provision for repairs for Machinery during the year	35,000
Depreciation Allowable under Schedule II	3,40,000
Actual Expenditure incurred on Repairs during the year	25,000
Provision for Income Tax	1,50,000

You are required to calculate the Managerial Remuneration for Exe Limited as on 31st March, 2022 in the following situations :

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

Solution :

Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.
Net profit before income tax and managerial remuneration but after depreciation and provision for repairs		9,40,000
Add: Depreciation provided	4,05,000	
Provision for repairs	35,000	4,40,000
		13,80,000
Less : Repairs	25,000	
Depreciation as per schedule III	3,40,000	3,65,000
Profit u/s 198		10,15,000

Maximum Managerial remuneration under Companies Act, 2013

(i) When there is only one Whole time director: The remuneration payable to any one managing director; or whole-time director or manager should not exceed 5% of the net profits of the company. Therefore Managerial remuneration will be Rs. 50,750 i.e 5% of Rs.10,15,000.

(ii) When there are two Whole time directors: if there are more than one such director, remuneration should not exceed 10% of the net profits to all such directors and manager taken together. Therefore Managerial remuneration will be Rs.1,01,500 i.e 10% of Rs.10,15,000.

(iii) When there are two whole time directors, a part time director and a manager, then 11% of the net profits of the company. Therefore Managerial remuneration will be Rs. 1,11,650 i.e 11% of Rs.10,15,000.

Question 16 : Nov 2022 – Paper

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

Debit Balances	Amount (Rs.)	Credit Balances	Amount (Rs.)
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		
Selling & Distribution Expenses	4,36,000		
Directors Fees	32,000		

Bad Debts	38,500		
Interest on Term Loan	8,05,000		
Land	24,00,000		
Factory Building	36,80,000		
Plant & Machinery	62,50,000		
Furniture & Fittings	8,25,000		
Trade Receivables	64,75,000		
Advance Income Tax Paid	37,500		
Stock (1st April, 2021)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	**3,28,47,875**		**3,28,47,875**

Following information is provided :

(1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of Rs.10 each. The Company has issued 1,00,000 Equity Shares of Rs.10 each.

(2) Rent of Rs.20,000 and Wages of Rs.1,56,500 are outstanding as on 31st March, 2022.

(3) Provide Depreciation @10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2022 is Rs.11,37,500.

(5) Make a provision for Doubtful Debts @5% on Debtors.

(6) Make a provision of25% for Corporate Income Tax.

(7) Transfer Rs.1,00,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and machinery. Installment of Term Loan falling due within one year is Rs.17,00,000.

(9) Trade Receivables of Rs.85,600 are outstanding for more than six months.

(10) The Board declared a divided @10% on Paid up Share Capital on 5th 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.

Solution :

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

Particulars	Note No	Rs.
Equity and Liabilities		
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**
Assets			
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
	Total		**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

			Rs.
1	Share Capital		
	Equity share capital		
	Authorized		
	2,00,000 equity shares of Rs. 10 each		20,00,000
	Issued & subscribed		
	1,00,000 equity shares of Rs. 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:

1. 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.
2. 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

Question 17 : May 2024 – RTP

Aqua Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following ledger balances as on 31st March, 2023:

	Rs.		Rs.
Inventory 1.4.2022	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500	Calls in Arrear @ Rs. 2 per share	10,000
Purchases	12,32,500	Equity share capital	20,00,000
Rate, Taxes and Insurance	55,000	(2,00,000 shares of Rs. 10 each)	
Furniture & Fixtures	1,50,000	Trade Payables	2,40,500
Business Expenses	56,000	Sales	36,17,000
Wages	14,79,000	Rent (Cr.)	30,000
Freehold Land	7,30,000	Transfer fees received	6,500
Plant & Machinery	7,50,000	Profit & Loss A/c (Cr.)	67,000
Engineering Tools	1,50,000	Repairs to Building	56,500
Trade Receivables	4,00,500	Bad debts	25,500
Advertisement Expenses	15,000		
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2023 was Rs.7,05,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,500.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide Rs. 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer Rs. 10,000 to reserves.

You are required to prepare a Statement of Profit & Loss for the year ended 31st March, 2023 and Balance Sheet as at that date.

Solution :

Balance Sheet of Aqua Ltd. as at 31st March, 2023

		Particulars	Note No.	Rs.
I	**Equity and Liabilities**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,82,000
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	61,500
		(c) Short-Term Provisions	4	1,35,000
		Total		28,09,000
II	**Assets**			
	(1)	**Non-Current Assets**		
		(a) Property, Plant and Equipment	5	16,97,500
	(2)	**Current Assets**		
		(a) Inventories		7,05,000
		(b) Trade Receivables	6	3,75,500
		(c) Cash and Cash Equivalents	7	31,000
		Total		28,09,000

Statement of Profit and Loss of Aqua Ltd.
for the year ended 31st March, 2023

	Particulars	Note No.	Rs.
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		36,53,500
IV	Expenses: Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	4,24,500
	Total Expenses		32,03,500
V	**Profit before Tax (III-IV)**		4,50,000
VI	**Tax Expenses @ 30%**		(1,35,000)
VII	**Profit for the period**		3,15,000

Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of Rs. 10 each	50,00,000
Issued Capital	

2,00,000 Equity Shares of Rs. 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs.10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs.10 each Rs. 8 paid	40,000
(Call unpaid 10,000)	19,90,000

2. Reserves and Surplus

General Reserve		10,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	(10,000)	3,72,000
		3,82,000

3. Other Current Liabilities

Outstanding Expenses [25,000+36,500]	61,500

4. Short-term Provisions

Provision for Tax	1,35,000

5. Property, Plant and Equipment

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
Land	7,30,000		-	7,30,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	1,50,000	20%	30,000	1,20,000
	17,80,000		82,500	16,97,500

6. Trade Receivables

Trade receivables	4,00,500
Less: Provision for doubtful debts	(25,000)
	3,75,500

7. Cash & Cash Equivalent

Cash Balance	11,000
Bank Balance in current A/c	20,000
	31,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500

Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	25,000
	15,04,000

10. Other Expenses

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	25,500
Provision for Doubtful Debts	25,000
	4,24,500

Question 18 : May 2024 – Paper

Following information are available in respect of Z Limited as on 31st March, 2024

1. Equity shares of Rs. 100 each Rs. 500 lakhs
2. General Reserve Rs. 100 lakhs
3. Loss for the year ending 31st March, 2024 Rs. 5 lakhs

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend.

Solution :

In case of declaration of dividend out of free reserves, there are 3 conditions:

(1) Dividend Rate < Average Rate of last 3 years
10% < 12% [(12+14+10)/3]
Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus
50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]
Condition is Satisfied

(3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)
Condition is Not Satisfied

(4) The closing balance of reserves after payment of dividend and set off of loss = Rs. 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)
Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

(1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12% (i.e.) (12+14+10) /5 =12 %.

Hence, this condition is satisfied.

(2) Condition II

Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	5,00,000
Amount to be drawn from General Reserve	55,00,000

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

= 10% of [Rs. 500 lakhs + Rs. 100 lakhs] = Rs. 60,00,000

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

(3) Condition III

Balance of reserves after withdrawal (100-55) Rs. 45,00,000
15% of paid-up capital Rs. 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year = Rs. 1,00,00,000
- Closing balance of reserves being 15% of paid-up capital = Rs. 75,00,000
Reserves available = Rs. 25,00,000
Maximum permissible Divisible Profits
Permissible withdrawal as above = Rs. 25,00,000
Less: Current Year's Loss = Rs. 5,00,000
Maximum permissible Divisible profit = Rs. 20,00,000

Actual permissible rate of Dividend =
(Rs. 20,00,000 / Rs. 5,00,00,000) x 100 = 4%

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

Question 19 : Sept 2024 – Paper

The following is the Trial Balance of Shivam Ltd as on 31st March, 2024 :

Particulars	Dr. (Rs.000)	Particulars	Cr. (Rs.000)
Land at Cost	148	Equity Share of Rs.10 each	200
Plant & Machinery at Cost	520	10% Debenture of Rs.100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss A/c	48
Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	**1,127**	**Total**	**1,127**

Additional Information :

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of Rs.10 each.
- The Company, on the advice of an independent valuer, revalued the Land at Rs.2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2024 and also transferred profit @ 10 % to General Reserve.
- Suspense Account of Rs.3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was 10,000 and Accumulated Depreciation thereon being Rs.8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required @ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures.

Solution :

Shivam Limited

Balance Sheet as at 31st March 2024

Particulars			Note No.	Rs.(in 000)
I. Equity and Liabilities				
1	**Shareholders' funds**			
	(a)	Share capital	1	300.00
	(b)	Reserves and Surplus	2	232.70
2	**Non-Current liabilities**			
	(a)	Long term borrowings	3	135.00
3	**Current liabilities**			

	(a)	Trade Payables		35.00
	(b)	Short-Term Provisions		30.30
		Total		733.00
II. Assets				
1	**Non-current assets**			
	(a)	Property, Plant and Equipment and Intangible assets		
		(i) Property, Plant and Equipment	4	596.00
2	**Current assets**			
	(a)	Inventories		58.00
	(b)	Trade receivables		65.00
	(c)	Cash and cash equivalents		14.00
			Total	733.00

Shivam Limited

Statement of Profit and Loss for the year ended 31st March 2024

	Particulars	**Notes**	**Rs. (in '000)**
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00
	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00
	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Note to accounts

				Rs.(in 000)
1	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of Rs. 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of Rs. 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2	**Reserves and Surplus**			

	Securities Premium Account				
	Opening Balance		27.00		
	Less: Utilised for bonus issue		27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)				97.00
	General Reserve	90			
	Less: Utilized for bonus issue	(73)	17.00		
	Add: Transfer from Profit & loss @ 10%		7.07		24.07
	Profit & loss Balance				
	Opening balance		48.00		
	Profit for the period		70.70		
	Appropriations				
	Transfer to General Reserve @ 10%		-7.07		111.63
					232.70
3	**Long term borrowing**				
	10% Debentures				135.00
4	**Property, Plant and Equipment**				
	Land				
	Opening balance			148.00	
	Add: Revaluation adjustment			97.00	
	Closing balance				245.00
	Plant and Machinery				
	Opening balance			520.00	
	Less: Disposed off			10.00	
				510.00	
	Less: Depreciation (1,16,000-8,000+51,000)			159.00	
	Closing balance				351.00
	Total				596.00
5	**Other Income**				
	Profit on sale of machinery:				
	Sale value of machinery			3.00	
	Less: Book value of machinery (10,000-8,000)			2.00	1.00
6	**Other expenses:**				
	Factory expenses			40.00	
	Selling expenses			20.00	
	Administrative expenses			22.00	820.00

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 2024. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = Rs. 2,00,000 / Rs. 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × Rs. 10 = Rs. 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as Rs. 14,000, the difference of Rs. 500 (Rs.13,500 - Rs.14,000) may be treated as an advance payment.

Question 20 : May 2025 – Paper

Following particulars are furnished by Bela Ltd for the year ended 31st March 2025.

Particulars	Debit Rs.	Credit Rs.
Equity Share Capital (Face Value 100)		6,00,000
8% Preference Share Capital (Face Value 100)		3,00,000
Factory Building	6,20,000	
Plant & Machinery	4,98,000	
Furniture & Fittings	1,52,000	
General Reserve		88,000
Term Loan from Public Financial Corp.		3,40,000
Inventory		
Raw Material	1,35,000	
Finished Goods	66,000	
Provision for taxation		12,000
Dividend Payable		10,000
Preliminary Expenses	21,000	
Profit & Loss A/c		99,000
Cash in hand	16,000	
Cash at Bank	39,000	
Trade Receivables	2,38,000	
Unsecured Loan		85,000
Trade Payables		2,45,000
Outstanding Expenses		6,000
	17,85,000	17,85,000

Other Information:

(1) The cost of assets was:

Factory Building	Rs. 6,94,000
Plant & Machinery	Rs. 5,35,000
Furniture & Fittings	Rs. 1,76,000

(2) The Equity Capital on 01/04/2024 stood at 5,000 shares fully paid up and 1,000 shares Rs.70 paid up. The directors made final call of Rs. 30 per share on 01/10/2024.
A shareholder could not pay the call on 75 shares and his shares were forfeited. They were reissued @ Rs. 70 per share as fully paid.

(3) Profit on reissue of forfeited equity shares was included in profit and loss account.

(4) Bills discounted but not yet matured Rs. 15,000

(5) The balance of Term Loan from Public Finance Corporation includes Rs. 8,000 for interest accrued but not due. The loan is secured against hypothecation of Plant and Machinery.

(6) The directors declared a dividend of 5% on Equity shares on 10/04/2025.

You are required to prepare the Balance sheet as at 31st March, 2025 as required under Part-1 of the schedule III of the Companies Act.

Workings should form part of the answer.

Solution :

Balance Sheet of Bela Ltd. as at 31st March, 2025

Particulars			Note No	Rs.
Equity and Liabilities				
1	**Shareholders' funds**			
	a	Share capital	1	9,00,000
	b	Reserves and Surplus	2	1,66,000
2	**Non-current liabilities**			
	a	Long-term borrowings	3	4,17,000
3	**Current liabilities**			
	a	Trade Payables	4	2,45,000
	b	Other current liabilities	5	24,000
	c	Short-term provisions	6	12,000
		Total		17,64,000
ASSETS				
1	**Non-current assets**			
	a	PPE	7	12,70,000
2	**Current assets**			
	a	Inventories	8	2,01,000
	b	Trade receivables	9	2,38,000
	c	Cash and cash equivalents	10	55,000
		Total		17,64,000

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued, Subscribed and paid up		
	6,000 Equity Shares of Rs.100 each	(A)	6,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	3,000 8% Preference shares of Rs. 100 each	(B)	3,00,000

		Total (A + B)	9,00,000
2	**Reserves and Surplus**		
	Capital reserve (W.N.)		3,000
	General reserve		88,000
	Add: Profit and Loss Account	99,000	
	Less: Preliminary expenses	(21,000)	
	Less: profit on reissue (75x 40)	(3,000)	75,000
		Total	1,66,000
3	**Long-term borrowings**		
	Secured- Term Loans		
	Loan from Public Financial Corporation		
	3,40,000 – 8,000)		3,32,000
	Secured by hypothecation of Plant and		
	Machinery)		
	Unsecured loan		85,000
		Total	4,17,000
4	**Trade Payables**		2,45,000
5	**Other current liabilities**		
	Interest accrued but not due on loans (PFC)		8,000
	Dividend Payable		10,000
	Outstanding expenses		6,000
		Total	24,000
6	**Short-term provisions**		
	Provision for taxation		12,000
7	**PPE**		
	Factory Buildings	6,94,000	
	Less: Depreciation	(74,000)	6,20,000
	Plant & Machinery	5,35,000	
	Less: Depreciation	(37,0000	4,98,000
	Furniture & Fittings	1,76,000	
	Less: Depreciation	(24,000)	1,52,000
		Total	12,70,000
8	**Inventories**		
	Raw Material		1,35,000
	Finished goods		66,000
			2,01,000
9	**Trade receivables**		2,38,000
10	**Cash and cash equivalents**		
	Cash at bank		39,000
	Cash in hand		16,000
		Total	55,000

Working Note:

Calculation of Capital Reserve on reissue of forfeited equity shares:

Balance in forfeiture Account = Rs. 5,250

Discount on reissue of shares = Rs. 2,250

Amount to be transferred to capital reserve = Rs. 5,250 - Rs. 2,250 = Rs. 3,000

Note:

1. 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, 2025. Such dividends will be disclosed in notes only.
2. There is a Contingent Liability for bills discounted but not yet matured amounting to Rs. 15,000

Question 21 : Sept 2025 – RTP

Following is the trial balance of ABC Limited as on 31.3.2025.

(Figures in Rs. '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of Rs. 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 (F.Y. 2023-24)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-25)	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:

(i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.

(ii) The company revalued the land at Rs. 9,60,000.

(iii) Equity capital includes shares of Rs. 50,000 issued for consideration other than cash.

(iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2024. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes Rs. 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2025 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2025 as per Schedule Ill. Ignore previous year's figures & taxation.

Solution :

ABC Limited

Balance Sheet as at 31st March 2025

Particulars		Note No.	(Rs. in '000)
A.	**Equity and Liabilities**		
	1. Shareholder's funds		
	(a) Share Capital	1	495.00
	(b) Reserves and Surplus	2	971.00
	2. Non-Current Liabilities		
	(a) Long Term Borrowings	3	300.00
	3. Current Liabilities		
	(a) Trade Payables		30.00
	Total		1796.00
B.	**Assets**		
	1. Non-Current Assets		
	(a) Property, Plant and Equipment	4	1550.00
	2. Current Assets		
	(a) Inventories		96.00
	(b) Trade Receivables		120.00
	(c) Cash and Cash equivalents	5	30.00
	Total		1796.00

ABC Limited

Statement of Profit and Loss for the year ended 31st March 2025

Particulars	Note No.	(Rs. in '000)
I. Revenue from Operations		1200.00
II. Other Income	6	6.00
III. Total Revenue		1206.00
IV. Expenses:		
Purchases		400.00
Finance Costs	7	30.00
Depreciation (10% of 800)		80.00
Other expenses	8	150.00
Total Expenses		660.00
V. Profit / (Loss) for the period (III – IV)		546.00

Notes to Accounts

	Particulars		(Rs. in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of Rs. 10/- each		800

	Issued, Subscribed and Called-up		
	50,000 Shares of Rs. 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 Account		40
	General Reserve		150
	Profit & Loss Balance		
	Opening Balance	75	
	Add: Profit for the period	546	621
	Revaluation Reserve Rs. (960 – 800)		160
			971
3	Long-Term Borrowings		
	10% Debentures		300
4	PPE		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation Rs. (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
5	Cash and Cash Equivalents		
	Cash at Bank		
	With scheduled banks	23	
	With others (Abhay Bank Limited)	5	
	Cash in hand	2	30
6	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
7	Finance Costs		
	Debenture Interest		30
8	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	

	Administrative expenses	45	150

Question 22 : Sept 2025 – Paper

On 31st March 2025, the following balances are extracted from the books of Chia Limited:

Particulars	**Rs. in Lakhs**
40,000 Equity Shares of Rs.100 each	40.00
Money received against share warrants	2.70
General Reserves	6.90
Capital Reserves (Rs.20,000 is Revaluation Reserve)	12.50
Profit and Loss account	3.50
Securities Premium	0.75
Deferred tax liabilities (Net)	0.56
10% Debentures (secured)	5.00
Loan from SSA Finance Corporation	10.00
Other Long-Term Loans (unsecured)	4.25
Short term borrowings	6.95
Trade Payables	5.69
Other current liabilities	1.41
Short-term provisions	1.36
Total	**101.57**
Freehold Land	30.88
Plant & Machinery	26.80
Investment in Debentures of Glad Limited	6.00
Capital work in progress	11.40
Trade receivables	11.57
Inventories (finished goods) (as on 31st March 2025)	4.67
Goods-in-transit (finished goods) (as on 31st March 2025)	1.35
Call in arrears	0.64
Cash in hand	0.56
Balances with banks	7.70
Total	**101.57**

The following additional information is also provided :

(i) The Authorised Share Capital consists of 50,000 Equity Shares of Rs.100 each.

(ii) 5,000 fully paid equity shares were allotted as consideration other than cash.

(iii) Debentures of Glad Limited are acquired by the Company with the intention of holding them for more than two years.

(iv) The Cost of Plant and Machinery is Rs.41,00,000.

(v) The balance in loan from SSA Finance Corporation includes Rs.45,000 for interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery. Loan is repayable in June 2028.

(vi) Short-term borrowings include :

- Loan from CDC Bank (secured) Rs.4,50,000
- Loan from related parties (unsecured) Rs.54,000

(vii) Trade Receivables of? 5,26,000 are due for more than 6 months.

(viii) Bills Receivable for Rs.58,000, maturing on 6th May 2025, have been discounted on 15th March 2025.

(ix) The Company on the advice of an independent valuer revalued the freehold land at Rs.40,50,000.

(x) Inventory of finished goods includes loose tools costing Rs.1,02,000, which do not meet the definition of Property, Plant & Equipment as per, AS 10.

(xi) Claims against the Company amounting to Rs.4,15,000 have not been acknowledged as debt.

(xii) Balances with banks include Rs.24,000 with Vihar Bank/ which is not a Scheduled Bank.

You are required to prepare the Balance Sheet of Chia Limited as on 31st March 2025 as per Schedule III of the Companies Act, 2013 (Ignore previous year figures).

Solution :

Chia Ltd.

Balance Sheet as at 31st March, 2025

		Particulars	Notes	Rs. in lakhs
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	39.36
	b	Reserves and Surplus	2	33.27
	c	Money received against share warrant		2.7
2		Non-current liabilities		
	a	Long-term borrowings	3	18.8
	b	Deferred tax liabilities (Net)		0.56
3		Current liabilities		
	a	Short-term borrowings	4	6.95
	b	Trade Payables		5.69
	c	Other Current Liabilities:	5	1.86
	d	Short-term provisions		1.36
		Total		110.55
		Assets		
1		Non-current assets		
	a (i)	Property, Plant and Equipment	6	67.3
	(ii)	Capital work in progress		11.4
	b	Non-current investments	7	6
2		Current assets		
	a	Inventories	8	6.02
	b	Trade receivables	9	11.57
	c	Cash and cash equivalents	10	8.26
		Total		110.55

Notes to accounts

			Rs. in lakhs
1	Share Capital		
	Authorized share capital		
	50,000 Equity Shares of Rs. 100 each		50.00
	Equity share capital		
	Issued & subscribed & called up		
	40,000 Equity Shares of Rs. 100 each	40.00	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(0.64)	39.36
	Total		39.36
2	Reserves and Surplus		
	General Reserve		6.90
	Securities premium		0.75
	Capital reserve		12.30
	Revaluation (0.20+ 9.62)		9.82
	Profit & Loss		3.50
	Total		33.27
3	Long-term borrowings		
	Secured		
	10% debentures		5.00
	Loan from SSA Financial Corporation (10.00-0.45)		9.55
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan-others		4.25
	Total		18.80
4	Short term Borrowings		
	Secured-Loans CDC bank		4.50
	Unsecured		
	Loan from related parties	0.54	
	Others	1.91	2.45
	Total		6.95
5	Other current liabilities:		
	Interest accrued but not due	0.45	
	Others	1.41	1.86
6	Property, plant and equipment		
	Freehold Land	30.88	
	Add: Revaluation gain	9.62	40.50
	Plant & Machinery	41.00	
	Less: Depreciation	(14.20)	26.80
	Total		67.30
7	Non-current investment		
	Investment in debentures of Glad Ltd.		6.00

8	Inventories		
	Loose tools		1.02
	Goods in transit		1.35
	Finished goods		3.65
	Total		6.02
9	Trade receivables		
	Debts Outstanding for a period exceeding six months		5.26
	Other Amounts		6.31
	Total		11.57
	Cash and cash equivalents		
10	Cash at bank		
	with Scheduled Banks	7.46	
	with others	0.24	7.70
	Cash in hand		0.56
	Other bank balances		
	Total		8.26

Contingent Liabilities

1. Claims against the company of Rs. 4,15,000 have not been acknowledged as debt.
2. Bills receivable for Rs. 58,000 maturing on 6th May 2025 have been discounted. (Not matured)

Thanks ....

CHAPTER

31 AMALGAMATION OF COMPANIES

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Question 1 : May 2018 – Paper / Nov 2020 – RTP

X Ltd. and Y Ltd. give the following information of assets, equity and liabilities as on 31st March, 2018:

Particulars	X Ltd. (Rs.)	Y Ltd. (Rs.)
Equity and Liabilities		
Equity Shares of Rs.10 each	30,00,000	9,00,000
9% Preference Shares of Rs.100 each	3,00,000	-
10% Preference Shares of Rs.100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	**40,50,000**	**17,10,000**
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17 : Rs. 90,000; 2015-16 : Rs. 78,000 and 2014-15: Rs. 72,000). The profits of 2014 -15 included credit of an insurance claim of Rs. 25,000 (fire occurred in 2013-14 and loss by fire Rs. 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs. 10,000.

(iii) Land & Buildings are valued at Rs. 5,00,000 and the Plant & Machinery at Rs. 4,00,000.
(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs. 15,000 and such asset was also taken over by X Ltd.
(vi) The trade payables of Y Ltd. included Rs. 20,000 payable to X Ltd.
(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to:
(i) Prepare Realisation A/c in the books of Y Ltd.
(ii) Show journal entries in the books of X Ltd.
(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2018.

Solution :

In the Books of Y Ltd.
Realisation Account

		Rs.		Rs.
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000		By Trade payables	2,40,000
Land & Building	3,00,000		By X Ltd. (Purchase Consideration)	15,90,000
Plant & Machinery	4,50,000			
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		18,90,000		**18,90,000**

In the Books of X Ltd.
Journal Entries

		Dr. Rs.	Cr. Rs.
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	

To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c			60,000
(Being Purchase Consideration satisfied as above)			

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

		Particulars	Notes	Rs.
I.		**Equity and Liabilities**		
1		**Shareholders' funds**		
	a	Share capital	1	48,30,000
	b	Reserves and Surplus	2	2,70,000
2		**Non-current liabilities**		
	a	Long-term provisions	3	2,10,000
3		**Current liabilities**		
	a	Trade Payables	4	6,10,000
	b	Short term provision	5	7,500
		Total		**59,27,500**
II.		**Assets**		
1		**Non-current assets**		
		Property, Plant and Equipment	6	33,00,000
		Intangible assets	7	3,00,000
2		**Current assets**		
	a	Inventories	8	12,22,500
	b	Trade receivables	9	8,80,000
	c	Other current Assets	10	15,000
	d	Cash and cash equivalents	11	2,10,000
		Total		**59,27,500**

Notes to Accounts :

		Rs.
1	Share Capital Equity share capital 4,20,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,20,000 Equity Shares were issued at 5% premium in consideration other than for cash)	42,00,000

	Preference share capital 6,300 9% Preference Shares of Rs. 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*) * Mutual Owings eliminated.	6,10,000
5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Property, Plant and Equipment	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes :

1. Computation of goodwill

	Rs.
Profit of 2016-17	90,000
Profit of 2015-16 adjusted (Rs. 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (Rs. 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = Rs. 75,000 x 2 = Rs. 1,50,000

2.

Purchase Consideration:	Rs.
Goodwill	1,50,000
Land & Building	5,00,000
Plant & Machinery	4,00,000
Inventory	4,72,500

Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
		15,90,000

Question 2 : Nov 2018 – Paper / Nov 2020 – RTP / May 2021 – RTP / Dec 2021 – Paper / Nov 2022 - Paper

Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2020. The terms and conditions of takeover were as follows:

(i) Som Ltd. issued 56,000 equity shares of Rs.100 each at a premium of Rs.10 per share to the equity shareholders of Dove Ltd.

(ii) Cash payment of Rs.1,00,000 was made to equity shareholders of Dove Ltd.

(iii) 20,000 fully paid preference shares of Rs.70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate the amount of purchase consideration as per the provisions of AS 14.

Solution :

As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

Computation of Purchase Consideration :

		Rs.
(a)	Preference Shares:	
	20,000 Preference shares in Som Ltd. @ Rs. 70 per share	14,00,000
(b)	Cash	1,00,000
(c)	Equity shares: 56,000 equity shares in Som Ltd. @ Rs. 110 per share	61,60,000
		76,60,000

Question 3 : May 2019 – RTP

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018 Their summarized Balance Sheets as on 31.03.2018 were as follows:

(Rs.in '000)

Particulars	**P Ltd.**	**Q Ltd.**
Source of Funds:		
Equity share capital (Rs.10 each)	300	280
9% preference share Capital (Rs.100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	**602**	**490**
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	**602**	**490**

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of Rs.10 each of the new company at a premium of Rs.5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

Solution :

M/s R Ltd.

Balance Sheet as at 1.4.2018

		Particulars	**Notes**	**Rs. in '000**
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	6,55,980
	b	Reserves and Surplus	2	2,77,990

2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade Payables	4	80,000
	b	Short term provision	5	22,000
		Total		**11,15,970**
		Assets		
1		**Non-current assets**		
	a	Property, Plant & Equipment		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000
2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		**11,15,970**

Notes to accounts :

		Rs. in '000
1	**Share Capital**	
	Equity share capital	
	55,598 Equity shares of Rs.10 each, fully paid up (W.N.2)	5,55,980
	Preference share capital	
	9% Preference share capital (Share of Rs.100 each) (W.N.2)	1,00,000
		6,55,980
2	**Reserves and Surplus**	
	Securities premium (W.N.2)	2,77,990
	Investment allowance reserve	14,000
	(Rs.10,000+ Rs.4,000)	
	Amalgamation adjustment reserve	14,000)
		2,77,990
3	**Long-term borrowings**	
	Secured	
	10% Debentures (50% of Rs.1,60,000)	80,000
4	**Trade Payables** (Rs.50,000+ Rs.30,000)	80,000
5	**Short term provisions**	
	Provision for tax (Rs.14,000+ Rs.8,000)	22,000
6	**Tangible assets**	
	Building (Rs.1,32,000+Rs.1,05,000)	2,37,000
	Plant and machinery (Rs.1,76,000+Rs.1,47,000)	3,23,000
		5,60,000
7	**Non – current Investments** (Rs.80,000+ Rs.50,000)	1,30,000

8	**Inventory**	
	Stock (Rs. 72,000+ Rs. 80,000)	1,52,000
9	**Trade receivables**	
	Trade receivables (90% of (Rs.90,000+ Rs.70,000)	1,44,000
10	**Cash and cash equivalents**	
	Cash and Bank (Rs. 80,000+ Rs. 50,000 – Rs. 30)	1,29,970

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		P. Ltd. Rs.		Q. Ltd. Rs.
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	P Ltd.	Q Ltd.	Total
Equity shares issued @ Rs. 15 per share (including Rs. 5 premium)			
Rs.3,97,000/15	26,466 shares		
Rs.3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ Rs.10	Rs.2,64,660	Rs.2,38,000	Rs.5,02,660
Securities premium @ Rs.5	Rs.1,32,330	Rs.1,19,000	Rs.2,51,330
	Rs.3,96,990	Rs.3,57,000	Rs.7,53,990
50% of Debentures are converted into equity shares @ Rs. 15 per share			
1,00,000/2 = 50,000/15	3,332 shares		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ Rs.10	Rs.33,320	Rs.20,000	Rs.53,320

Security premium@ Rs.5	Rs.16,660	Rs.10,000	Rs.26,660
	Rs.49,980	Rs.30,000	Rs. 79,980
9% Preference share capital issued	Rs.60,000	Rs.40,000	Rs.1,00,000

Question 4 : May 2019 – Paper / May 2023 – RTP

The following information is being provided by VT Ltd. and MG Ltd. as on 31st March, 2022:

Particulars	**VT Ltd. (Rs.)**	**MG Ltd. (Rs.)**
Equity Shares of Rs. 10 each	12,00,000	6,00,000
10% Pref. Shares of Rs. 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (Rs.)	**MG Ltd. (Rs.)**
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of Rs. 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of Rs. 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes Rs. 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

Solution :

(i) **Journal Entries in the Books of VT Ltd.**

		Dr. (Rs.)	Cr. (Rs.)
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
Payment of equity dividend)			
Business Purchase Account	Dr.	1,20,000	
To Liquidator of MG Ltd.			1,20,000
Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of Rs. 5,00,000)	Dr.	5,75,000	
Inventory (95% of Rs. 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(Rs. 80,000 –Rs. 60,000 dividend paid)			
To Provision for Bad Debts (5% of Rs. 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (Rs. 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures	Dr.	36,000	
To 12% Debentures			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000

(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of Rs. 10 each i.e.	Rs. 8,00,000	(i)
For 10% preference shares, to be paid at 10% discount		
Rs. 2,00,000x 90/100	Rs. 1,80,000	(ii)
Consideration amount [(i) + (ii)]	Rs. 9,80,000	

Question 5 : Nov 2019 – RTP

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	Rs.	Assets	Rs.
8,000 Equity shares of Rs.100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of Rs.6,00,000 and the balance in fully paid equity shares of Rs.100 each at Rs.125 per share.

The average profit is Rs. 1,24,400. The liquidation expenses amounted to Rs. 16,000. B Ltd. sold prior to 31st March, 2018 goods costing Rs. 1,20,000 to A Ltd. for Rs. 1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018. Trade payables of A Ltd. include Rs. 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

Solution :

Books of A Limited

Realization Account

	Rs.		Rs.

To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		**16,06,000**

Bank Account

	Rs.		Rs.
To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		**7,36,000**

10% Debentures Account

	Rs.		Rs.
To Bank	4,00,000	By Balance b/d	4,00,000
	4,00,000		**4,00,000**

Loan Account

	Rs.		Rs.
To Bank	1,60,000	By Balance b/d	1,60,000
	1,60,000		**1,60,000**

Share Issue Expenses Account

	Rs.		Rs.
To Balance b/d	34,000	By Equity shareholders	34,000
	34,000		**34,000**

General Reserve Account

	Rs.		Rs.
To Equity shareholders	80,000	By Balance b/d	80,000
	80,000		**80,000**

B Ltd. Account

	Rs.		Rs.
To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at Rs.125 each)	6,10,000
	12,10,000		**12,10,000**

Equity Shares in B Ltd. Account

	Rs.		Rs.
To B Ltd.	6,10,000	By Equity shareholders	6,10,000
	6,10,000		**6,10,000**

Equity Share Holders Account

	Rs.		Rs.
To Realization Account	76,000	By Equity share capital	8,00,000
To Share issue Expenses	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		**8,80,000**

B Ltd.

Balance Sheet as on 1st April, 2019 (An extract)*

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	4,88,000
	b	Reserves and Surplus	2	1,07,000
2		**Current liabilities**		
	a	Trade Payables	3	2,80,000
	b	Bank overdraft		6,00,000
		Total		**14,75,000**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		
		Tangible assets	4	8,82,000
		Intangible assets	5	2,16,000
2		**Current assets**		
	a	Inventories	6	1,83,000
	b	Trade receivables	7	1,94,000
		Total		**14,75,000**

Notes to Accounts

	Particulars		Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of Rs. 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		**4,88,000**
2	**Reserves and Surplus (an extract)**		

	Securities Premium		1,22,000
	Profit and loss account	.....	
	Less: Unrealized profit	(15,000)	(15,000)
	Total		**1,07,000**
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		**8,82,000**
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
	Trade receivables		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes :

1	**Valuation of Goodwill**	**Rs.**
	Average profit	1,24,400
	Less: 8% of Rs. 8,80,000	(70,400)
	Super profit	54,000
	Value of Goodwill = 54,000 x 4	2,16,000
2	**Net Assets for purchase consideration**	
	Goodwill as valued in W.N.1	2,16,000
	Building	3,06,000
	Machinery	5,76,000
	Inventory	1,98,000
	Trade receivables (2,60,000-26,000)	2,34,000
	Total Assets	15,30,000
	Less: Trade payables	(3,20,000)
	Net Assets	12,10,000

Out of this Rs. 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of Rs. 125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3	**Unrealized Profit on Inventory**	**Rs.**
	The Inventory of A Ltd. includes goods worth Rs.1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be	

	$\frac{40,000}{1,60,000} \times 1,00,000$	25,000
	As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of Rs.1,00,000.	(10,000)
	Amount of unrealized profit	15,000

Question 6 : May 2020 – RTP

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below :

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Equity Shares (Rs.100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (Rs.100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include Rs. 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Preference shares of Rs. 20 each @ Rs. 18 paid up at a premium of Rs. 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of Rs. 20 each @ Rs. 18 paid up a premium of Rs. 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of Rs. 20 each for cash @ Rs. 18 paid up at a premium of Rs. 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

Solution :

In the Books of P Ltd.

Realization Account

	Rs.		Rs.
To Land & Building	4,50,000	By 8% Debentures	2,00,000
To Plant & Machinery	6,20,000	By Trade Payables	88,000

To Furniture & Fitting	1,00,000	By PQ Ltd. (Purchase consideration)	16,02,100
To Trade receivables	3,25,000	Equity Shareholders A/c (loss)	1,37,900
To Inventory/Stock	2,33,000		
To Cash at Bank	2,08,000		
To Cash in Hand	54,000		
To Preference shareholders (excess payment)	38,000		
	20,28,000		**20,28,000**

Equity Shareholders Account

	Rs.		Rs.
To Realization A/c (loss)	1,37,900	By Share capital	
To Equity Shares in PQ Ltd.	10,82,400	By Profit & Loss A/c	
To Cash	1,01,700	By General Reserve	
	13,22,000		**13,22,000**

9% Preference Shareholders Account

	Rs.		Rs.
To Preference Shares in PQ Ltd.	4,18,000	By Pref. Share capital	3,80,000
		By Realization A/c	38,000
	4,18,000		**4,18,000**

PQ Ltd. Account

	Rs.			Rs.
To Realization A/c	16,02,100	By Shares in PQ Ltd.		
		For Equity	10,82,400	
		For Pref.	4,18,000	15,00,400
		By Cash		1,01,700
	16,02,100			**16,02,100**

8% Debentures holders Account

	Rs.		Rs.
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.
Realization Account

	Rs.		Rs.
To Land & Building	3,40,000	8% Debentures	1,00,000
To Plant & Machinery	4,50,000	Trade payables	1,60,000
To Furniture & Fittings	50,000	Unsecured loan	1,75,000
To Trade receivables	1,50,000	PQ Ltd. (Purchase consideration)	7,92,250

To Inventory	1,05,000	Equity Shareholders A/c Loss	90,750
To Cash at bank	1,75,000		
To Cash in hand	20,000		
To Pref. shareholders	28,000		
	13,18,000		**13,18,000**

Equity Shareholders Account

	Rs.		Rs.
To Equity shares in PQ Ltd.	4,22,400	By Share Capital	3,20,000
To Realization	90,750	By Profit & Loss A/c	2,05,000
To Cash	61,850	By General Reserve	50,000
	5,75,000		**5,75,000**

9% Preference Shareholders Account

	Rs.		Rs.
To Preference Shares in PQ Ltd.	3,08,000	By Share capital	2,80,000
		By Realization A/c	28,000
	3,08,000		**3,08,000**

PQ Ltd. Account

	Rs.		Rs.	Rs.
To Realization A/c	7,92,250	By Equity shares in PQ Ltd.		
		For Equity	4,22,400	
		Preference	3,08,000	7,30,400
		By Cash		61,850
	7,92,250			**7,92,250**

8% Debenture holders Account

	Rs.		Rs.
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes :

(i) Purchase consideration :

	P Ltd. Rs.	Q Ltd. Rs.
Payable to preference shareholders:		
Preference shares at Rs. 22 per share	4,18,000	3,08,000
Equity Shares at Rs. 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	**7,92,250**

(ii) Value of Net Assets :

	P Ltd. Rs.	Q Ltd. Rs.

Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		2,08,000		1,75,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	-	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)

	P Ltd. Rs.	Q Ltd. Rs.
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

*This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.

Question 7 : Nov 2020 – Paper / Dec 2021 – Paper

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below :

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
I	Equity and Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserves and Surplus	2	630	495
	(2) Non-current Liabilities			
	Long Term Borrowings			
	10% Debentures of Rs.100 each		90	45

	(3) Current Liabilities			
	Trade Payables		630	285
	Total		**3,000**	**2,250**
II	Assets			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		1,350	975
	(b) Non current Investments		225	75
	(2) Current Assets			
	(a) Inventories		525	375
	(b) Trade Receivables		450	525
	(c) Cash and Cash Equivalents		450	300
	Total		**3,000**	**2,250**

Notes to Accounts :

	Particulars	**Dark Ltd.**	**Fair Ltd.**
1	Share Capital		
	Equity Shares of Rs.100 each	1,200	1,125
	14% Preference Shares of Rs.100 each	450	300
		1,650	1,425
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account	75	45
		630	495

Additional Information :

(i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ Rs.35 each having a face value of Rs.10 per share.

(ii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of Rs.100 each so as to maintain the same amount of interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

(v) Liquidation expenses are for Dark Limited Rs.6,00,000 and for Fair Limited Rs.3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorised equity share capital of Bright Limited is Rs.15,00,00,000 divided into equity shares of Rs.10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was full subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Solution :

Balance Sheet of Bright Ltd. as at 1st April, 2021

Particulars				Note No.	(Rs. in lakhs)
I	**Equity and Liabilities**				
	(1)	Shareholder's Funds			
		(a)	Share Capital	1	2,250
		(b)	Reserves and Surplus	2	4,200
	(2)	Non-Current Liabilities			
		Long-term borrowings		3	84.375
	(3)	Current Liabilities			
		Trade payables		4	915
	Total				**7449.375**
II	**Assets**				
	(1) Non-current assets				
		(a)	i. Property, plant and equipment	5	2,325
			ii. Intangible assets	6	633.375
		(b)	Non-current investments	7	300
	(2)	**Current assets**			
		(a)	Inventories	8	900
		(b)	Trade receivables	9	975
		(c)	Cash and cash equivalents	10	2316
	Total				**7449.375**

Notes to Accounts

			(Rs. in lakhs)	(Rs. in lakhs)
1.	Share Capital			
	Authorized Share Capital			
	1,50,00,000 Equity shares of Rs.10 each		1500	
	7,50,000 16% Preference Share of 100 each		750	
	Issued: 1,50,00,000 Equity shares of Rs. 10 each		1500	
	(Out of which 1,05,00,000 Shares were Issued for consideration other than cash)			
	7,50,000 16% Preference Shares of 100 each (Issued for consideration other than cash)		750	2,250
2.	Reserves and surplus			
	Securities Premium Account			
	(1,50,00,000 shares × Rs. 25)	3,750		

	(7,50,000 shares × Rs. 60)	450	4,200	
	Investment Allowance Reserve		150	
	Amalgamation Adjustment Reserve		(150)	4,200
3.	Long-term borrowings			
	16% Debentures (56,25,000 + 28,12,500) (W.N. 3)			84.375
4.	Trade payables			
	Dark Ltd.		630	
	Fair Ltd.		285	915
5.	Property, plant & equipment			
	Land and Building		1350	
	Plant and Machinery		975	2,325
3.	Intangible assets			
	Goodwill [W.N. 2]	624.375		
	Add: liquidation exp. (6+3)	9.00		633.375
7.	Non-current Investments			
	Investments (225+75)			300
8.	Inventories			
	Dark Ltd.		525	
	Fair Ltd.		375	900
9.	Trade receivables			
	Dark Ltd.		450	
	Fair Ltd.		525	975
10.	Cash & cash equivalents			
	Dark Ltd.		450	
	Fair Ltd.		300	
	Liquidation Expenses (6+3)		(9)	
	Shares issued for cash (45 lakh shares x Rs.35)		1575	2316

Working Notes :

		(Rs. in lakhs)	
		Dark Ltd.	Fair Ltd.
(1)	Computation of Purchase consideration		
(a)	Preference shareholders:		
	$\left(\frac{4,50,00,000}{100}\right)$	720	
	i.e. 4,50,000 shares × Rs. 160 each		
	$\left(\frac{3,00,00,000}{100}\right)$		480
	i.e. 3,00,000 shares × Rs. 160 each		

	(b) Equity shareholders:				
	$\left(\frac{12,00,00,000\times5}{100}\right)$		2,100		
	i.e. 60,00,000 shares x Rs. 35 each				
	$\left(\frac{11,25,00,000\times4}{100}\right)$		———		1,575
	i.e. 45,00,000 shares × Rs. 35 each				
	Amount of Purchase Consideration		2,820		2,055
(2)	Net Assets Taken Over				
	Assets taken over:				
	Property Plant & Equity		1,350		975
	Non-Current Investments		225		75
	Inventory		525		375
	Trade receivables		450		525
	Cash and bank		450		300
			3,000		2,250
	Less: Liabilities taken over:				
	10% Debentures	56.25		28.125	
	Trade payables	630	(686.25)	285	(313.125)
	Net assets taken over		2,313.75		1936.88
	Purchase consideration		2,820		2055
	Goodwill		506.25		118.125
	Total goodwill				624.375

(3) Issue of Debentures

Debentures	Rs.90,00,000		Rs.45,00,000
Interest 10%	Rs.9,00,000		Rs.4,50,000
	$\left(\frac{9,00,000\times100}{16}\right)$	=	$\left(\frac{4,50,000\times100}{16}\right)$ = 28,12,500
	56,25,000		

NOTE: In the above solution Rs. 35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as Rs. 10 also possible. In that case, the balance of cash and cash equivalents will be Rs. 1,191 lakhs and securities premium will be Rs. 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

Question 8 : Jan 2021 – Paper

Galaxy Ltd. and Glory Ltd. are two companies engaged in the same business of chemicals. To mitigate competition, a new company glorious Ltd., is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarised Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows :

		Galaxy Ltd. Rs.	Glory Ltd. Rs.
(1)	**Equity & Liabilities**		
	(1) Shareholder's fund		
	Share Capital		
	Equity shares of Rs.10 each	8,40,000	4,55,000
	Reserve & surplus		
	General Reserve	4,48,000	40,000
	Profit & Loss A/c	1,12,000	72,000
	(2) Non-current Liabilities		
	Secured Loan		
	6% Debentures	-	3,30,000
	(3) Current Liabilities		
	Trade Payables	4,20,000	1,83,000
	Total	**18,20,000**	**10,80,000**
(II)	**Assets**		
	(1) Non-current assets		
	Property, Plant & Equipment		
	Freehold property, at cost	5,88,000	3,36,000
	Plant & Machinery, at cost less depreciation	1,40,000	84,000
	Motor vehicles, at cost less depreciation	56,000	-
	(2) Current Assets		
	Inventories	3,36,000	4,38,000
	Trade Receivables	4,62,000	1,18,000
	Cash at Bank	2,38,000	1,04,000
	Total	**18,20,000**	**10,80,000**

Assets and Liabilities are to be taken at book value, with the following exceptions :

(i) The Debentures of Glory Ltd are to be discharged by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%

(ii) Plant & Machinery of Galaxy Ltd. are to be valued at Rs.2,52,000.

(iii) Goodwill is to be valued at
Galaxy Ltd. Rs.4,48,000
Glory Ltd. Rs.1,68,000

(iv) Liquidator of Glory Ltd., is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected Rs.1,10,000 from debtors and paid Rs.1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Gory Ltd. assuming the nominal value of each share in Glorious Ltd. is Rs.10.

(2) Prepare Balance Sheet of Glorious Ltd. as on 1st April, 202 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

Solution :

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

Purchase Consideration:	Galaxy Ltd. Rs.	Glory Ltd. Rs.
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	-	(3,30,000)
Trade payables	(4,20,000)	-
Net Assets taken over	19,60,000	7,20,000
To be satisfied by issue of shares of Glorious. Ltd. @ Rs.10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

		Particulars	Note No	Amount Rs.
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	26,80,000
	(b)	Reserves and surplus	2	30,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	3,00,000
3		Current liabilities		
	(b)	Trade payables		4,20,000
		Total		34,30,000
		ASSETS		
1		Non-current assets		
	(a)			
	i.	Property, plant and equipment	4	13,16,000
	ii.	Intangible assets	5	6,16,000
2		Current assets		
	(a)	Inventories	6	7,74,000
	(b)	Trade receivables		4,62,000
	(c)	Cash and cash equivalents	7	2,62,000
		Total		34,30,000

Notes to accounts :

		Rs.	Rs.
1	Share Capital		
	Equity share capital		
	2,68,000 shares of Rs. 10 each		26,80,000
	All the above shares are issued for consideration other than cash)		
2	Reserves and surplus		
	Securities Premium		
	(10% premium on debentures of Rs.3,00,000)		30,000
3	Long-term borrowings		
	Secured		
	8% 3,000 Debentures of Rs.100 each		3,00,000
4	Property Plant and Equipment		
	Freehold property		
	Galaxy Ltd.	5,88,000	
	Glory Ltd.	3,36,000	9,24,000
	Plant and Machinery		
	Galaxy Ltd.	2,52,000	
	Glory Ltd.	84,000	3,36,000
	Motor vehicles - Galaxy Ltd.		56,000
			13,16,000
5	Intangible assets		
	Goodwill		
	Galaxy Ltd.	4,48,000	
	Glory Ltd.	1,68,000	6,16,000
6	Inventories		
	Galaxy Ltd.	3,36,000	
	Glory Ltd.	4,38,000	7,74,000
7	Cash and cash equivalents		
	Galaxy Ltd.	2,38,000	
	Glory Ltd.(As per working note)	24,000	2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

	Rs.
Cash balance as at 31st March,2020	1,04,000
Add: Received from debtors	1,10,000
	2,14,000
Less: paid to creditors	(1,80,000)

		34,000
Less: Commission to liquidators		
On Debtors @ 5%	5,500	
On Creditors @ 2.5%	4,500	(10,000)
		24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is Rs. 100 each.
2. As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of Rs. 10 for discharge of debentures of Rs. 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Question 9 : Jan 2021 – Paper

List the conditions to fulfilled as per AS-14 (Revised) for an amalgamation to be in the nature of merger.

Solution :

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Question 10 : May 2021 – RTP

Mohan Ltd. gives you the following information as on 31st March, 2020:

	Rs.
Share capital:	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000

Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

Solution :

In the books of Mohan Ltd.

(i) Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000

To Preference share holders A/c (W.N.2)	5,400		
	5,60,400		**5,60,400**

(ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		**3,00,000**

***Alternatively, expenses may be routed through Realization account.**

In the books of Ravi Ltd.

(i) Bank Account

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		**1,09,600**

(ii) Balance Sheet as at 31st March, 2020

Particulars			**Note No.**	**Rs.**
I.	Equity and Liabilities			
	(1)	Shareholder's Funds		
		Share Capital	1	4,00,000
	(2)	Non-Current Liabilities		
		Long-term borrowings	2	2,00,000
	Total			**6,00,000**
II.	Assets			
	(1)	Non-current assets		
		(a) Property, plant and equipment		3,08,400
	(2)	Current assets		
		(a) Inventories		72,000
		(b) Trade receivables		1,10,000
		(c) Cash and cash equivalents		1,09,600
	Total			**6,00,000**

Notes to Accounts

		Rs.
1	**Share Capital**	
	Authorised share capital	
	40,000 equity shares of Rs. 10 each	4,00,000
	Issued and Subscribed	
	40,000 shares of Rs. 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. Calculation of Purchase consideration

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		**65,400**

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

Question 11 : July 2021 – Paper

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows :

Particulars	Notes	Black Limited	White Limited
		(Rs. in 000)	(Rs. in 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		**7,680**	**4,620**

Note No.	Particulars	Black Limited (Rs. in 000)	White Limited (Rs. in 000)
1.	Share Capital		
	Equity Shares of Rs.100 each	6,000	3,600
	Reserve and Surplus		
2.	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of Rs.2,40,000 after charging proportionate depreciation @ 10% p.a. on Property, Plant and Equipment, during April-June, 2020.

- Estimated profit of Black Limited during these 3 months was Rs.4,80,000 after charging proportionate depreciation @ 10% p.a. on Property, Plant and Equipment.
- Both the companies have declared and paid 10% dividend within this 3 months' period.
- Goodwill of White Limited is valued at Rs.2,40,000 and Property, Plant and Equipment are valued at Rs.1,20,000 above the depreciation book value on the date of takeover.
- Purchase consideration is to be satisfied by Black Limited by issuing shares at par.

Ignore Income tax.

You are required to :

(i) Compute no. of share to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020.

(iv) Give balance of Property, Plant and Equipment as on 1st July, 2020 after takeover.

Solution :

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.		Rs.	Rs.
Goodwill			2,40,000
Property, plant and equipment		24,00,000	
Less: Depreciation [24,00,000 × 10 % × 3/12]		(60,000)	
		23,40,000	
Add: Appreciation		1,20,000	24,60,000
Inventory			7,20,000
Trade receivables			10,80,000
Cash and Bank balances		4,20,000	
Add: Profit after depreciation	2,40,000		
Add: Depreciation (non-cash)	60,000	3,00,000	
Less: Dividend [36,00,000 × 10%]		(3,60,000)	3,60,000
			48,60,000
Less: Trade payables			(3,60,000)
Purchase Consideration			45,00,000
Number of shares to be issued by Black Ltd. @ ` 100 each			45,000 shares

(ii) Calculation of Net Current Assets as on 01.07.2020

	Rs.	Black Ltd. Rs.	Rs.	White Ltd. Rs.
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		18,00,000

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	Rs.
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

(iv) Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
		35,10,000
Property, plant and equipment of White Ltd.		
Taken over as on 31.03.2020	24,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		59,70,000

Question 12 : Nov 2021 – RTP

Heera Ltd. and Rita Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of Heera Ltd. and Rita Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in HR Ltd.

Heera Ltd. and Rita Ltd. make available the following information as on 31st March, 2021 (the date of amalgamation):

	Heera Ltd. Rs.	Rita Ltd. Rs.
Property, plant and Equipment	7,20,000	10,80,000
Inventories	3,60,000	6,60,000
Trade receivables	4,80,000	7,80,000
Cash at Bank	3,00,000	-
Share Capital	6,00,000	8,40,000
Reserves	10,20,000	6,00,000
Bank Overdraft	-	5,40,000
Trade payables	2,40,000	5,40,000

The consideration was to be based on the net assets of the companies as shown above but subject to an additional payment to Heera Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2021. The weights for this purpose for the years 2018-19, 2019-20 and 2020-21 were agreed as 1, 2 and 3 respectively.

The profit had been:

2018-19 Rs. 3,00,000; 2019-20 Rs. 5,25,000 and 2020-21 Rs. 6,30,000.

The shares of HR Ltd. were to be issued to Heera Ltd. and Rita Ltd.at a premium and in proportion to the agreed net assets value of these companies.
In order to raise working capital, HR Ltd. proceeded to issue 72,000 shares of Rs. 10 each at the same rate of premium as issued for discharging purchase consideration to Heera Ltd. and Rita Ltd.
You are required to calculate the number of shares issued to Heera Ltd. and Rita Ltd. and prepare necessary journal entries in the books of HR Ltd.

Solution :

Calculation of number of shares issued to Heera Ltd. and Rita Ltd.

Amount of Share Capital as per balance sheet	Rs.
Heera Ltd.	6,00,000
Rita Ltd.	8,40,000
	14,40,000

Share of Heera Ltd. = Rs. 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]
= Rs. 8,64,000 or 86,400 shares
Securities premium = Rs. 21,60,000 – Rs. 8,64,000 = Rs. 12,96,000
Premium per share = Rs. 12,96,000 / Rs. 86,400 = Rs. 15
Issued 86,400 shares @ Rs. 10 each at a premium of Rs. 15 per share
Share of Rita Ltd. = Rs. 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]
= Rs. 5,76,000 or 57,600 shares
Securities premium = Rs. 14,40,000 – Rs. 5,76,000 = Rs. 8,64,000
Premium per share = Rs. 8,64,000 / Rs. 57,600 = Rs. 15
Issued 57,600 shares @ Rs. 10 each at a premium of Rs. 15 per share

Journal Entries in the books of HR Ltd.

Particulars		Dr. Amounts (Rs.)	Cr. Amounts (Rs.)
Business purchase account	Dr.	36,00,000	
To Liquidator of Heera Ltd. account			21,60,000
To Liquidator of Rita Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of Heera Ltd. and Rita ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
PPE account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of Heera Ltd. taken over)			
PPE account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	

Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Rita Ltd. taken over)			
Liquidator of Heera Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs. 10)			8,64,000
To Securities premium (86,400 x Rs. 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Rita Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs. 10)			5,76,000
To Securities premium (57,600 x Rs. 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c	Dr.	18,00,000	
To Equity share capital account (72,000 x Rs.10)			7,20,000
To Securities premium (72,000 x Rs. 15)			10,80,000
(Equity share capital issued to raise working capital)			

Working Notes:

1. Calculation of goodwill of Heera Ltd.

Particulars	**Amount Rs.**	**Weight**	**Weighted amount Rs.**
2018-19	3,00,000	1	3,00,000
2019-20	5,25,000	2	10,50,000
2020-21	6,30,000	3	18,90,000
Total (a + b + c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight]			
[Rs. 32,40,000/6]			
Goodwill			5,40,000

2. Calculation of Net assets

Particulars	**Heera Ltd. Rs.**	**Rita Ltd. Rs.**
Assets		
Goodwill	5,40,000	
PPE	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000

Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000

Question 13 : May 2022 – Paper

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2022 are as under:

	A Ltd. (in	B Ltd. (in
Equity shares of Rs.10 each, fully paid up	30,00,000	24,00,000
Share Premium Account	4,00,000	—
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	—
10% Debentures	20,00,000	—
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	—
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	**43,80,000**

B Ltd. is to declare and pay Rs.1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is Rs.60 lakhs divided into 6 lakhs equity shares of Rs.10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is Rs.18 per share and of B Ltd. is 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of Rs.2,00,000 is to be treated as actual liability

(e) Liquidation expenses including Registered Valuer fees of A Ltd. Rs.50,000 and B Ltd. Rs.30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of Rs.10 each at a premium of Rs.10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

Solution :

Journal Entries in the books of Z Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & Machinery A/c	Dr.	20,00,000	
Long term advance to B Ltd. A/c	Dr.	2,20,000	
Inventories A/c	Dr.	10,40,000	
Trade Receivables A/c	Dr.	8,20,000	
Cash and Bank A/c	Dr.	3,00,000	
Goodwill A/c	Dr.	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr.	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr.	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr.	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr.	21,00,000	
Plant & Machinery A/c	Dr.	7,60,000	
Inventories A/c	Dr.	7,00,000	
Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000

*Capital Reserve A/c	Dr.	1,00,000	
To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

Note:

1. The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
2. *Alternatively, following set of entries may be given in place of the last entry given in the above solution:

		Rs.	Rs.
Goodwill A/c	Dr.	50,000	
To Cash & Bank A/c (Liquidation expenses of A Ltd.)			50,000
Capital Reserve A/c	Dr.	30,000	
To Cash and Bank A/c (Liquidation expenses of B Ltd.)			30,000
Capital Reserve A/c	Dr.	70,000	
To Goodwill A/c			70,000

Balance Sheet of Z Ltd. as at 31st March, 2022

Particulars			Note No.	(Rs.)
I.	**Equity and Liabilities**			
	(1)	**Shareholder's Funds**		
		(a) Share Capital	1	41,40,000
		(b) Reserves and Surplus	2	41,40,000
	(2)	**Non-Current Liabilities**		
		(a) Long-term borrowings	3	20,00,000
		(b) Long term provisions	4	1,00,000
	(3)	**Current Liabilities**		
		(a) Short-term borrowings[1]	5	12,00,000
		(b) Trade payables	6	4,40,000
		(c) Other liability		2,00,000
		Total		1,22,20,000
II.	**Assets**			
	(1)	**Non-current assets**		
		(a) i. Property, plant and equipment	7	76,60,000
		ii. Intangible assets		12,00,000
		(Goodwill 12,20,000-20,000)		
	(2)	**Current assets**		
		(a) Inventories	8	17,40,000
		(b) Trade receivables	9	13,40,000
		(c) Cash and cash equivalents	10	2,80,000
Total				1,22,20,000

Notes to Accounts

			(Rs.)	(Rs.)
1	Share Capital			
	Authorized Share Capital			
	6,00,000 Equity shares of Rs. 10 each			60,00,000
	Issued: 4,14,000 Equity shares of Rs. 10 each			41,40,000
	(all these shares were Issued for consideration other than cash)			
2	Reserves and surplus			
	Securities Premium Account			
	(4,14,000 shares × Rs. 10)			41,40,000
3	Long-term borrowings			
	12% Debentures			20,00,000
4	Long term Provisions			
	Retirement gratuity fund			1,00,000
5	Short-term borrowings			
	Unsecured loans			
	A Ltd.	6,00,000		
	B Ltd.	8,20,000	14,20,000	
	Less: Mutual		(2,20,000)	12,00,000
6	Trade payables			
	A Ltd.		1,00,000	
	B Ltd.		3,40,000	4,40,000
7	Property, plant & equipment			
	Land and Building			
	A Ltd.		28,00,000	
	B Ltd.		21,00,000	49,00,000
	Plant and Machinery			
	A Ltd.		20,00,000	
	B Ltd.		7,60,000	27,60,000
				76,60,000
8	Inventories			
	A Ltd.		10,40,000	
	B Ltd.		7,00,000	17,40,000
9	Trade receivables			
	A Ltd.		8,20,000	
	B Ltd.		5,20,000	13,40,000
10	Cash & cash equivalents			
	A Ltd.		3,00,000	
	B Ltd. [3,00,000-2,40,000(dividend)]		60,000	
			3,60,000	

	Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of Purchase Consideration

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	Rs. 18	Rs. 12
Purchase consideration	54,00,000	28,80,000
No. of shares to be issued of Rs. 20 each (including Rs. 10 premium)	2,70,000	1,44,000
Face value of shares at Rs. 10	27,00,000	14,40,000
Premium of shares at Rs. 10	27,00,000	14,40,000

Question 14 : Nov 2022 – RTP

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars		Note No.	Truth Ltd. (Rs.)	Myth Ltd. (Rs.)
(1)	Equity and Liabilities			
	1. Shareholders' Funds			
	(a) Share Capital	1	10,00,000	4,00,000
	(b) Reserves and Surplus	2	11,35,000	4,13,000
	2. Non -Current Liabilities	3	-	1,50,000
	3. Current Liabilities	4	1,40,000	1,82,000
Total			22,75,000	11,45,000
(2)	Assets			
	1. Non -Current Assets			
	(a) Property, Plant & Equipment		15,75,000	6,80,000
	(b) Investments		1,87,500	1,00,000
	2. Current Assets	5	5,12,500	3,65,000
Total			22,75,000	11,45,000

Note No.	Particulars	Truth Limited (Rs.)	Myth Limited (Rs.)
1	Share Capital		
	Equity shares of Rs. 10 each	10,00,000	4,00,000
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non- Current Liabilities		
	14% Debentures	---	1,50,000

4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	1,82,000
5	Current Assets		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (Rs.)	**Myth Limited (Rs.)**
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

Solution :

Balance Sheet of Truth Ltd. (after amalgamated with Myth Ltd.) as at 1.4.2021

Particulars			**Note No.**	**(Rs.)**
I.	Equity and liabilities			
	(1)	Shareholder's funds		
		(a) Share capital	1	13,13,750
		(b) Reserves and surplus	2	20,76,250
	(2)	Non-current liabilities		
		12% Debentures	3	1,75,000
	(3)	Current liabilities		
		(a) Trade payables	4	2,32,000
		(b) Other current liabilities	5	90,000
Total				38,87,000
II.	Assets			
	(1)	Non-current assets		
		(a) Property, plant and equipment	6	22,55,000
		(b) Intangible assets (Goodwill) [WN 1]		4,67,000
		(c) Non-current investments	7	2,87,500

(2)	Current assets		
	(a) Inventories (2,15,000 + 85,000)		3,00,000
	(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
	(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total			38,87,000

Notes to Accounts

			(Rs.)	(Rs.)
1	Share Capital			
	1,31,375 Equity Shares of Rs. 10 each [1,00,000 + 31,375]			13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)			
2	Reserves and surplus			
	General Reserve		5,05,000	
	Profit and Loss A/c		4,45,000	
	Securities Premium [31,375 x 30]		9,41,250	
	Export profit reserve	1,85,000		
	Add: Balance of Myth Ltd.	25,000	2,10,000	
	Amalgamation Adjustment Reserve		(25,000)	20,76,250
3	Long Term Borrowings			
	12% Debentures issued to Myth Ltd.			1,75,000
4	Trade payables			
	Trade payables		90,000	
	Add: Taken over		1,42,000	2,32,000
5	Other Current Liabilities			
	Truth Ltd.		50,000	
	Myth Ltd.		40,000	90,000
6	Property, Plant & Equipment			
	Truth Ltd.		15,75,000	
	Myth Ltd.		6,80,000	22,55,000
7	Investment			
	Truth Ltd.		1,87,500	
	Myth Ltd.		1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		Myth Ltd.	
	Rs.	Rs.	Rs.	Rs.
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)

		21,25,000		10,65,000
Less: Liabilities:				
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		19,85,000		7,33,000

(ii) Average Profit before Tax

	Truth Ltd.		Myth Ltd.	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
		6,93,000		2,16,000
(iii) Goodwill				
Capitalised value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		18,65,000		4,67,000

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		Rs.		Rs.
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	-1,40,000	40,000	-3,57,000
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		4000000 / 100000 = Rs. 40		12,55,000 / 40000 = Rs. 31.375

**1,50,000 $\times \frac{14\%}{12\%}$ = 1,75,000

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	Rs. 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	Rs. 12,55,000
Intrinsic Value of Truth Ltd. [d]	Rs. 40 per share
No. of shares to be issued [c / d]	31,375 shares

Question 15 : May 2024 – Paper

Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you :

Particulars	Intelligent Limited (Rs.)	Diligent Limited (Rs.)
Equity Shares Capital of Rs.100 each	12,00,000	10,00,000
8% Preference shares of Rs.100 each	3,00,000	2,00,000
Trade Payables	12,00,000	4,00,000
Retirement Gratuity Fund (long Term)	3,00,000	2,00,000
Profit and Loss Account		
Opening balance	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Land and Buildings	10,00,000	8,00,000
Plant and Machinery	10,00,000	6,00,000
Inventories	7,00,000	4,00,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

On 1st April, 2024, both the companies agreed to amalgamate and form a new company 'Genius Limited' with an authorized capital of Rs.40,00,000 divided into 30,000 equity shares of Rs.100 each and 10,000 8% preference shares of Rs.100 each.

The amalgamation has to be carried out on the basis of following agreement :

(1) Assets of both the companies were to revalued as follows :

Particulars	Intelligent Limited (Rs.)	Diligent Limited (Rs.)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes Rs.1,00,000 due to Diligent Limited and the Trade receivables of Diligent Limited shows Rs.1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner :

(i) Issue 22,000 Equity Shares of Rs.100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) Preference shareholders of both companies are issued equivalent number of 10% Preference Shares of Rs.100 each of Genius Limited at a price of Rs.125 per share.

(iii) 12% debentures of Rs.100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to:

(a) Compute the amount of shares and Debentures to be issue to Intelligent Limited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.

Solution :

Computation of shares and debentures to be issued

		Intelligent Ltd.	Diligent Ltd.
(i) Equity shares	22,000 x 7/11 = 14,000 (W.N.1)	14,00,000	
(ii) Preference shares	22,000 x 4/11 =8,000 (W.N.1)		8,00,000
	$\left(\frac{3,00,000}{100}\times 125\right)$	3,75,000	
	$\left(\frac{2,00,000}{100}\times 125\right)$		2,50,000
(iii) Debentures	Refer (W.N.3)	17,50,000	11,25,000
Total Purchase Consideration (i + ii + iii)		35,25,000	21,75,000

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	Rs.
I..	**Equity and Liabilities**		
	(1) Shareholder's fund		
	(a) Share Capital	1	27,00,000
	(b) Reserves & Surplus	2	1,25,000
	(2) Non-current Liabilities		
	(a) Long term borrowings	3	28,75,000
	(b) Other non-current liabilities	4	5,00,000
	(3) Current Liabilities		
	(a) Trade Payables		15,00,000
	(12,00,000 + 4,00,000 – 1,00,000)		
	Total		77,00,000
II.	**Assets**		
	(1) Non-current Assets		
	(a) Property, Plant & Equipment	5	32,50,000
	(b) Intangible Assets	6	22,50,000
	(2) Current Assets		

	(a) Inventories (6,00,000 + 3,00,000)		9,00,000
	(b) Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
	(c) Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr.No.	Particular	Rs.
1	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of Rs. 100 each	30,00,000
	b) Preference Share Capital	
	10% 10,000 Preference Shares Rs. 100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	22,000 Equity Shares of Rs.100 each	22,00,000
	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of Rs.100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	
		27,00,000
2	Reserves & Surplus	
	Securities Premium	1,25,000
3	Long term borrowings	
	12% Debentures of Rs. 100 each	28,75,000
4	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
Opening balance P&L	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Total	7,00,000	4,00,000

The total profits- Rs. 7,00,000 + Rs. 4,00,000 = Rs. 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

2. Calculation of Net assets as on 31.3.2024

Particulars	Intelligent Ltd.	Diligent Ltd
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	19,50,000
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	15,00,000	6,00,000
Net Assets (a – b)	21,00,000	13,50,000

3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd. Rs.	Diligent Ltd Rs.
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued	17,500	
$\left[2,10,000 \times \frac{100}{12}\right]$ = 17,50,000 of Rs.100 each		
$\left[1,35,000 \times \frac{100}{12}\right]$ = 11,25,000 of Rs.100 each		11,250

4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	21,00,000	13,50,000	
(iii)	Goodwill	14,25,000	8,25,000	22,50,000

Alternatively:

4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets*	22,00,000	12,50,000	
(iii)	Goodwill	13,25,000	9,25,000	22,50,000

* Calculation of Net assets taken over

Particulars	Intelligent Ltd.	Diligent Ltd
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	2,00,000*
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	18,50,000
Liabilities		
Trade Payables	11,00,000**	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	14,00,000	6,00,000
Net Assets (a – b)	22,00,000	12,50,000

*Rs. 3,00,000 - Rs. 1,00,000= Rs. 2,00,000

**Rs. 12,00,000 - Rs. 1,00,000 = Rs. 11,00,000

Question 16 : Sept 2024 – Paper

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

		Particulars	Notes	Nice Ltd. (Rs.in '000)	Well Ltd. (Rs.in '000)
		Equity and Liabilities			
1		**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. (Rs.in '000)	Well Ltd. (Rs.in '000)
1	**Share Capital**		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares ofRs.100 each	31,500	12,500

	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of Rs.100 each	9,500	
	10% Preference Shares ofRs.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 Rs.100 each	11,200	
	10% Debentures ofRs.100 each		900
	Loan from Banks	9,300	4,525
	Total	**20,500**	**5,425**

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (Rs.in '000)	**Well Ltd. (Rs.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 Rs.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 Rs.270 thousand of Well Ltd.
- Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. Rs.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 :

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

Solution :

Journal Entries in the Books of Nice Ltd.

		Dr. Rs. in '000	Cr. Rs. 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 Rs. 16,380)	Dr.	19,656	
Inventory (110% of Rs. 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:

		Rs.	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	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	Rs. 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

			Rs.in '000
1	**Share Capital** **Equity share capital** **Issued, subscribed and paid up** 3,90,000 Equity shares of Rs. 100 each (out of above 75,000 shares are issued for consideration other than cash) Preference Shares Issued, subscribed and paid up 1,11,200 9% Preference Shares of Rs. 100 each (9,500 + 1,620)		39,000

	(out of above 16,200 shares are issued for consideration other than cash)		11,120
			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

Question 17 : Jan 2025 – RTP

Astha Ltd. is absorbed by Nistha Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding Rs. 10,000 (actual cost Rs. 9,000); the payment of the 9% debentures of Rs. 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value and the payment of Rs.15 per share in cash and allotment of three 11% preference shares of Rs. 10 each and four equity shares of Rs.10 each at a premium of 20% fully paid for every five shares in Astha Ltd.

The number of shares of the vendor company are 1,50,000 of Rs. 10 each fully paid. Calculate purchase consideration as per AS 14.

Solution :

As per AS 14 'Accounting for Amalgamations', the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

	Rs.
Cash payment Rs.15 x 1,50,000	22,50,000
11% Preference Shares of Rs. 10 each [(1,50,000 x 3/5) x Rs. 10]	9,00,000
Equity shares of Rs. 10 each @ 20% premium [(1,50,000 x 4/5) x Rs. 12]	14,40,000
Total Purchase consideration	45,90,000

Question 18 : Jan 2025 – Paper

Following are the summarized Balance Sheet of Light Limited and Bright Limited as at 31st March, 2024 :

Particulars	Notes	Light Limited (Rs. in Lakhs)	Bright Limited (Rs. in Lakhs)
Equity and Liabilities			
Shareholder's Funds			
(a) Share Capital	1	50.00	40.00
(b) Reserves and Surplus	2	27.00	24.00
Non-Current Liabilities			
Long Term Provisions		1.50	-
Current Liabilities			
Trade Payables		3.40	2.00
Total		**81.90**	**66.00**
Assets			
Non-Current Assets			
Property, Plant and Equipment	3	68.70	50.25
Current Assets			
(a) Inventories		5.75	7.10
(b) Trade Receivables		4.30	5.80
(c) Cash and Cash equivalents		3.15	2.85
Total		**81.90**	**66.00**

Notes to Accounts :

Particulars	Light Limited (Rs. in Lakhs)	Bright Limited (Rs. in Lakhs)
1. **Share Capital**		
50,000 Equity Shares of Rs.100 each	50.00	40.00
2. **Reserves and Surplus**		
Statutory Reserve	2.00	-
General Reserve	18.00	15.00
Securities Premium	-	5.00
Profit and loss	7.00	4.00
	27.00	**24.00**

3.	**Property, Plant and Equipment**		
	Land and Building	58.00	44.00
	Plant and machinery	7.50	4.50
	Other Assets	3.20	1.75
		68.70	**50.25**

Other Information :

(a) A Company Rainbow Limited formed to acquire the Assets and Liabilities of both the companies. Assets were acquired at book values except Land and Building of Light Limited, which is revalued at Rs.62 Lakhs

(b) Other Assets of Bright Limited are obsolete and are scrapped and sold for Rs.50,000 by Bright Limited itself before acquisition of its assets and liabilities by Rainbow Limited

(c) Light Limited and Bright Limited will be issued 80,000 and 64,000 equity shares of Rs.100 each respectively of new company Rainbow Limited in lieu of purchase consideration due to them.

You are required to Prepare :

(a) Realisation Account and Equity Shareholders account in the books of Light Limited and Bright Limited;

(b) Opening Balance Sheet of Rainbow Limited as at 31st March, 2024.

Solution :

Adjustment in bank balance and profit & loss account before amalgamation

Other assets of Bright limited

	Rs. In lakhs
Book value	1.75
Less: Sale proceeds	(0.50)
Loss on sale of other assets (debited to Profit & Loss A/c)	1.25

The new balance of Bank = 2.85 +0.5= 3.35 (Rs. In lakhs)

The new balance of Profit & Loss A/c = 4-1.25= 2.75 (Rs. In lakhs)

(a) (i) Realisation Account

	Light Ltd. (Rs. In lakhs)	**Bright Ltd. (Rs. In lakhs)**		**Light Ltd. (Rs. In lakhs)**	**Bright Ltd. (Rs. In lakhs)**
To Sundry Assets, transfer :			By Long term provision	1.5	-
To Land & Building,	58.00	44.00	By Trade payables	3.40	2.00
To Plant & machinery	7.50	4.50	By Rainbow Ltd. - purchase	80.00	64.00
To Other assets	3.20	-			
To Inventories	5.75	7.10			
To Trade receivable	4.30	5.80			
To Cash & Bank Balance	3.15	3.35			
To Equity Shareholders - profit	3.00	1.25			
	84.90	**66.00**		**84.90**	**66.00**

(ii) Shareholders Account

	Light Ltd. (Rs. In lakhs)	Bright Ltd. (Rs. In lakhs)		Light Ltd. (Rs. In lakhs)	Bright Ltd. (Rs. In lakhs)
To Shares in Rainbow Ltd.	80.00	64.00	By Share Capital A/c - transfer	50.00	40.00
			By Statutory reserve	2.00	-
			By General Reserve	18.00	15.00
			By Securities premium	-	5.00
			By Profit & Loss A/c	7.00	2.75
			By Realisation A/c	3.00	1.25
	80.00	**64.00**		**80.00**	**64.00**

(b) Balance Sheet of Super Rainbow Ltd.

		Particulars	Notes	(Rs. In lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	144.00
	B	Reserves and Surplus	2	1.00
2		Non-current liabilities		
	A	Long-term provisions		1.50
3		Current liabilities		
	A	Trade Payables		5.40
		Total		151.90
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	121.20
	B	Intangible assets	4	1.25
2		Current assets		
		Inventories		12.85
		Trade receivables		10.10
		Cash and cash equivalents		6.50
		Total		151.90

(c) Notes to Accounts

		(Rs. In lakhs)
1	Share Capital	
	Equity share capital	
	Issued, subscribed and paid up	
	1,44,000 Equity shares of Rs. 100 each	144.00
	(all shares are issued for consideration other than cash)	
2	Reserves and Surplus	

	Statutory Reserves	2.00
	Amalgamation Adjustment Reserves	(2.00)
	Capital Reserves	1.00
		1.00
3	Property, Plant and Equipment	
	Land and Buildings	106.00
	Plant and Machinery	12.00
	Other Assets	3.20
		121.20
4	Intangible assets	
	Goodwill	1.25

Working notes:

1. Calculation of purchase consideration

	Light ltd. (Rs. In lakhs)	Bright Ltd. (Rs. In lakhs)
80,000 Equity Shares of Rs. 100	80	
64,000 Equity Shares of Rs. 100		64

2. Calculation of Net assets taken over

			(Rs. In lakhs)
Particulars		**Light Ltd.**	**Bright Ltd.**
Assets taken over:			
Land and Buildings		62.00	44.00
Plant and Machinery		7.50	4.50
Other Assets		3.20	-
Inventory		5.75	7.10
Trade Receivable		4.30	5.80
Cash at Bank (2.85 + 0.50)		3.15	3.35
	(i)	85.90	64.75
Liabilities taken over:			
Long term provisions		1.50	-
Trade payable		3.40	2.00
	(ii)	4.90	2.00
Net assets taken over	(i) - (ii)	81.00	62.75

3. Calculation of Goodwill/Capital Reserve

		(Rs. In lakhs)
Particulars	**Light Ltd.**	**Bright Ltd.**
Net Assets takeover	81.00	62.75
Less: Purchase Consideration	(80.00)	(64.00)
Goodwill/ (Capital Reserve)	(1.00)	1.25

Question 19 : May 2025 – RTP

The Summarized Balance Sheets of Gyan Ltd. And Kiran Ltd. as on 31st March 2024 are given below:

	Gyan Ltd. (Rs. in lakhs)	Kiran Ltd. (Rs. in lakhs)
Liabilities		
Share capital		
Equity share capital of Rs.10 each fully paid-up	650	600
10% Preference shares of Rs. 100 each fully paid-up	150	200
Reserves and Surplus		
General Reserve		360
Profit and Loss Account	(260)	
Non-Current Liabilities		
12% Debentures	75	100
Loans from Bank	40	-
Current Liabilities		
Bank overdraft	15	-
Trade payables	95	105
Dividend payable	-	60
	765	1,425
Assets		
Non-Current Assets	700	900
PPE	-	250
Investments		
Current Assets		
Trade receivables	65	135
Cash at bank	-	140
	765	1,425

Gyan Ltd. has acquired the business of Kiran Ltd. as on 31 March 2024 as per following scheme of merger:

(1) Banks agreed to waive-off 50% loan of Gyan Ltd.

(2) Gyan Ltd. will reduce its shares to Rs. 2 per share and then consolidate 5 such shares into one share of Rs. 10 (new share).

(3) Gyan Ltd. will issue 2 equity shares (new) for 3 equity shares of Kiran Ltd. The new shares are to be issued @ Rs. 20 each having a face value of Rs. 10 per share.

(4) Preference shareholders of Kiran Ltd. will be paid off by issuing equivalent number of 10% Preference shares of Gyan Ltd. of Rs. 100 each at a price of Rs. 105 per share.

(5) Dividend of Kiran Ltd. will be paid after merger to the shareholders of Kiran Ltd.

(6) Trade payables of Gyan Ltd. include Rs. 50 lakhs payable to Kiran Ltd.

Pass necessary Journal entries in the books of Gyan Ltd. and prepare Balance Sheet after merger.

Solution :

Journal Entries in the books of Gyan Ltd.

Date			(Rs. in lakhs)	
2024			Dr.	Cr.
31-Mar	Loan from bank A/c (40 x 50%)	Dr.	20	

	To Reconstruction A/c			20
	(Being loan from bank waived off to the extent of 50%)			
	Equity share capital A/c (Rs. 10)	Dr.	650	
	To Equity share capital A/c (Rs. 2) $\left(\frac{650}{10}\times 2\right)$			130
	To Reconstruction A/c (650 –130)			520
	(Being Equity share of Rs. 10 each reduced to Rs. 2 each)			
	Equity share capital A/c (Rs. 2)	Dr.	130	
	To Equity share capital A/c (Rs. 10 each)			130
	(Being 5 Equity shares of Rs. 2 each consolidated to one share of Rs. 10 each)			
	Reconstruction A/c (20 + 520)	Dr.	540	
	To Profit and loss A/c (loss)			260
	To Capital reserve A/c			280
	(Being debit balance of P/L A/c set off against reconstruction account and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	1010	
	To Liquidator of Kiran Ltd.			1010
	(Being purchase of business of Kiran Ltd.)			
	PPE A/c	Dr.	900	
	Investment A/c	Dr.	250	
	Trade receivables A/c	Dr.	135	
	Cash at bank A/c	Dr.	140	
	To Trade payables A/c			105
	To Dividend payable A/c			60
	To 12% Debenture A/c			100
	To Business purchase A/c			1010
	To General Reserves A/c			150
	(Being assets, liabilities and reserves taken over under pooling of interest method)			
	Liquidator of Kiran Ltd. A/c	Dr.	1010	
	To Equity share capital A/c			400
	To 10% Preference share capital			200
	To Securities Premium [(40 x 10) + (2 x 5)]			410
	(Being payment made to liquidators of Kiran Ltd. by allotment of 40 lakh @ Rs. 10 new equity shares and 2 lakh preference shares @ Rs. 105)			
	Trade payables A/c	Dr.	50	
	To Trade receivables A/c			50
	(Being mutual owing cancelled)			
	Dividend Payable A/c	Dr.	60	

	To Bank A/c (Being dividend paid off)		60

Balance Sheet of Gyan Ltd. (and reduced) after merger as on 31.3.2024

Particulars		Note No.	(Rs. in lakhs)
I	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital	1	880
	(b) Reserves and Surplus	2	840
	(2) Non-Current Liabilities		
	Long-term borrowings	3	195
	(3) Current Liabilities		
	(a) Trade Payables	4	150
	(b) Borrowings	5	15
	Total		2,080
II	Assets		
	(1) Non-current assets		
	(a) Property, plant and equipment	6	1,600
	(b) Investment	7	250
	(2) Current assets		
	(a) Trade receivables	8	150
	(b) Cash and cash equivalents	9	80
	Total		2,080

Notes to Accounts

		(Rs. in lakhs)	(Rs. in lakhs)
1	Share Capital		
	50 lakhs (13 lakh + 40 lakh) Equity shares of 10 each fully paid (Out of the above, 40 lakh shares have been issued for consideration other than cash)	530	
	3.5 lakhs (1.5 + 2) 10% Preference share of Rs. 100 each fully paid (Out of which 2 lakhs shares have been issued for consideration other than cash)	350	880
2	Reserves and Surplus		
	Capital reserve	280	
	Securities Premium	410	
	General reserve	150	840
3	Non-current Borrowings		
	12% Debentures (75 + 100)	175	
	Loan from bank (40 - 20)	20	195
4	Trade Payables (95+105-50)		150
5	Current Borrowings		

	Bank overdraft		15
6	Property, plant and equipment (700 + 900)		1600
7	Investment		250
8	Trade Receivables (65 + 135 – 50)		150
9	Cash and cash equivalents		
	Cash at Bank (140 - 60)		80

Working Note:

Calculation of purchase consideration

	Shares
2 shares of Gyan Ltd. will be issued in exchange of every 3 shares of Kiran Ltd. (i.e. 40,00,000 equity shares of Gyan Ltd will be issued against 60,00,000 equity shares of Kiran Ltd.) (60 lakhs x 2/3)	40,00,000
	Rs. in lakhs
Payment to equity shareholders (40 lakhs x Rs. 20)	800
Payment to preference shareholders (2 lakhs x Rs. 105)	210
Total Purchase consideration	1,010

Question 20 : May 2025 – Paper

The following is summarized Balance Sheet of Pickles Ltd. as on 31/03/2025.

		Particulars	**Notes**	**Rs.**
		Equity and Liabilities		
1		**Shareholders' Funds**		
	A	Share Capital	1	11,00,000
	B	Reserves and Surplus	2	2,10,000
2		**Non-Current liabilities**		
	A	Long term borrowings	3	1,00,000
	B	Long term Provisions	4	60,000
3		**Current liabilities**		
	A	Trade Payables		1,75,000
	B	Other Current Liabilities		65,000
		Total		**17,10,000**
		Assets		
1		**Non-current Assets**		
	A	Property, Plant and Equipment	5	7,50,000
	B	Intangible assets	6	75,000
2		**Current Assets**		
	A	Inventories		5,25,000
	B	Trade receivables		3,00,000
	C	Cash and Cash equivalents		60,000
		Total		**17,10,000**

Notes to Accounts

			Rs.
1	**Share Capital**		
	6,000 Equity Shares of Rs. 100 each		6,00,000
	5,000 6% Preference Shares of Rs. 100 each		5,00,000
			11,00,000
2	**Reserves and Surplus**		
	General reserve		1,00,000
	Profit and Loss account		1,10,000
			2,10,000
3	**Long term borrowings**		
	8% Debentures		1,00,000
4	**Long term Provisions**		
	Retirement Gratuity Fund		60,000
5	**Property, Plant and Equipment**		
	Land and Building		3,50,000
	Plant and Machinery		3,00,000
	Furniture and Fittings		1,00,000
			7,50,000
6	**Intangible Assets**		
	Patents		75,000

On 31/03/2025, Foods Ltd. acquires the business of Pickles Ltd. on the following terms:

- Foods Ltd. to take over all assets (except cash) and liabilities at their book values.
- Part of the Furniture and Fixtures is disposed off by Pickles Ltd. for Rs. 55,000 at cost.
- The retirement of employees was due on 31/03/2025. A portion of Rs. 35,000 from Retirement Gratuity Fund was earmarked towards the payment due to them.
- Foods Ltd. decided to pay for each Preference share in Pickles Ltd., Rs. 27 in cash and one 8% Preference share of Rs. 100 in Foods Ltd.
- For each Equity share in Pickles Ltd., it was decided to pay Rs. 30 in cash and one Equity share of Foods Ltd. for Rs. 145. (Face value of each share of Foods Ltd. is Rs. 100)
- Liquidation expenses of Rs. 22,500 paid by Pickles Ltd. were subsequently reimbursed by Foods Ltd.
- The fixed assets of Pickles Ltd were not revalued for the purpose of amalgamation.

You are required to pass the necessary Journal entries and also prepare Realisation Account and cash account in the books of Pickles Ltd.

Solution :

Journal Entries in the Books of Pickles Ltd.

		Debit (Rs.)	Credit (Rs.)
Realisation A/c	Dr.	16,50,000	
To Land & Building A/c			3,50,000

To Plant & Machinery A/c			3,00,000
To Furniture & Fixtures A/c			1,00,000
To Patent A/c			75,000
To Inventories A/c			5,25,000
To Trade Receivables A/c			3,00,000
(Being assets transferred to Realisation A/c)			
8% Debentures A/c	Dr.	1,00,000	
Trade Payables A/c	Dr.	1,75,000	
Other Current Liabilities A/c	Dr.	65,000	
Retirement Gratuity Fund A/c	Dr.	35,000	
To Realisation A/c			3,75,000
(Being liabilities transferred to Realisation A/c)			
Cash A/c	Dr.	55,000	
To Realisation A/c			55,000
(Being part of furniture sold)			
Foods Ltd. A/c	Dr.	16,85,000	
To Realisation A/c			16,85,000
(Being purchase consideration receivable)			
Cash A/c	Dr.	3,15,000	
Equity Shares in Foods Ltd A/c	Dr.	8,70,000	
Preference Shares in Foods Ltd A/c	Dr.	5,00,000	
To Foods Ltd. A/c			16,85,000
(Being consideration received)			
6% Preference Share Capital A/c	Dr.	5,00,000	
Realization A/c	Dr.	1,35,000	
To Preference Shareholders A/c			6,35,000
(Being amount due to preference shareholders for capital and extra amount payable under the scheme of acquisition)			
Preference Shareholders A/c	Dr.	6,35,000	
To Cash A/c			1,35,000
To Pref. Shares in Foods Ltd A/c			5,00,000
(Being payment made to preference shareholders)			
Equity Share Capital A/c	Dr.	6,00,000	
General Reserve A/c	Dr.	1,00,000	
Profit & Loss A/c	Dr.	1,10,000	
Retirement Gratuity fund	Dr.	25,000	
To Equity Shareholders A/c			8,35,000
(Being various accounts representing capital, reserve, profit and loss account and others transferred to equity shareholder account)			
Equity Shareholders A/c	Dr.	11,65,000	
To Cash A/c			2,95,000
To Equity Shares in Foods Ltd A/c			8,70,000

(Being payment made to equity shareholders)			
Foods Ltd A/c	Dr.	22,500	
To Cash A/c			22,500
(Being liquidation expenses paid)			
Cash A/c	Dr.	22,500	
To Foods Ltd A/c			22,500
(Being reimbursement by Foods Ltd.)			
Realisation A/c	Dr.	3,30,000	
To Equity Shareholders A/c			3,30,000
(Being Profit on realization is transferred to equity shareholders)			

Realisation Account
(Journal Entries)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Land & Building	3,50,000	By Debentures	1,00,000
To Plant & Machinery	3,00,000	By Trade Payables	1,75,000
To Furniture & Fixtures	1,00,000	By Other Current Liabilities	65,000
To Patent	75,000	By Ret. Gratuity Fund	35,000
To Inventories	5,25,000	By Cash (Sale of Furniture)	55,000
To Trade Receivables	3,00,000	By Foods Ltd (PC)	16,85,000
To Preference shareholder	1,35,000		
To Equity Shareholder A/c			
(Profit on realization)	3, 30,000		
	21,15,000		**21,15,000**

Cash Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	60,000	By Foods Ltd. A/c	22,500
To Realisation A/c		(Expenses)	
(Furniture Sale)	55,000	By Pref. Shareholders A/c	1,35,000
To Foods Ltd. A/c		By Equity Shareholders A/c	2,95,000
(Reimbursement)	22,500		
To Foods Ltd (Cash Part of PC)			
(1,35,000 + 1,80,000)	3,15,000		
	4,52,500		**4,52,500**

Working Notes:
Purchase Consideration

		Rs.	Rs.	Form
(i)	Preference Shares: Rs. 27 per share	1,35,000		Cash

	Preference shares	5,00,000	6,35,000	Preference shares
(ii)	Equity shares: Rs. 30 per share	1,80,000		Cash
	6,000 equity shares in Food Ltd. @ Rs. 145	8,70,000	10,50,000	Equity shares
			16,85,000	

Question 21 : Sept 2025 – RTP

X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10,00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.
How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interest method' of amalgamation.

Solution :

In the books of Y Co. Ltd.
Journal Entries

		Rs.	Rs.
Business Purchase A/c	Dr.	55,00,000	
To Liquidator of X Co. Ltd.			55,00,000
(Being business of X Co. Ltd. purchased)			
Assets A/c (Bal. Fig.)	Dr.	65,00,000	
To Business Purchase A/c			55,00,000
To General Reserve A/c* (10,00,000 – 5,00,000)			5,00,000
To Profit and Loss A/c			5,00,000
(Being assets and reserves and surplus taken over)			
Liquidator of X Co. Ltd.	Dr.	55,00,000	
To Equity share capital A/c			55,00,000
(Being purchase consideration discharged through equity shares of Y Co. Ltd.)			

Working note:	
*Purchase consideration (11/10*50 lakh)	**Rs. 5,00,000**
Less: Share capital of X Co. Ltd.	Rs. 50,00,000
To be adjusted from general reserve	Rs. 5,00,000

Question 22 : Sept 2025 – Paper

The following are the summarized Balance Sheet of Blue Limited and Yellow Limited as at 31st March 2025 :

Particulars	**Blue Limited (Rs.in Lakhs)**	**Yellow Limited (Rs.in Lakhs)**
Equity and Liabilities		
Equity Shares of Rs.100 each	40.000	28.000
10% Debentures of Rs.100 each	15.000	
8% Debentures of Rs.100 each	—	8.000

General Reserves	1.500	0.670
Retirement Gratuity Fund (Long term)	3.450	1.300
Trade Payables	7.400	4.250
Other current liabilities	1.240	0.880
Short-term provisions	0.710	0.320
Total	**69.300**	**43.420**
Assets		
Goodwill	8.750	1.795
Property, Plant and Equipment	35.650	31.260
Inventories	8.890	4.800
Trade Receivables	13.535	4.650
Cash in hand	0.485	0.315
Balances with banks	1.990	0.600
Total	**69.300**	**43.420**

On 31st March 2025, Blue Limited absorbs the business of Yellow Limited on the following terms :

(i) 8% Debenture holders of Yellow Limited are to be paid at 10% discount by issue of 10% Debentures at par in Blue Limited.

(ii) There is an unrecorded current asset of Rs.1,16,000 in the books of Yellow Limited, which is taken over by Blue Limited.

(iii) Trade payables of Yellow Limited included Rs.1,50,000 payable to Blue Limited.

(iv) Inventory of Yellow Limited is taken over by Blue Limited at 10% more than its book value.

(v) Goodwill of Yellow Limited on absorption is to be computed based on two times of simple average profits of preceding three financial years (2021-2022 : Rs.4,50,000; 2022-2023 : Rs.3,90,000; and 2023-2024 : Rs.2,35,000). In the year 2022-2023, there was an embezzlement of cash by an employee amounting to Rs.50,000, which has already been adjusted in the profit for the year 2022-2023.

(vi) Property, Plant and Equipment of Yellow Limited are taken over by Blue Limited at Rs.36,44,500.

(vii) Remaining Assets and Liabilities of Yellow Limited are taken over by Blue Limited at their book value.

(viii) Equity Shareholders of Yellow Limited will be issued necessary equity shares in Blue Limited at 5% premium.

You are required to :

(i) Calculate the Purchase consideration.

(ii) Prepare Balance Sheet of Blue Limited after absorption as at 31st March 2025.

Solution :

(i) Calculation of Purchase Consideration

	Rs. in Lakhs
Goodwill	7.500
PPE	36.445
Inventory	5.280
Trade receivables	4.650
Cash in hand	0.315

Cash at Bank		0.600
Unrecorded assets		1.160
	(i)	55.950
Less: Liabilities:		
10% debentures		7.200
Retirement Gratuity Fund		1.300
Trade payables		4.250
Other current liabilities		0.880
Short term provisions		0.320
	(ii)	13.950
Net Assets/ Purchase Consideration		42.000
To be satisfied as under:		
Equity Shareholders of Yellow Ltd. to be satisfied by issue of 40,000 (42 lakhs/105) Equity Shares of Blue Ltd. at 5% Premium (40,000 x 105)		

Balance Sheet of Blue Ltd (after absorption)
as on 31/03/2025

	Particulars	Notes	Rs. in lakhs
	Equity & Liabilities		
1	Shareholders' Fund		
a	Share Capital	1	80.000
b	Reserves & Surplus	2	3.500
2	Non -Current Liabilities		
a	Long-term Borrowings	3	22.200
b	Long-term Provisions	4	4.750
3	Current Liabilities		
a	Trade Payables	5	10.150
b	Other current liability	6	2.120
c	Short term provisions	7	1.030
	Total		123.750
	Assets		
1	Non-current assets		
a	Property, Plant & Equipment	8	72.095
b	Intangible assets	9	16.250
2	Current assets		
a	Inventories	10	14.170
b	Trade receivables	11	16.685
c	Cash and cash equivalents	12	3.390

d	Other current assets	13	1.160
	Total		123.750

Notes to Accounts

	Particulars		Rs. in lakhs
1	Share Capital		
	Authorised share capital		
	Issued, Subscribed & Paid up		
	80,000 Equity Shares of Rs.100 each		80.000
	(out of the above 40,000 shares have been issued for consideration other than cash)		
		Total	80.000
2	Reserves & Surplus		
	Securities Premium		2.000
	General Reserve		1.500
		Total	3.500
3	Long Term Borrowings		
	10% Debentures of Rs. 100	(15.000 + 7.200)	22.200
4	Long Term Provisions		
	Retirement Gratuity Fund	(3.450 +1.300)	4.750
5	Trade Payables		
		(7.400 + 4.250 -1.500)	10.150
6	Other Current Liabilities		
		(1.240 + 0.880)	2.120
7	Short term provisions		
		(0.710 + 0.320)	1.030
8	Property, Plant and Equipment		
	PPE	(35.650+36.445)	72.095
9	Intangible Assets		
	Goodwill	(8.750+7.500)	16.250
10	Inventories		
		(8.890 + 5.280)	14.170
11	Trade Receivables		
		(13.530 + 4.650 – 1.500)	16.685
12	Cash & Cash equivalent		
	Cash in hand	(0.485+0.315)	0.800
	Balance with banks	(1.990+0.600)	2.590
13	Other Current Assets		3.390
			1.160

Working notes

1. Calculation of goodwill

Particulars		Rs. In lakhs
Total profit		
Year:		
2021-22		4.50
2022-23 (3.90+0.50)		4.40
2023-24		2.35
	(i)	11.25
Average profit (i/3)	(ii)	3.75
No of years of purchase	(iii)	2 years
Goodwill (ii*iii)		7.5

Thanks ....



CHAPTER

32 BUY-BACK OF SECURITIES

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Question 1 : May 2018 – Paper / May 2019 – RTP

Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(Rs. In lakhs)	Assets	(Rs. In lakhs)
Equity share capital (fully paid up shares of Rs.10 each)	2,400	Machinery	3,600
Securities premium	350	Furniture	450
General reserve	530	Investment	148
Capital redemption reserve	400	Inventory	1,200
Profit & loss A/c	340	Trade receivables	500
12% Debentures	1,500	Cash at bank	1,500
Trade payables	1,400		
Other current liabilities	478		
	7,398		**7,398**

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ Rs.15 per share. For this purpose, it sold all of its investments for Rs.150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

Solution :

In the books of Alpha Limited

Journal Entries

Date. 2017	Particulars		Dr. (Rs. In lakhs)	Cr. (Rs. In lakhs)
1-Apr	Bank A/c	Dr.	150	

	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			
5-Apr	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)			
5-Apr	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve A/c			600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			

Balance Sheet (After Buy Back)

		Particulars	Notes	Amount (Rs. in Lakhs)
I.		**Equity and Liabilities**		
(1)		**Shareholder's Funds**		
	a	Share Capital	1	1,800
	b	Reserves and Surplus	2	1,322
(2)		**Non-Current Liabilities**		
	a	Long-term borrowings - 12% Debentures		1,500
(3)		**Current Liabilities**		
	a	Trade payables		1,400
	b	Other current liabilities		478
		Total		**6,500**
II.		**Assets**		
(1)		**Non-current assets**		
	a	Property, Plant & Equipment		
		(i) Tangible assets	3	4,050
(2)		**Current assets**		
	a	Current investments		
	b	Inventory		1,200
	c	Trade receivables		5,00
	d	Cash and cash equivalents (W.N.)		750
		Total		**6,500**

Notes to Accounts

				(Rs. in Lakhs)
1	**Share Capital**			
	Equity share capital (Fully paid up shares of Rs.10 each)			1800
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		
	Transfer due to buy-back of shares from Gen. res.	530	1,000	
	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	1,322
3	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note :

Cash at bank after buy-back

	Rs. in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

Question 2 : Nov 2018 – Paper / Nov 2019 – RTP / Nov – 020 – RTP / Nov 2020 – Paper / Jan 2021 – Paper / May 2021 – RTP

L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is Rs.80 Lakh and Preference share capital is Rs.40 Lakh.

Solution :

L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L = 2/3 X 30/100 = 3/15

M = 2/3 X 30/100 = 3/15

N	= 2/3 X 20/100	=	2/15
O	= 2/3 X 20/100	=	2/15
X	= 1/3 X 40/100	=	2/15
Y	= 1/3 X 30/100	=	1/10
Z	= 1/3 X 20/100	=	1/15
K	= 1/3 X 10/100	=	1/30

Question 3 : May 2019 – Paper

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

Liabilities	**In Rs.**
Share Capital	
Equity Shares of Rs.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
Assets	
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 Rs.10 each fully paid up on 1st April, 2018 at Rs.30 per share.

Buy Back of shares is fully authorised 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, whet her the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

Solution :

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

1. **Shares Outstanding Test**

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

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

Particulars	
Paid up capital (Rs.)	17,00,000
Free reserves (Rs.) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (Rs.)	45,00,000
25% of Shareholders fund (Rs.)	11,25,000
Buy back price per share	Rs. 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds post Buy Back**

	Particulars	Rs.
(a)	Loan funds (Rs.) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	23,25,000
(c)	Present equity/shareholders fund (Rs.)	45,00,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (45,00,000 – 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

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

Particulars	Number of shares
Shares Outstanding Test	42,500
Resources Test	37,500
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 @ Rs. 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 (1)

$\left(\frac{y}{30} \times 10\right) = x$ Or 3x = y (2)

by solving the above equation, we get

x = Rs. 5,43,750

y = Rs. 16,31,250

Question 4 : Nov 2019 – RTP

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of Rs.10 each at Rs.22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of Rs.10 each at par, the entire amount being payable with applications. The company uses Rs.16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Solution :

Journal Entries in the books of Umesh Ltd.

	Particulars		Dr. Rs.	Cr. Rs.
1	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			
2	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5	Equity shareholders/ Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			
6	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c	Dr.	32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

Working Notes :

1. Calculation of amount used from General Reserve Account

		Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. Amount to be transferred to Capital Redemption Reserve account

	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs.10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Question 5 : Nov 2019 – Paper / Nov 2021 – RTP

Rohan Ltd. furnishes the following information as at 31-03-2021.

	(in Rs.)	(in Rs.)
Share Capital:		
Equity Share Capital of Rs. 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs. 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus:		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	25,50,000	43,50,000
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
Property, Plant and Equipment		1,00,75,000
Current Assets:		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000

The shareholders adopted the following resolution on 31st March, 2021:

(1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs. 30 per share.

(2) To finance the buy-back of shares, company:
  (a) Issues 3,000, 14% debentures of Rs. 100 each at a premium of 20%.
  (b) Issues 2,500, 10% preference shares of Rs. 100 each.
(3) Sell investment worth Rs. 1,00,000 for Rs. 1,50,000.
(4) Maintain a balance of Rs.Rs. 2,00,000 in Revenue Reserve.
(5) Later, the company issue three fully paid up equity shares of Rs. 20 each by way of bonus for every 15 equity shares held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions.

Solution :

In the books of Rohan Limited
Journal Entries

	Particulars		Rs.	Rs.
1	Bank A/c	Dr.	3,60,000	
	To 14 % Debenture A/c			3,00,000
	To Securities Premium A/c			60,000
	(Being 14 % debentures issued to finance buy back)			
2	Bank A/c	Dr.	2,50,000	
	To 10% preference share capital A/c			2,50,000
	(Being 10% preference share issued to finance buy back)			
3	Bank A/c	Dr.	1,50,000	
	To Investment A/c			1,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
4	Equity share capital A/c (62,500 x Rs.20)	Dr.	12,50,000	
	Premium on buyback or Securities premium A/c (62,500 x Rs.16)	Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x Rs.36)			22,50,000
	(Being the amount due to equity shareholders on buy back)			
5	Equity shares buy back A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
	(Being the payment made on account of buy back 62,500 Equity Shares as per the Companies Act)			
6	Revenue reserve	Dr.	3,00,000	
	Securities premium	Dr.	2,60,000	
	Profit and Loss A/c	Dr.	4,40,000	
	To Capital redemption reserve A/c			10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
	[12,50,000 less 2,50,000]			
7	Capital redemption reserve A/c	Dr.	7,50,000	
	To Bonus shares A/c			7,50,000

	(Being the utilization of capital redemption reserve to issue 37,500 bonus shares)			
8	Bonus shares A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(Being issue of 3 bonus equity share for every 15equity shares held)			

Question 6 : May 2020 – RTP

The following was the Balance Sheet of C Ltd. as on 31st March ,2019:

Equity & Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of Rs.10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of Rs.10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		**26,900**

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at Rs.20 per Share. In order to make cash available, the Company sold all the Investments for Rs.2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

Solution :

(i) Journal Entries in the books of C Ltd. (Rs. in lakhs)

	Particulars		Dr. Rs.	Cr. Rs.
1	Bank A/c	Dr.	2,500	
	To Investments A/c			2,350
	To Profit and Loss A/c			150
	(Being investment sold on profit for the purpose of buy-back)			
2	10% Redeemable Preference Share Capital A/c	Dr.	2,500	
	Premium on Redemption of Preference Shares A/c	Dr.	250	
	To Preference Shareholders A/c			2,750

	(Being redemption of preference share capital at premium of 10%)			
3	Securities Premium A/c	Dr.	250	
	To Premium on Redemption of Preference Shares A/c			250
	(Being premium on redemption of preference shares adjusted through securities premium)			
4	Equity Share Capital A/c	Dr.	800	
	Premium on buyback	Dr.	800	
	To Equity buy-back A/c			1,600
	(Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)			
5	Securities Premium A/c (800-250)	Dr.	550	
	General Reserve A/c	Dr.	250	
	To Premium on Buyback A/c			800
	(Being premium on buyback provided first out of securities premium and the balance out of general reserves.)			
6	Preference Shareholders A/c	Dr.	2,750	
	Equity buy-back A/c	Dr.	1,600	
	To Bank A/c			4,350
	(Being payment made to preference shareholders and equity shareholders)			
7	General Reserve Account	Dr.	3,300	
	To Capital Redemption Reserve Account			3,300
	(Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)			

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback) (Rs. Lakhs)

		Particulars	Notes	Rs.
I.		**EQUITY AND LIABILITIES**		
1		**Shareholders' Funds:**		
	a	Share Capital	1	7,200
	b	Reserves and Surplus	2	7,200
2		**Non-Current Liabilities:**		
	a	Long Term Borrowings	3	5,000
3		**Current Liabilities:**		
	a	Trade payables		2,300

	b	Short Term Provisions		1,00
		Total		**22,700**
II.		ASSETS		
1		**Non-Current Assets**		
		PPE		14,000
2		**Current Assets:**		
	a	Cash and Cash equivalents (W N)		450
	b	Other Current Assets		8,250
		Total		**22,700**

Notes to Accounts

				Rs.
1	**Share Capital**			
	720 lakh Equity Shares of Rs. 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2	**Reserves and Surplus**			
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	(3,300)	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,300	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)		
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	7,200
3	**Long-term borrowings**			
	Secured			
	9 % Debentures			5,000

Working Notes :

Bank Account

Receipts	**Amount (Rs. Lakhs)**	**Payments**	**Amount (Rs. Lakhs)**
To balance b/d	2,300	By Preference Shareholders A/c	2,750

To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	450
	4,800		**4,800**

Question 7 : Nov 2020 – RTP

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2020:

Particulars	**Rs.**	**Rs.**
Equity Share Capital (shares of Rs.10 each fully paid)		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is Rs.30 per share.

Solution :

Debt Equity Ratio Test

	Particulars	**Rs.**
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs. in crores)	21,00,000
(c)	Present equity shareholders fund (Rs. in crores)	72,80,000
(d)	Future equity shareholder fund (Rs. in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (Rs. in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Notes :

1. Shareholders' funds'

Particulars	**Number of shares**
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.
Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

(72,80,000 – x) – 21,00,000 = y (1)

Since 51,80,000 – x = y

Equation 2 : $\left(\frac{\text{Maximum buy - back}}{\text{Offer price for buy - back}} \times \text{Nominal Value}\right)$

= Nominal value of the shares bought –back to be transferred to CRR

= $\left(\frac{y}{30} \times 10\right)$ = x

3x = y (2)

x = Rs. 12,95,000 crores and y = Rs. 38,85,000 crores

Question 8 : Nov 2020 – RTP / May 2021 – RTP

What do you mean by equity shares with differential rights? Explain in brief. Can preference shares be also issued with differential rights?

Solution :

Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. No; the preference shares cannot be issued with differential rights.

Question 9 : Jan 2021 – Paper

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

For this purpose, the company.

(i) Sold its investments of Rs.30,00,000 for Rs.25,00,000.

(ii) Issued 20,000, 12% preference shares of Rs.100 each at par, the entire amount being payable with application.

(iii) Used Rs.15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

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

Solution :

Journal Entries in the books of Umang Ltd.

			Dr. Rs.	Cr. Rs.
1	Bank A/c	Dr.	25,00,000	
	Profit and Loss A/c	Dr.	5,00,000	
	To Investment A/c			30,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			

2	Bank A/c	Dr.	20,00,000	
	To 12% Pref. Share capital A/c			20,00,000
	(Being 12% Pref. Shares issued for Rs. 20,00,000)			
3	Equity share capital A/c	Dr.	50,00,000	
	Premium payable on buy-back	Dr.	25,00,000	
	To Equity shares buy-back A/c/ Equity shareholders A/c			75,00,000
	(Being the amount due on buy-back of equity shares)			
4	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000	
	To Bank A/c			75,00,000
	(Being payment made for buy-back of equity shares)			
5	Securities Premium A/c	Dr.	15,00,000	
	General Reserve A/c	Dr.	10,00,000	
	To Premium payable on buy-back			25,00,000
	(Being premium payable on buy-back charged from Securities premium)			
6	General Reserve A/c	Dr.	30,00,000	
	To Capital Redemption Reserve A/c			30,00,000
	(Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)			

Question 10 : May 2021 – RTP / May 2024 – RTP

M/s. Vriddhi Infra Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	Rs.
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital : 1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2020 the Company announced the buy back of 15,000 of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 2.50 lakhs.

On 25th April, 2020, the company achieved the target of buy back. On 1st May, 2020 the company issued one fully paid up share of Rs. 10 each by way of bonus for every eight equity shares held by the equity shareholders.
You are required to pass necessary Journal Entries for the above transactions.

Solution :

In the books of Vriddhi Infra Ltd.
Journal Entries

Date 2020	Particulars		Dr. Rs.	Cr. Rs.
21-Apr	Bank A/c	Dr.	2,50,000	
	To Investment A/c			2,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
25-Apr	Equity share capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back A/c			2,25,000
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)			
	General Reserve A/c OR P & L A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free reserves capital redemption reserve account as per the law)			
1-May	Capital redemption reserve A/c	Dr.	1,06,250	
	To Bonus shares A/c (W.N.1)			1,06,250
	(Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus shares A/c	Dr.	1,06,250	
	To Equity share capital A/c			1,06,250
	(Being issue of one bonus equity share for every ten equity shares held)			

Working Note:

Amount of bonus shares $= \left[(1,00,000 - 15,000) \times \frac{1}{8}\right] \times 10$

= Rs. 1,06,250

Question 11 : July 2021 – Paper / May 2022 – Paper

A company provides the following 2 possible Capital Structure as on 31st March, 2021 :

Particulars	Situation 1	Situation 2
Equity Share Capital	30,00,000	30,00,000
(Share of Rs.10 each, fully paid up)		
Reserves & Surplus		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of Rs.30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in the both situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buy back is possible.

Solution :

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 25,00,000	Rs. 1,20,00,000
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is Rs. 25,00,000)

			Rs.	
	Particulars		**Debit**	**Credit**
(a)	Equity shares buy-back account	Dr.	12,52,500	
	To Bank account			12,52,500
	(Being payment for buy-back of 41,750 equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	4,17,500	
	Premium Payable on buy-back account	Dr.	8,35,000	
	To Equity shares buy-back account			12,52,500
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	6,00,000	
	General Reserve / Profit & Loss A/c	Dr.	2,35,000	
	To Premium Payable on buy-back account			8,35,000

	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve*	Dr.	4,17,500	
	To Capital redemption reserve account			4,17,500
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

*Profit and Loss account balance amounting Rs. 2,10,000 may also be used and General Reserve may be debited for the balance amount.

Working Notes:

1. **Shares Outstanding Test**

Particulars	**(Shares in crores)**
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

2. **Resources Test**

Particulars	
Paid up capital (Rs.)	30,00,000
Free reserves (Rs.) (12,00,000 + 6,00,000 + 2,10,000)	20,10,000
Shareholders' funds (Rs.)	50,10,000
25% of Shareholders fund (Rs.)	Rs. 12,52,500
Buy-back price per share	Rs. 30
Number of shares that can be bought back	41,750 shares

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back**

	Particulars	**When loan fund is**	
(a)	Loan funds (Rs.)	Rs. 25,00,000	Rs. 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs.) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (Rs.)	50,10,000	50,10,000

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

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (50,10,000 – x) – 12,50,000 = y

= 37,60,000 – x =y (1)

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x

or

$3x = y$ (2)

by solving the above two equations we get

x = Rs. 9,40,000 and

y = Rs. 28,20,000

In situation 2, first equation will be negative. Buy back not possible in this situation.

Question 12 : Nov 2021 – RTP

"The rights of a shares of a particular class, once issued, can be varied or altered." Comment on this statement in line with the provisions of the Companies Act.

Solution :

The rights of shares of a particular class, once issued, can be varied or altered:

(a) If provision with respect to such variation is contained in the memorandum or articles of the company; or

(b) In the absence of any such provision in the memorandum or articles, if such variation is not prohibited by the terms of issue of the shares of that class.

However, it would require consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Hence, if equity shareholders series A require a change in their right, of a particular nature, either a special resolution of a specially convened meeting of this class of shareholders will suffice, or otherwise more than 75% shareholders can give their consent in writing. It must be understood that a company having equity shares with voting rights cannot convert them into equity shares with differential voting rights, or vice-versa. However, the variation in their rights should not affect the rights of any other class, say Equity shares 'B' class or Preference shares. In such situation, if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of the Companies Act section shall apply to such variation.

Question 13 : May 2022 – RTP

Complicated Ltd. (an unlisted company) gives the following information as on 31.3.2021:

Particulars	Amount (Rs.)
Equity shares of Rs. 10 each, fully paid up	13,50,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Long term - Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
Property, plant and equipment	46,50,000
Current assets	40,00,000

The Company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2021 at Rs. 15 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company for this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares was made by the Company out of sufficient bank balance available shown as part of Current Assets.
You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet of the company after buy back of shares.

Solution :

As per the information given in the question, buy-back of 25,000 shares @ Rs. 15, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (Rs.)	Credit (Rs.)
(a)	Equity shares buy-back account	Dr.	3,75,000	
	To Bank account			3,75,000
	Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 15 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Premium payable on buyback account	Dr.	1,25,000	
	To Equity shares buy-back account			3,75,000
	Being cancellation of shares bought back)			
(c)	Securities premium account	Dr.	1,25,000	
	To Premium payable on buyback account			1,25,000
	Being Premium payable on buyback adjusted against securities premium account)			
(d)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as at 1st April, 2021

		Note No	Amount Rs.
EQUITY AND LIABILITIES			
1	**Shareholders' funds**		
	(a) Share capital	1	11,00,000
	(b) Reserves and Surplus	2	23,50,000
2	**Non-current liabilities**		
	(a) Long-term borrowings	3	28,75,000
3	**Current liabilities**		
	(a) Short-term borrowings	4	16,50,000
	(b) Other current liabilities	5	3,00,000
	Total		82,75,000
ASSETS			

1	**Non-current assets**		
	(a) Property, Plant and Equipment		46,50,000
2	Current assets (Rs. 40,00,000 – Rs. 3,75,000)		36,25,000
	Total		82,75,000

Notes to Accounts

			Rs.	Rs.
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of Rs.10 each			11,00,000
2.	Reserves and Surplus			
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back (1,25,000)	(1,25,000)	1,25,000	
	Share Option Outstanding Account		4,00,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Surplus i.e. Profit and Loss A/c		1,25,000	23,50,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Short-term borrowings			
	Current maturities of long-term borrowings			16,50,000
5.	Other Current Liabilities			
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	3,00,000

Question 14 : Nov 2022 – Paper

PG Limited furnishes the following Balance Sheet as at 31st March, 2022:

	Particulars	Notes	Rs. (in
(I)	**Equity and Liabilities**		
1	**Shareholders' funds**		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2	**Current liabilities**		
	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		**29,500**

(II)	**Assets**		
1	**Non-current assets**		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2	**Current assets**		
	(a) Inventories		6,000
	(b) Trade receivables		2,600
	(c) Cash and cash equivalents		7,400
	Total		**29,500**

Notes to accounts :

	Particulars	Rs. (in Lakhs)
1	**Share Capital**	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of Rs.10 each)	12,000
2	**Reserves and Surplus**	
	Securities premium	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ Rs.15 per share. For this purpose, it sold all of its investments for Rs.750 lakhs.
On 5th April, 2022, the company achieved the target of buy-back.
You are required to pass necessary journal entries for the above transactions.

Solution :

In the books of PG Limited
Journal Entries

Date 2022	Particulars		Dr. (Rs. in lakhs)	Cr. (Rs. in lakhs)
Apr-01	Bank A/c	Dr.	750	
	To Investment A/c			740
	To P& L A/c (Profit on sale of investment)			10
	(Being investment sold on profit)			
Apr-05	Equity share capital A/c	Dr.	3,000	
	Premium payable on buy-back A/c	Dr.	1,500	
	To Equity shares buy-back A/c			4,500
	(Being the amount due to equity shareholders on buy-back)			
	Securities Premium A/c	Dr.	1,500	
	To Premium payable on buy-back A/c			1,500

	(Being the amount of premium charged from securities premium account)			
	Equity shares buy-back A/c	Dr.	4,500	
	To Bank A/c			4,500
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)			
Apr-05	Profit and Loss A/c	Dr.	1,700	
	General reserve A/c	Dr.	1,300	
	To Capital redemption reserve A/c			3,000
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)			

Note:

1. In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.
2. Calculation of amount of Buy Back of Share: Rs.12,000/10 × 25% × Rs. 15 = Rs. 4,500 Lakhs

Question 15 : May 2023 – RTP

Pay Limited provides you with the following information as at 31st March, 2022:

	(Rs. in Lakhs)	
Share Capital:		
Authorised		300
Issued:		
11% Redeemable preference shares of Rs. 100 each fully paid	125	
Equity shares of Rs. 10 each fully paid	175	300
Reserves and surplus:		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
Fixed assets: cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value Rs. 400 Lakhs)		200
Current assets		790

(i) The company redeemed preference shares at a premium of 4% on 1st April, 2022.

(ii) It also bought back 2.5 lakhs equity shares of Rs. 10 each at Rs. 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2022.

Solution :

(i) **Journal entries in the books of Pay Ltd.** **Rs.in lakhs**

	Particulars		Debit	Credit
1st April, 2022	11% Preference share capital A/c	Dr.	125	
	Premium payable on Redemption of Preference Shares	Dr.	5	
	To Preference shareholders A/c			130
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	130	
	To Bank A/c			130
	(Being payment made to shareholders)			
	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ Rs. 40 per share)			
	Equity share capital A/c (2.5 lakh x Rs. 10)	Dr.	25	
	Premium payable on buy- back A/c (2.5 lakh x Rs. 30)	Dr.	75	
	To Shares buy back A/c			100
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125 + 25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy- back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

*Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.

(ii) **Balance Sheet of Pay Ltd as at 1.4.2022**

	Particulars	Note No	Rs. In lakhs
I.	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital	1	150
	(b) Reserves and Surplus	2	570

	(2) Current Liabilities		50
	Total		770
II.	Assets		
	(1) Non-current assets		
	(a) Property, plant and Equipment	3	10
	(b) Non-current investments -Investment cost Market value Rs. 400 crores)		200
	(2) Current assets	4	560
	Total		770

Notes to Accounts

				Rs. In lakhs
1	Share Capital			
	Authorised, Issued and Subscribed:			
	Equity shares of Rs. 10 each			150
2	Reserves and Surplus			
	Capital reserve		35	
	Capital redemption reserve		150	
	Securities premium	105		
	Less: Utilisation for buy back and redemption of shares	(80)	25	
	Revenue Reserve	460		
	Less: transfer to Capital redemption reserve	(150)	310	
	Profit and Loss Account balance		50	570
3	Property, plant and equipment			
	Cost		100	
	Less: Provision for depreciation		(90)	10
4	Current assets			
	Current assets as on 31.3.2022		790	
	Less: Bank payment for redemption and buy back		(230)	560

Question 16 : May 2023 – Paper

VIJ Ltd. has the following capital structure as on 31st March, 2022:

Particulars		(Rs. In Lakhs)
Equity share capital (Shares of Rs. 10 each, fully paid)		990
Reserve and Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1800
Loan Funds		5400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buy- back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.
The current market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy- back, it was decided to offer a price of 20% over market value.
You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.
You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and also under a situation where the loan funds of the company were either Rs. 3600 lakh or Rs. 4500 lakh.
The entire buy-back is completed by 09/12/2022, show the accounting entries with full narrations in the company's books in each situation.

Solution :

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	When loan fund is		
	Rs. 5,400 lakhs	Rs. 3,600 lakhs	Rs. 4,500 lakhs
Shares Outstanding Test (W.N.1)	24.75	24.75	24.75
Resources Test (W.N.2)	18.75	18.75	18.75
Debt Equity Ratio Test (W.N.3)	Nil	11.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	11.25	Nil

Journal Entries for the Buy-Back
(applicable only when loan fund is Rs. 3,600 lakhs)

Rs. in lakhs

	Particulars		Debit	Credit
(a)	Equity share capital account	Dr.	112.50	
	Securities premium account	Dr.	225.00	
	To Equity share buy- back account			337.50
	(Being cancellation of shares bought back)			
(b)	Equity share buy-back account	Dr.	337.50	
	To Bank account			337.50
	(Being buy-back of 11.25 lakhs equity shares of Rs. 10 each @ Rs. 30 per share)			
(c)	General reserve account	Dr.	112.50	
	To Capital redemption reserve account			112.50
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Notes:

1. **In place of entry (a), Alternative set of entries can be given as follows:**

Rs. in lakhs

Equity share capital A/c	Dr.	112.50	
Premium payable on buy-back	Dr.	225.00	
To Equity shares buy-back A/c			337.50
(Being the amount due on buy-back of equity shares)			
Securities Premium A/c	Dr.	225.00	
To Premium payable on buy-back			225.00
(Being premium payable on buy-back charged from Securities premium)			

2. **In place of entry (c), Alternative set of entries can be given as follows:**

Rs. in lakhs

Securities Premium A/c	Dr.	45.00	
General Reserve A/c	Dr.	67.50	112.50
To Capital redemption reserve A/c			
(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Working Notes:

1. **Shares Outstanding Test**

Particulars	**(Shares in lakhs)**
Number of shares outstanding	99
25% of the shares outstanding	24.75

2. **Resource Test**

Particulars	
Paid up capital (Rs. in lakhs)	990
Free reserves (Rs. in lakhs) (720+270+270)	1260
Shareholders' funds (Rs. in lakhs)	2250
25% of Shareholders fund (Rs. in lakhs)	Rs. 562.5 lakhs
Buy-back price per share	Rs. 30
Number of shares that can be bought back (shares in lakhs)	18.75 lakhs shares

3. **Debt Equity Ratio Test**

Particulars	**When loan fund is**		
	Rs. 5,400 lakhs	**Rs. 3,600 lakhs**	**Rs. 4,500 lakhs**
Loan funds (Rs. in lakhs)	5400	3600	4500
Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs. in lakhs)	2700	1800	2250

Present equity shareholders fund (Rs. in lakhs)	2250	2250	2250
Future equity shareholder fund (Rs. in lakhs)	N.A.	2137.5 (2250-112.5)	N.A.
Maximum permitted buy-back of Equity (Rs. in lakhs) [(d) – (b)]1	Nil	337.5 (by simultaneous equation)	Nil
Maximum number of shares that can be bought back @ Rs. 30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

Working Note:

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

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity

(2250 –x)-1800 = y (1)

Since 450 – x = y

Equation 2 : $\left(\frac{\text{Maximum buy -back}}{\text{Offer price for buy -back}} \times \text{Nominal Value}\right)$

= Nominal value of the shares bought – back to be transferred to CRR

= $\left(\frac{y}{30} \times 10\right)$ = x

Or 3x = y (2)

by solving the above two equations we get

x = Rs. 112.5 lakhs

y = Rs. 337.5 lakhs

Question 17 : Nov 2023 – RTP

The following information from Balance Sheet of Z Ltd. as on 31st March ,2023:

	Rs. Lakhs
Share Capital:	
Equity shares of Rs. 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of Rs. 10 each Fully Paid Up	5,000
Reserves & Surplus	
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
Secured Loans:	

9% Debentures	10,000
Current Liabilities:	
Trade payables	4,600
Sundry Provisions	2,000

Fixed Assets	28,000
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at Rs. 20 per Share. In order to make cash available, the Company sold all the Investments for Rs. 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

Solution :

(i) **Journal Entries in the books of Z Ltd.** (Rs. in lakhs)

	Particulars		Rs.	Rs.
1	Bank A/c	Dr.	5,000	
	To Investments A/c			4,700
	To Profit and Loss A/c			300
	(Being investment sold on profit for the purpose of buy-back)			
2	10% Redeemable Preference Share Capital A/c	Dr.	5,000	
	Premium on Redemption of Preference Shares A/c	Dr.	500	
	To Preference Shareholders A/c			5,500
	(Being redemption of preference share capital at premium of 10%)			
3	Profit and Loss A/c	Dr.	500	
	To Premium on Redemption of Preference Shares A/c			500
	(Being premium on redemption of preference shares adjusted through securities premium)			
4	Equity Share Capital A/c	Dr.	1,600	
	Premium on buyback	Dr.	1,600	
	To Equity buy-back A/c			3,200
	(Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)			
5	Securities Premium A/c (1,600)	Dr.	1,600	
	To Premium on Buyback A/c			1,600
	(Being premium on buyback provided out of securities premium)			
6	Preference Shareholders A/c	Dr.	5,500	
	Equity buy-back A/c	Dr.	3,200	
	To Bank A/c			8,700

	(Being payment made to preference shareholders and equity shareholders)			
7	General Reserve Account	Dr.	6,600	
	To Capital Redemption Reserve Account			6,600
	(Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)			

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

(Rs. Lakhs)

	Particulars	**Note No**	**Amount Rs.**
	EQUITY AND LIABILITIES		
(I)	Shareholders' Funds:		
	(a) Share Capital	1	14,400
	(b) Reserves and Surplus	2	14,400
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	10,000
(3)	Current Liabilities:		
	(a) Trade payables		4,600
	(b) Short Term Provisions		2,000
	Total		45,400
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		28,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		900
	(b) Other Current Assets		16,500
			45,400

Notes to Accounts

				Rs. in Lakhs
1	**Share Capital**			
	1,440 lakh Equity Shares of Rs. 10 each Fully Paid up (160 lakh Equity Shares bought back)			14,400
2	**Reserves and Surplus**			
	General Reserve	12,000		
	Less: Transfer to CRR	(6,600)	5,400	
	Capital Redemption Reserve	2,000		
	Add: Transfer due to buy-back of shares from Gen. res.	6,600	8,600	
	Securities premium	1,600		
	Less: Adjustment for premium paid on buy back	(1,600)		
	Profit & Loss A/c	600		
	Add: Profit on sale of investment	300		

	Less: Adjustment for premium paid on redemption of preference shares	(500)	400	14,400
3	**Long-term borrowings**			
	Secured			
	9 % Debentures			10,000

Working Note:

Bank Account

	Amount (Rs. Lakhs)		Amount (Rs. Lakhs)
To balance b/d	4,600	By Preference Shareholders A/c	5,500
To Investment A/c (sale Proceeds)	5,000	By Equity buy back A/c	3,200
		By Balance c/d (Balancing figure)	900
	9,600		**9,600**

Question 18 : Sept 2024 – RTP

Purpose Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of Rs. 10 each at Rs. 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of Rs. 10 each at par, the entire amount being payable with applications. The company uses Rs. 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Solution :

Journal Entries in the books of Purpose Ltd.

			Rs.	Rs.
1	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			
2	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			

5	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	 88,00,000
6	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr.	16,00,000	 16,00,000

Working Notes:

1. **Calculation of amount used from General Reserve Account**

		Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. **Amount to be transferred to Capital Redemption Reserve account**

	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs. 10)	40,00,000
Less: Nominal value of Preference Shares issued for buy back (1,00,000 shares x Rs. 10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Question 19 : Sept 2024 – Paper

Aerodots Ltd. has the following capital structure as on 31.03.2024 :

Particulars	Amount (Rs.in thousands)
• Equity Share Capital (shares of Rs.10 each)	600
Reserves :	
• General Reserve	540
• Securities Premium	200
• Profit & Loss	100
• Revaluation Reserve	30
• Investment Allowance Reserve (Statutory Reserve)	75
• Infrastructure Development Reserve	25
• Loan Funds	2000

On 1st April, 2024 the company wants to buy back 14,000 equity shares of Rs.10 each at Rs.30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back. Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company.

Solution :

Statement determining the maximum number of shares to be bought back

(in thousands)

Particulars	Number of shares
Shares Outstanding Test (W.N.1)	15
Resources Test (W.N.2)	12
Debt Equity Ratio Test (W.N.3)	11
Maximum number of shares that can be bought back [least of the above]	11

Thus, the lowest being 11,000 shares, the company cannot buy back 14,000 shares.

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in thousands)
Number of shares outstanding	60
25% of the shares outstanding	15

2. **Resources Test**

Particulars	Rs. (in thousands)
Paid up capital	600
Free reserves (540 + 200 +100)	840
Shareholders' funds	1,440
25% of Shareholders fund	360
Buy-back price per share	Rs. 30
Number of shares that can be bought back	12,000 shares

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back**

Particulars		Rs. in thousands
(a)	Loan funds	2,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs.) (a/2)	1,000
(c)	Present equity shareholders fund (Rs.)	1,440
(d)	Future equity shareholders fund (Rs.) (see W.N.4) (1,440-110)	1,330
(e)	Maximum permitted buy-back of Equity (Rs.) [(d) – (b)]	330
(f)	Maximum number of shares that can be bought back @ 30 per share	11,000 shares

4. 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

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1,440 – x) – 1,000 = y

= 440 – x = y (1)

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x

or

3x = y (2)

by solving the above two equations we get

x = Rs. 110 thousands

y = Rs. 330 thousands

Alternatively, Maximum number of shares from debt equity ratio test may be worked out as follows:

Buy-back price + Face value of equity shares Rs. 30 + Rs. 10 = Rs. 40

Excess of equity fund over the minimum equity to be maintained 1440-1000 = 440 thousands

Number of Shares that can be bought back = 440/40 thousands = 11 thousands.

Question 20 : Jan 2025 – Paper

Following information are available in respect of Z Limited as on 31st March, 2024 :

4,00,000 Equity shares capital of Rs.10 each	Rs.40,00,000
Capital Reserve	Rs.20,000
Revenue Reserve	Rs.50,00,000
Securities Premium	Rs.6,00,000
Profit and Loss Account	Rs.19,00,000
Investments	Rs.40,00,000

The company decides to buy back 20% of its Equity capital @ Rs.15 per share on 1st April, 2024. Buy back is as per provision of the Companies Act and company passed the necessary resolutions for it. For this purpose, it sold its investments of Rs.40 lakhs for Rs.32 lakhs.

You are required to pass the necessary journal entries.

Solution :

			Rs.	Rs.
1	Bank A/c	Dr.	32,00,000	
	Profit & Loss A/c	Dr.	8,00,000	
	To Investments			40,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2	Equity share capital A/c	Dr.	8,00,000	
	Premium payable on buy-back A/c	Dr.	4,00,000	
	To Equity shares buy-back A/c			12,00,000
	(Being the amount due on buy-back of equity shares)			

3	Equity shares buy-back A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	12,00,000	 12,00,000
4	Securities Premium A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr.	4,00,000	 4,00,000
5	Profit & Loss A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back)	Dr.	8,00,000	 8,00,000

Thanks ....

CHAPTER

33 INTERNAL RECONSTRUCTION

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Question 1 : Nov 2018 – Paper

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(Rs. in '000)

	Amount
Liabilities	
Equity Shares of Rs.10 each	35,000
8%, Cumulative Preference Shares of Rs.100 each	17,500
6% Debentures of Rs.100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	**84,350**
Assets	
Fixed Assets	43,750
Investments (Market value Rs.3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	**84,350**

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.
(ii) The Taxation Liability is settled at Rs. 5,25,000 out of current Assets.
(iii) The balance of Profit and Loss Account to be written off.
(iv) All the existing equity shares are reduced to Rs. 4 each.
(v) All preference shares are reduced to Rs. 60 each.
(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange them for fresh debentures of Rs. 80 each. Each old debenture is exchanged for one new debenture.
(vii) Balance of Current Assets left after settlement of taxation liability are revalued at Rs.1,57,50,000.

(viii) Fixed Assets are written down to 80%.

(ix) One of the creditors of the Company for Rs. 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs. 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

Solution :

Journal Entries in the books of SK Ltd.

	Particulars		Dr. Rs. '000	Cr. Rs. '000
(i)	Equity share capital (Rs. 10) A/c	Dr.	35,000	
	To Equity Share Capital (Rs. 4) A/c			14,000
	To Capital Reduction A/c			21,000
	(Being conversion of equity share capital of Rs. 10 each into Rs. 4 each as per reconstruction scheme)			
(ii)	8% Cumulative Preference Share capital (Rs. 100) A/c	Dr.	17,500	
	To 8% Cumulative Preference Share Capital (Rs. 60) A/c			10,500
	To Capital Reduction A/c			7,000
	(Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)			
(iii)	6% Debentures (Rs. 100) A/c	Dr.	14,000	
	To 9% Debentures (Rs. 80) A/c			11,200
	To Capital Reduction A/c			2,800
	(Being 9% debentures of Rs. 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Sundry Creditors A/c	Dr.	7,000	
	To Equity Share Capital (Rs. 4) A/c			3,500
	To Capital Reduction A/c			3,500
	(Being a creditor of Rs. 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of Rs. 4 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	350	
	Capital Reduction A/c	Dr.	175	
	To Liability for Taxation A/c			525
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Liability for Taxation A/c	Dr.	525	
	To Current Assets (Bank A/c)			525
	(Being the payment of tax liability)			
(vii)	Capital Reduction A/c	Dr.	34,125	
	To P & L A/c			2,100

	To Fixed Assets A/c		8,750
	To Current Assets A/c		18,725
	To Investments A/c		175
	To Capital Reserve A/c (Bal. fig.)		4,375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Liability for taxation A/c	175	By Equity share capital	21,000
To P & L A/c	2,100	By 8% Cumulative preferences Share capital	7,000
To Fixed Assets	8,750	By 6% Debentures	2,800
To Current assets	18,725	By Sundry creditors	3,500
To Investment	175		
To Capital Reserve (Bal. fig.)	4,375		
	34,300		**34,300**

Question 2 : May 2019 – RTP / Nov 2022 – RTP

Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2022 before reconstruction:

Particulars	Note No.	Amount (Rs. In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		2,556
Assets		
Non-Current Assets:		
PPE	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

Notes to Accounts:

		Rs. In lakh
(1)	Share capital	
	Authorised:	
	300 lakh Equity shares of Rs. 10 each	3,000
	12 lakh, 8% preference Shares of Rs. 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of Rs. 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of Rs. 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050
(4)	Trade payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	PPE	
	Freehold Property	825
	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs. 550 lakh.

(6) All investments sold out for Rs. 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be alloted.
(8) 40% of Trade receivables and 80% of Inventories to be written off.
(9) Company's contractual commitments amounting to Rs. 900 lakh have been settled by paying penalty of Rs. 72 lakhs.

You are required to:
(a) Pass Journal Entries for all the transactions related to internal reconstruction;
(b) Prepare Capital Reduction Account, Bank Account; and
(c) Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction.

Solution :

(a) Journal Entries related to internal reconstruction in the books of Planet Ltd.

	Particulars		Debit Rs.	Credit Rs.
i	8% Preference share capital A/c (Rs. 100 each)	Dr.	600	
	To 8% Preference share capital A/c (Rs. 75 each)			450
	To Capital reduction A/c			150
	(Being the preference shares of Rs. 100 each reduced to Rs. 75 each as per the approved scheme)			
ii	Equity share capital A/c (Rs. 10 each)	Dr.	1,500	
	To Equity share capital A/c (Rs. 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (Rs. 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of each)			
iv	6% Debentures A/c	Dr.	450	
	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c		175	
	(Being appreciation (550-375) in the value of freehold property)			

vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (Rs. 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of Rs. 2 each)			
ix	Capital Reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital Reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

(b) **Capital Reduction Account** **(Rs.in lakhs)**

	Rs.		Rs.
To Equity Share Capital	48	By 8% Pref. Share Capital	150
To P & L A/c	783	By Equity Share Capital	1,200
To Trade Receivables	270	By Freehold property	175
To Inventories	360	By Bank (profit on sale of investment)	125
To Bank	72	By Director's loan	315
To Capital Reserve	432		
	1,965		**1,965**

Bank Account **(Rs.in lakhs)**

	Rs.		Rs.
To Balance b/d	6	By Accrued debenture interest	36
To Investments	300	By Capital Reduction Account (Penalty on cancellation of contract)	72
To Capital reduction	125	By Balance c/d	323

	431		431

(c) **Note to Accounts on Share Capital and PPE after implementation of internal reconstruction**

Share Capital		(Rs. in lakhs)
Authorised:		
300 lakh shares of Rs. 2 each		600
12 lakh, 8% Preference shares of Rs. 75 each		900
		1,500
Issued, subscribed and paid up:		
241.5 lakh Equity shares of Rs. 2 each (out of which 91.5 lakh shares have been issued for consideration other than cash)		483
6 lakh, 8% Preference shares of Rs.75 each fully paid up		450
Total		933
PPE		
Freehold property	825	
Less: Utilised to pay Debenture holders	(450)	
Add: Appreciation	175	550
Plant and machinery		300
Total		850

Working Note:

Calculation of number of equity shares issued	
To equity shareholders	150 Lakh
To Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
To Directors	67.5 Lakh
	241.5 Lakh

Question 3 : Nov 2019 – RTP

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	22,00,000
50,000 shares of Rs.50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of Rs.50 each Rs.40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of Rs.100 each	4,00,000	Inventories	3,20,000
12% Debentures of Rs.100 each	6,00,000	Trade receivables	10,90,000
Trade payables	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000

Total	**1,03,00,000**		**1,03,00,000**

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs. 12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Solution :

Journal Entries in the books of Platinum Ltd.

	Particulars		Dr. Rs. '000	Cr. Rs. '000
	Bank A/c (1,00,000 x Rs. 10)	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
	Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
	To Equity share capital (Rs. 40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			

	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at Rs. 40 each)			
	Trade payables A/c	Dr.	12,40,000	
	To Equity share capital A/c			7,50,000
	To Bank A/c (4,90,000 x 70%)			3,43,000
	To Capital Reduction A/c			1,47,000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
	8% Debentures A/c	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being cancellation of 8% and 12% debentures of Shiv)			
	Bank A/c	Dr.	1,00,000	
	To Shiv A/c			1,00,000
	(Being new debentures subscribed by Shiv)			
	Shiv A/c	Dr.	8,00,000	
	To 15% Debentures A/c			6,00,000
	To Capital Reduction A/c			2,00,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	8% Debentures A/c	Dr.	1,00,000	
	12% Debentures A/c	Dr.	2,00,000	
	To Ganesh A/c			3,00,000
	(Being cancellation of 8% and 12% debentures of Ganesh)			
	Ganesh A/c	Dr.	3,00,000	
	To 15% Debentures A/c			2,50,000
	To Capital Reduction A/c			50,000
	Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	Land and Building	Dr.	9,14,000	
	51,84,000 – 42,70,000)			
	Inventories	Dr.	30,000	
	To Capital Reduction A/c			9,44,000
	Being value of assets appreciated)			
	Outstanding expenses A/c	Dr.	10,60,000	
	To Bank A/c			10,60,000
	Being outstanding expenses paid in cash)			
	Capital Reduction A/c	Dr.	33,41,000	
	To Machinery A/c			1,30,000
	To Computers A/c			1,20,000

	To Trade receivables A/c			1,09,000
	To Goodwill A/c			22,00,000
	To Profit and Loss A/c			7,82,000
	Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)			
	Capital Reserve A/c	Dr.	5,00,000	
	To Capital Reduction A/c			5,00,000
	Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet (as reduced) as on 31.3.2019

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000
2		**Non-current liabilities**		
	a	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		
		Tangible assets	3	63,04,000
2		**Current assets**		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts :

			Rs.
1	**Share Capital**		
	2,00,000 Equity shares of Rs. 40		80,00,000
2	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes :

1. **Cash at Bank Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		**26,18,000**

Question 4 : Nov 2019 – Paper

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019.

Particulars	Amount (Rs.)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of Rs.50 each	7,50,000
(b) 18,750 Equity shares of Rs.50 each	9,37,500
Profit and Loss Account	5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	**21,42,500**
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	**21,42,500**

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 5 by cancellation of Rs. 45.00 per share. They have also agreed to subscribe for three new equity shares of Rs. 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each Rs. 50 preference share, 4 new 6% preference shares of Rs. 10 each, plus 3 new equity shares of Rs. 5.00 each, all credited as fully paid.

(iii) Lenders to the company for Rs. 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of Rs. 10 each and 7,500 new equity shares of Rs. 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of Rs. 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, Rs. 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off Rs. 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to Rs. 8,12,500 for preference share capital and Rs. 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

Solution :

In the books of Fortunate Ltd.

Journal Entries

	Particulars		Dr. Rs.	Cr. Rs.
1	Equity share capital A/c (Rs. 50)	Dr.	9,37,500	
	To Equity share capital A/c (Rs. 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of 5 each)			
2	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3	8% Preference share capital A/c (Rs. 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (Rs. 10)			6,00,000
	To equity share capital (Rs. 50)			2,25,000
	(Being 8% preference shares of Rs. 50 each converted to 6% preference shares of Rs. 10 each and also given to them 3 equity shares for every share held)			
4	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x Rs. 10)			1,50,000
	To Equity share capital A/c (7,500 x Rs.5)			37,500
	(Being loan to the extent of Rs. 1,50,000 converted into share capital)			
5	Bank A/c (25,000 x Rs.5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000

	(Being loan repaid)			
8	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced)
as on 31.3.2019

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	15,12,500
2		**Non-current liabilities**		
		Long-term borrowings		2,78,750
	a	(7,16,250 – 1,87,500 – 2,50,000)		
3		**Current liabilities**		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		**20,93,750**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		**Current assets**		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		**20,93,750**

Notes to accounts :

			Rs.
1	**Share Capital**		
	Authorized capital:		
	81,250 Preference shares of Rs. 10 each	8,12,500	
	1,87,500 Equity shares of Rs. 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of Rs. 5 each	7,62,500	
	75,000, 6% Preference shares of Rs. 10	7,50,000	15,12,500
2	**Property, Plant and Equipment**		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3	**Intangible assets**		
	Trademarks and goodwill		2,36,250

4	**Cash and cash equivalents**		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note : *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Question 5 : May 2020 – RTP

The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

		Particulars	**Rs.**
A.		**Equity & Liabilities**	
1		**Shareholders' Fund:**	
	a	**Share Capital:**	
		9,000 7% Preference Shares of Rs.100 each fully paid	9,00,000
		10,000 Equity Shares of Rs.100 each fully paid	10,00,000
	b	**Reserve & Surplus:**	
		Profit & Loss Account	(2,00,000)
2		**Non-current liabilities:**	
		"A" 6% Debentures (Secured on Bombay Works)	3,00,000
		"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3		**Current Liabilities and Provisions:**	
	a	**Workmen's Compensation Fund:**	
		Bombay Works	10,000
		Chennai Works	5,000
	b	Trade Payables	1,25,000
		Total	**24,90,000**
B.		**Assets:**	
		Non- current Assets:	
1		**PPE:**	
		Bombay Works	9,50,000
		Chennai Works	7,75,000
2		**Investment:**	
		Investments for Workman's Compensation Fund	15,000
3		**Current Assets:**	
	a	Inventories	4,50,000
	b	Trade Receivables	2,50,000
	c	Cash at Bank	50,000
			24,90,000

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to Rs.80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to Rs.10.

(iii) The directors to refund Rs.50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of Rs.26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at Rs.4,25,000 and to accept an allotment of 1,500 equity shares of Rs. 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs. 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of Rs. 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Inventory was to be written off by Rs. 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs. 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

Solution :

In the books of Star Ltd.

Journal Entries

		Particulars		**Amount. Rs.**	**Amount. Rs.**
(i)		7% Preference share capital (Rs. 100)	Dr.	9,00,000	
		To 9% Preference share capital (Rs. 80)			7,20,000
		To Capital reduction A/c			1,80,000
		(Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)			
(ii)		Equity share capital A/c (Rs. 100 each)	Dr.	10,00,000	
		To Equity share capital A/c (Rs. 10 each)			1,00,000
		To Capital reduction A/c			9,00,000
		(Being reduction of nominal value of one share of Rs. 100 each to Rs. 10 each)			
(iii)		Bank A/c	Dr.	50,000	
		To Capital reduction A/c			50,000
		(Being directors refunded the fee amount)			
(iv)		Trade payables A/c (Interest on debentures)	Dr.	26,000	
		To Capital reduction A/c			26,000
		(Being interest forgone by the debenture holders)			
(v)		No entry required			
(vi)	a	'B' 6% Debentures A/c	Dr.	3,50,000	
		To Debentures holders A/c			3,50,000

		(Being amount due to Debentures holders)			
	b	Debentures holders A/c	Dr.	4,40,000	
		To Chennai Works A/c			4,25,000
		To Equity share capital A/c			15,000
		(Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)			
	c	Equity share of Zia ltd. A/c	Dr.	90,000	
		To Debentures holders A/c			90,000
		(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)			
(vii)	a	Chennai Works – Workmen Compensation Fund	Dr.	4,000	
		To Capital reduction A/c			4,000
		(Being difference due to reduced amount of actual liability transferred to capital reduction account)			
	b	Bank A/c	Dr.	15,400	
		To Investment for Workmen Compensation Fund			14,000
		To Capital reduction A/c			1,400
		(Being investment for Workmen Compensation Fund sold @ 10% profit)			
	c	Trade Payables A/c	Dr.	15,400	
		To Bank A/c			15,400
		(Being part payment made to trade payables)			
(viii)		Capital reduction A/c	Dr.	2,10,000	
		To Provision for Doubtful Debts A/c			20,000
		To Inventory A/c			1,90,000
		(Being assets revalued)			
(ix)		Capital reduction A/c	Dr.	5,50,000	
		To Profit & Loss A/c			2,00,000
		To PPE – Chennai Works			3,50,000*
		(Being assets revalued and losses written off)			
(x)		Capital reduction A/c	Dr.	4,01,400	
		To PPE – Bombay Works			2,67,600
		To Capital reserve A/c			1,33,800
		(Being assets revalued and remaining amount transferred to capital reserve account)			

Question 6 : Nov 2020 – RTP / May 2022 – RTP / Nov 2023 – RTP

Z Limited provides the following information as on 31st March, 2021:

Particulars	Amount in Rs.

Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

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

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

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

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

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

You are required to pass journal entries for all the above-mentioned transactions including amounts to be written off for Goodwill, Patents and Loss in Profit and Loss account. Also prepare Bank Account and Reconstruction A/c.

Solution :

Journal Entries in the Books of Z Ltd.

			Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures payable A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	

	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000

	To Trade Investment A/c		50,000
	To Inventory A/c		2,50,000
	To Trade Receivables A/c		1,00,000
	To Capital Reserve (bal. fig.)		7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)		

Reconstruction Account

	Rs.		Rs.
To Bank (penalty)	15,000	By Equity Share	
To Bank (reconstruction expenses)	15,000	Capital A/c	25,00,000
To Goodwill	11,00,000	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 P & M	6,50,000	By Mr. Z (Settlement)	3,82,000
To Furniture and Fixtures	1,00,000	By Trade Payables A/c	1,70,000
To Trade investment	50,000	By Director's loan	60,000
To Inventory	2,50,000	By Bank	1,00,000
To Trade Receivables	1,00,000	By Provision for tax	25,000
To Capital Reserve (bal. fig.)	7,75,000	By Land and Building	2,00,000
	50,15,000		**50,15,000**

Question 7 : July 2021 – Paper

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of Rs.10 each, the following :
- New fully paid Rs.10 Equity Shares equal to $3/5^{th}$ of their holding.
- Fully paid Rs.10.6% Preference Shares to the extent of $2/5^{th}$ of the above new equity shares.
- 7% Debentures of Rs.2,50,000.

(ii) Goodwill which stood at Rs.2,70,000 is to be completely written off.

(iii) Plant and machinery to be reduced by Rs.1,00,000, Furniture to be reduced by Rs.88,000 and Building to be appreciated by Rs.1,50,000.

(iv) Investment of Rs.6,00,000 to be brought down to its existing market price of Rs.1,80,000.

(v) Write off Profit and Loss Account debit balance of Rs.2,25,000.

In case of any shortfall, the balance of General Reserve of Rs.42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Spara Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

Solution :

Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (Rs. 10) A/c			45,00,000
To 6% Preference Share Capital (Rs. 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.

Question 8 : Nov 2022 – Paper

The following is the Balance Sheet of Purple Limited as at 31st March, 2022 :

Balance Sheet of Purple Limited as at 31st March, 2022

	Particulars	Notes	Amount in Rs.
I.	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share Capital	1	15,00,000
	(b) Reserves & Surplus	2	(3,00,000)
	(2) Current Liabilities		
	(a) Trade Payables		2,20,000
	(b) Short Term Borrowings - Bank Overdraft		2,00,000
	Total		**16,20,000**

II.	**Assets**		
	(1) Non-Current Assets		
	(a) Property, Plant and Equipment	3	10,20,000
	(b) Intangible Assets	4	1,20,600
	(2) Current Assets		
	(a) Inventories		1,70,000
	(b) Trade Receivables		3,01,800
	(c) Cash and cash equivalents		7,600
	Total		**16,20,000**

Note to Accounts

		Rs.	Rs.
(1)	**Share Capital**		
	90,000 Equity Shares of Rs.10 each fully paid	9,00,000	
	6% Preference Share Capital	6,00,000	15,00,000
(2)	**Reserves & Surplus**		
	Profit & Loss account		-3,00,000
(3)	**Property, Plant and Equipment**		
	Land and Building	5,40,000	
	Plant and Machinery	4,80,000	10,20,000
(4)	**Intangible Assets**		
	Goodwill	84,600	
	Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.

(ii) The value of equity shares is brought down to Rs.8 per share.

(iii) The arrears of dividend on preference shares are cancelled.

(iv) The debit balance of Goodwill account is written off entirely.

(v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.

(vi) Book debts amounting to Rs.14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of Rs.90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down Patents.

(ix) A secured loan of Rs.4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

Solution :

Journal Entries In the books of Purple Ltd.

	Particulars		Debit (Rs.)	Credit (Rs.)
1	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000
	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)			
2	Equity share capital A/c (Rs. 10)	Dr.	9,00,000	
	To Equity share capital A/c (Rs. 8)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being equity capital reduced to nominal value of Rs. 8 each)			
3	Capital Reduction A/c	Dr.	3,30,000	
	To Goodwill A/c			84,600
	To Land and Building A/c			81,000
	To Plant and Machinery A/c			96,000
	To Trade Receivables A/c (Book debts)			14,400
	To Patents A/c (Bal. fig.)			24,000
	To Profit and loss A/c			30,000
	(Being losses and assets written off to the extent required)			
4	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5	Bank overdraft A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being Bank overdraft repaid)			

Capital Reduction Account

Particulars	Rs.		Rs.
To Goodwill A/c	84,600	By Equity Share Capital A/c	1,80,000
To Land & Building A/c	81,000	By 6% Preference Share Capital A/c	1,50,000
To Plant and Machinery A/c	96,000		
To Trade receivables (Book Debts) A/c	14,400		
To Profit & Loss A/c	30,000		
To Patents A/c (Bal. fig.)	24,000		
	3,30,000		**3,30,000**

Balance Sheet of Purple Ltd. (and reduced)
as at 31.3.2022

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	11,70,000
	b	Reserves and surplus	2	-2,70,000
2		**Current liabilities**		
	a	Short term borrowings (Secured Bank Loan)		4,80,000
	b	Trade Payables		2,20,000
		Total		16,00,000
		Assets		
1		**Non-current assets**		
	a	Property, plant and equipment	3	8,43,000
	b	Intangible assets	4	12,000
2		**Current Assets**		
	a	Inventory		1,70,000
	b	Trade receivables	5	2,87,400
	c	Cash and cash equivalents (7,600+4,80,000-2,00,000)		2,87,600
		Total		16,00,000

Notes to Accounts:

			Rs.
1	Share Capital		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of Rs. 8 each fully paid	7,20,000	
	8% Preference share capital*	4,50,000	11,70,000
2	Reserves and Surplus		
	Profit and Loss Account (Dr. balance)		(2,70,000)
3	Property plant and equipment		
	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	8,43,000
4	Intangible assets		
	Patent Rs. (36,000 - 24,000)		12,000
5	Trade Receivables		
	Sundry Debtors	3,01,800	
	Less: Bad debts	(14,400)	2,87,400

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

Rate of return : 6% on Preference Shares
Dividend : (6/100) x Rs. 6,00,000 = Rs. 36,000
Rate of return : 8% on Preference Shares

Dividend : (8/100) x X = Rs. 36,000
X = (36,000/8) x 100 = Rs. 4,50,000
New Preference Share Capital = Rs. 4,50,000
Old Preference Share Capital = Rs. 6,00,000
(6,00,000 – 4,50,000) = Rs. 1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of Rs. 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence Rs. 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and Rs. 30,000 shall be written-off from Capital Reduction A/c.

3. **Calculation of Amount written off on Land & Building and Plant & Machinery**
Land & Building = (85/100) x 5,40,000 = Rs. 4,59,000
Plant & Machinery = (80/100) x 4,80,000 = Rs. 3,84,000
Reduced by:
Land & Building = (5,40,000 - 4,59,000) = Rs. 81,000
Plant & Machinery = (4,80,000 - 3,84,000) = Rs. 96,000

Question 9 : May 2023 – Paper

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of Rs. 40,00,000 divided into Rs. 8,00,000 equity shares of 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (Rs.)	Y Ltd. (Rs.)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:
The following revalued figures of non-current and current assets are:

	X Ltd.	Y Ltd.
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include 1,37,250 owed by X Ltd. to Y Ltd.
The purchase consideration is satisfied by issue of the following shares and debentures.
6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd.	Y Ltd.
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss) / Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.
You are required to:
(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.

(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

Solution :

(1) **Computation of amount of Debentures and Shares to be issued:**

(i) Average Net Profit

	X Ltd.	Y Ltd.
Rs. (42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
Rs. (26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

(a) Ratio of distribution

X Ltd.	:	Y Ltd.
1		1

(b) Number of shares

X Ltd. :	3,10,000
Y Ltd. :	3,10,000
	6,20,000

(c) Amount of shares

3,10,000 shares of Rs. 5 each	=	Rs. 15,50,000
3,10,000 shares of Rs. 5 each	=	Rs. 15,50,000

(iii)

Capital Employed (after revaluation of assets)	X Ltd. (Rs.)	Y Ltd. (Rs.)
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	54,77,500
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	36,75,000

(iv) Debentures Issued

	X Ltd. (Rs.)	Y Ltd. (Rs.)
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	$1,65,000 \times \frac{100}{7.5}$	$1,47,000 \times \frac{100}{7.5}$
	22,00,000	19,60,000

(2)

Balance Sheet of XY Ltd.

As at 31st March 2023 (after amalgamation)

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	31,00,000
(b) Reserves and Surplus	2	5,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	41,60,000

(3)	**Current Liabilities**		
	(a) Trade Payables	4	76,35,250
	Total		1,54,35,250
II.	**Assets**		
(1)	**Non-current assets**		
	(a) PPE	5	1,10,00,000
(2)	**Current assets**		
	(a) Other current assets	6	44,35,250
	Total		1,54,35,250

Notes to Accounts

			Rs.
1	Share Capital		
	Authorized		
	8,00,000 Equity Shares of Rs. 5 each		40,00,000
	Issued and Subscribed		
	6,20,000 Equity Shares of Rs. 5 each		31,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2	Reserve and Surplus		
	Capital Reserve		5,40,000
3	Long-term borrowings		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000
4	Current Liabilities:		
	Trade Payables		
	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5	Property, Plant and Equipment:		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6	Other Current Assets:		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes :

		X Ltd. Rs.	Y Ltd. Rs.	Total Rs.
(1)	Purchase Consideration			
	Equity Shares Issued	15,50,000	15,50,000	31,00,000
	7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
		37,50,000	35,10,000	72,60,000
(2)	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	14,40,250*	44,35,250
		1,00,95,000	53,40,250	1,54,35,250
	Less: Current Liabilities	(58,32,750**)	-18,02,500	-76,35,250
		42,62,250	35,37,750	78,00,000
(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
(c)	Capital Reserve [(a) - (b)]	5,12,250	27,750	5,40,000

* 15,77,500–1,37,250 = 14,40,250

** 59,70,000–1,37,250 = 58,32,750

Note: In Working note 2 given above, the mutual owings amounting Rs. 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings. In that case, this working note will be presented in the following manner:

	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	15,77,500	45,72,500
		1,00,95,000	54,77,500	1,55,72,500
	Less: Current Liabilities	(59,70,000)	(18,02,500)	(77,72,500)
		41,25,000	36,75,000	78,00,000
(b)	Purchase Consideration	37,50,000	3,51,00,000	72,60,000
(c)	Capital Reserve [(a) - (b)]	3,75,000	1,65,000	5,40,000

Question 10 : May 2024 – RTP

As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

1. The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of Rs. 50 each), the following-
   (a) 15,000 Fully paid equity shares of Rs. 10 each;
   (b) 12% fully paid preference shares to the extent of 2/5 of total equity shares;
   (c) To pay them Rs. 50,000 and transfer the remaining to the reconstruction account.
2. 8% Preference share capital - Rs. 3,00,000
   To write down the value of preference shares to Rs. 50 (original face value Rs. 100).
3. 14% debentures of the nominal value of Rs. 2,00,000 along with accrued interest Rs. 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme.

Solution :

Journal entries in the books of Getting better Co.

Date	Particulars		Dr. Rs.	Cr. Rs.
	Share capital A/c (Rs.50)	Dr.	5,00,000	
	To Share capital A/c (Rs.10)			1,50,000
	To 12% Preference share capital A/c			2,00,000
	To Bank A/c			50,000
	To Reconstruction A/c			1,00,000
	(Being 15,000 equity shares of Rs. 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)			
	Preference Share capital A/c (Rs. 100)	Dr.	3,00,000	
	To Preference share capital A/c (Rs. 50)			1,50,000
	To Reconstruction A/c			1,50,000
	(Being the preference share capital reduced and forfeited as per reconstruction scheme)			
	14% Debenture A/c	Dr.	2,00,000	
	Interest accrued on Debentures A/c	Dr.	56,000	
	To Bank A/c			64,000
	To Reconstruction A/c			1,92,000
	(Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)			
	Reconstruction A/c	Dr.	4,42,000	
	To Capital Reserve A/c			4,42,000
	(Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)			

Question 11 : May 2024 – Paper

Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024 :

Particulars	Rs.
Equity and Liabilities :	
Share Capital	
Equity shares of Rs.100 each	60,00,000
8% Preference shares of Rs.100 each	21,00,000
10% Debentures of Rs.100 each	18,00,000
Trade Payables	16,80,000
Total	**1,15,80,000**
Assets :	
Goodwill	81,000
Property, Plant and Equipment	72,00,000

Trade Receivables	13,75,000
Inventories	9,80,000
Cash at Bank	1,33,000
Own Debentures (Nominal value of Rs.6 lakhs)	5,76,000
Profit and Loss A/c	12,35,000
Total	**1,15,80,000**

On 1st April, 2024, Court approved the following reconstruction scheme for Z Limited :

(i) Each equity share shall be sub-divided into 10 equity shares of Rs.10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.

(ii) Preference share dividend are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

(iii) Own debentures of Rs.2,40,000 (nominal value) were sold at Rs.98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of Rs.6,00,000 agreed to accept one machinery of book value of Rs.9,00,000 in full settlement.

(v) Remaining Property, Plant and Equipment were value at Rs.60,00,000.

(vi) Trade Payables, Trade Receivables and Inventories were value at Rs.15,00,000; Rs.13,00,000 and Rs.9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.

(vii) Company paid Rs.60,000 as penalty to avoid capital commitments of Rs.12 lakhs.

(viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to:

(1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account.

Solution :

Journal entries

In the Books of Z Ltd. as on 1st April 2024

	Particulars		Dr.	Cr.
01.04.2004			**Amount (Rs.)**	**Amount (Rs.)**
1	Equity share capital A/c (Rs. 100)	Dr.	60,00,000	
	To Equity share capital A/c (Rs. 10)			60,00,000
	(Being sub-division of one share Rs. 100 each into 10 shares of Rs. 10 each)			
2	Equity share capital A/c (Rs. 10)	Dr.	24,00,000	
	To Capital reduction A/c			24,00,000
	(Being reduction of Equity capital by 40%)			
3	Capital reduction A/c	Dr.	1,68,000	
	To Bank A/c			1,68,000
	(Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years			
4	Bank A/c	Dr.	2,35,200	

	To Own debentures A/c			2,30,400
	(5,76,000/6,00,000) x 2,40,000			
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures Rs. 2,40,000 transferred to capital reduction A/c)			
5	10% Debentures A/c	Dr.	3,60,000	
	(6,00,000 -2,40,000)			
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
6	10% Debentures A/c	Dr.	6,00,000	
	Capital reduction A/c	Dr.	3,00,000	
	To Machinery or PPE A/c			9,00,000
	(Being machinery taken up by debenture holders for Rs. 6,00,000)			
7	Capital reduction A/c (balancing figure)	Dr.	3,00,000	
	To PPE A/c			3,00,000
	(72,00,000 - 9,00,000 - 60,00,000)			
	(Being PPE revalued)			
8	Trade payables A/c	Dr.	1,80,000	
	(16,80,000 -15,00,000)			
	To Trade receivables A/c			75,000
	(13,75,000-13,00,000)			
	To Inventory A/c			36,000
	(9,80,000-9,44,000)			
	To Capital Reduction A/c			69,000
	(Being assets and liabilities revalued)			
9	Capital reduction A/c	Dr.	13,16,000	
	To Goodwill A/c			81,000
	To Profit and Loss A/c			12,35,000
	(Being the above assets written off)			
10	Capital reduction A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Being penalty paid for avoidance of capital commitments)			
11	Capital reduction A/c	Dr.	3,44,200	
	To Capital reserve A/c			3,44,200
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			

2. **Capital Reduction Account**

	(Rs.)		(Rs.)
To Bank	1,68,000	Equity Share Capital	24,00,000
To Property, Plant & Equipment	3,00,000	Trade Payable	1,80,000
To Property, Plant & Equipment	3,00,000	Bank A/c (Profit on Sale)	4,800
To Trade Receivables	75,000	10% debentures A/c (Profit on cancellation)	14,400
To Inventory	36,000		
To Goodwill	81,000		
To Profit and Loss A/c	12,35,000		
To Cash/Bank A/c	60,000		
To Capital Reserve	3,44,200		
	25,99,200		**25,99,200**

3. **Bank Account**

	(Rs.)		(Rs.)
To balance b/d	1,33,000	By Capital Reduction	1,68,000
To Own Debenture	2,35,200	By Capital Reduction A/c	60,000
(2,30,400 +4,800)		By balance c/d	1,40,200
	3,68,200		**3,68,200**

Question 12 : Sept 2024 – Paper

The following scheme of reconstruction has been approved for Equity shareholders and Debenture holders of TP Ltd.

(i) The Equity shareholders to receive in lieu of their present holding of 1,50,000 shares of Rs.10 each, the following :
  (1) For Rs.50,000, equivalent cash
  (2) For Rs.9,00,000, 10% debentures issued at premium of 20% (Face value of debenture is Rs.100 each)
  (3) For balance Rs.5,50,000, Equity shareholders agreed to accept 50,000 equity shares of Rs.10 each in full settlement.

(ii) 8% Debenture Rs.5,00,000.
Debenture holders agreed to accept Freehold property (Book value Rs.3,50,000) at a valuation of Rs.4,45,000 in full settlement of their claim.

Pass necessary Journal Entries in the Books of TP Ltd. for the above reconstruction. Narration for Journal entries is not required to be given.

Solution :

Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	15,00,000	
To Equity Share Capital (Rs. 10) A/c			5,00,000
To Cash A/c			50,000
To 10% Debentures A/c			7,50,000

To Securities premium			1,50,000
To Capital Reduction/Reconstruction A/c			50,000
(Being new equity shares, 8% Debentures issued, cash of Rs. 50,000 and the balance transferred to Reconstruction account as per the Scheme)			
8% Debentures A/c	Dr.	5,00,000	
To Freehold Property A/c			4,45,000
To Capital Reduction/Reconstruction A/c			55,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Capital Reduction/Reconstruction A/c	Dr.	1,05,000	
To Capital Reserves A/c			1,05,000
(Being balance in capital reduction account transferred to Capital Reserves A/c)			

Question 13 : Jan 2025 – Paper

Sustain Limited is incurring losses due to adverse market conditions. It decided to recognize its capital structure. The summarized Balance Sheet of the company as on 31st March, 2024 is as follows:

Particulars			**Notes**	**Rs.**
Equity and Liabilities				
1.	**Shareholder's Fund**			
	(a)	Share Capital	1	10,00,000
	(b)	Reserves and Surplus	2	(2,50,000)
2.	**Non-current liabilities**			
	Long term borrowings		3	4,50,000
3.	**Current liabilities**			
	(a)	Trade Payables		1,30,000
	(b)	Short term borrowings – Bank Overdraft		65,000
	(c)	Other Current Liabilities (Interest payable on Debentures)		45,000
	(d)	Short term provision (Provision for Income Tax)		1,00,000
		Total		**15,40,000**
Asset				
1.	**Non-current assets**			
	(a)	Property, Plant & Equipment	4	8,50,000
	(b)	Intangible assets	5	60,000
	(c)	Non-current investments	6	2,80,000
2.	**Current assets**			
	(a)	Inventories		1,20,000
	(b)	Trade Receivables		2,30,000
		Total		**15,40,000**

Note to accounts :

Particulars		Rs.
1.	**Share Capital**	
	Equity share capital :	
	50,000 Equity shares of Rs.10 each fully paid up	5,00,000
	25,000 Equity shares of Rs.10 each, Rs.8 paid up	2,00,000
	Preference share capital :	
	30,000 8% Cumulative Preference shares of Rs.10 each	
	(Preference dividend has been in arrears for 3 years)	3,00,000
		10,00,000
2.	**Reserves and Surplus**	
	Profit and Loss account (debit balance)	(2,50,000)
		(2,50,000)
3.	**Long-term borrowings**	
	Secured :	
	10% Debentures of Rs.100 each	4,50,000
		4,50,000
4.	**Property, Plant and Equipment**	
	Freehold property	1,00,000
	Plant and machinery	7,50,000
		8,50,000
5.	**Intangible assets**	
	Goodwill	60,000
		60,000
6.	**Non-current investments**	
	Non-trade investments at cost	2,80,000
		2,80,000

Subsequent to approval by court and all interested parties, the following scheme of reconstruction were agreed :-

(1) Uncalled capital is to be called up in full and such shares and other fully paid-up equity shares to be reduced to Rs.5 per shares.

(2) The preference shareholders will accept a reduction of rs.2.5 per share, in exchange the rate of dividend is to be increased to 9%.

(3) Preference shareholders will forgo their claim of dividend for one year and one equity shares of Rs.5 each is to be issued for the remaining arrears of dividend.

(4) Mr.X holds 10% debentures for Rs.2,50,000. He is also a creditor for Rs.50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay Rs.20,000 to the company and to receive new 12% debentures for the balance amount.

(5) The remaining claim of the debenture holders, including outstanding interest to be reduced to 60%. In consideration of the reduction, the debenture holders are to receive new 9% preference shares at new face value.

(6) The taxation liability is to be settled at Rs.1,20,000.

(7) Market value of Non-current Investments is Rs.2,50,000. Investments to be brought to their market value.

(8) Inventory equal to Rs.1,00,000 at book value will be taken over by remaining creditors in full settlement of their claim.
(9) A bad debt provision of 2% is to be created on trade receivables.
(10) Plant and Machinery is to be written down by 20%.
(11) The company will further issue 12% debentures for such amount which is sufficient to pay off bank overdraft and other outstanding liabilities and maintain its cash/bank balance at Rs.85,000.
(12) The amount available by the scheme shall be utilized in writing of Goodwill, debit balance of profit and loss a/c and balance of inventory.

You are required to:

(a) Show the journal entries, necessary to record the above transaction in the company's books and
(b) Prepare a note to show revised share capital structure of the company after completion of the scheme.

Solution :

Journal Entries in books of Sustain Limited

			Rs.	Rs.
1	Bank Account To Equity Share Capital Account (Balance of Rs. 2 per share on 25,000 equity shares called up)	Dr.	50,000	 50,000
2	Equity Share Capital (Rs. 10) Account To Equity Share Capital (Rs. 5) Account To Capital Reduction Account (Reduction of equity shares of Rs. 10 each to shares of Rs. 5 each as per reconstruction scheme)	Dr.	7,50,000	 3,75,000 3,75,000
3	8 % Cumulative Preference Share Capital (Rs. 10) A/c To 9% Cumulative Preference Share Capital (Rs. 7.5) A/c To Capital Reduction A/c (Being Preference shares of Rs. 10 each reduced by Rs. 2.5 each per share by changing the rate of dividend from 8% to 9% and the balance transferred to Capital Reduction A/c.)	Dr.	3,00,000	 2,25,000 75,000
4	Capital Reduction A/c To Preference share dividend payable A/c (Being arrear of Preference share dividend payable for one year)	Dr.	48,000	 48,000
5	Preference share dividend payable A/c To Equity Share Capital (Rs. 5) A/c (Being Equity Shares of Rs. 5 each issued against arrears of 2 years Preference Share dividend) (W.N.1)	Dr.	48,000	 48,000
6	10% Debentures Account	Dr.	2,50,000	

	Interest on Debentures Outstanding A/c	Dr.	25,000	
	Trade payables Account	Dr.	50,000	
	To Mr. X			3,25,000
	(The total amount due to X, transferred to his account)			
7	Bank Account	Dr.	20,000	
	To Mr. X			20,000
	(The amount paid by X under the reconstruction scheme)			
8	Mr. X	Dr.	3,45,000	
	To 12% Debentures Account			1,82,500
	To Capital Reduction A/c			1,62,500
	(The cancellation of 50% of the total debt of Mr. X and the issue of 12% new debentures for the balance amount as per the reconstruction scheme)			
9	10% Debentures A/c	Dr.	2,00,000	
	Interest on Debentures Outstanding A/c	Dr.	20,000	
	To 9% Cumulative Preference Share capital A/c			1,32,000
	To Capital Reduction A/c			88,000
	(Being 9% preference share capital issued to 10% debenture-holders for 60% of their claims. The balance is transferred to capital reduction account as per the reconstruction scheme)			
10	Provision for Tax A/c	Dr.	1,00,000	
	Capital Reduction A/c		20,000	
	To Bank A/c			1,20,000
	(Being payment of tax liability in full settlement)			
11	Trade payables A/c (1,30,000-50,000)	Dr.	80,000	
	Capital reduction A/c	Dr.	20,000	
	To Inventory A/c			1,00,000
	(Being settlement of creditors by giving inventory)			
12	Capital reduction A/c	Dr.	1,84,600	
	To Investment A/c			30,000
	To Provision for bad debt A/c (2,30,000 x 2%)			4,600
	To Plant & Machinery (7,50,000x 20%)			1,50,000
	(Investment brought to their market value, Plant & machinery is written down by 20% & Provision for Bad debts of 2% created under the scheme of reconstruction)			
13	Bank A/c	Dr.	2,00,000	
	To 12% debentures A/c			2,00,000
	(New 12 % debentures issued to pay off bank overdraft and maintain cash balance)			
14	Bank Overdraft	Dr.	65,000	
	To Bank A/c			65,000
	(Bank overdraft paid)			
15	Capital reduction A/c	Dr.	4,27,900	

	To Goodwill A/c		60,000
	To Profit and loss A/c		2,50,000
	To Inventory		20,000
	To Capital reserve A/c		97,900
	[Being goodwill and profit and loss account (Dr. bal.), balance inventory; and balance of capital reduction account transferred to capital reserve]		

Notes to accounts

		Rs.
1	Share Capital	
	Equity share capital	
	Issued, subscribed and paid up	
	84,600 equity shares of Rs. 5 each (75,000+9,600)	4,23,000
	47,600, 9 % Cumulative Preference Shares of Rs. 7.50 each (30,000+17,600)	3,57,000
	Total	7,80,000

Working note

1. **Calculation of the number of equity shares issued for 2 years arrear of preference share dividend**
   3,00,000 x 8%x 2 = 48,000
   Equity share of Rs. 5 per share issued= 48,000/5= 9,600 shares

2. **Cash & bank Account**

To Uncalled capital	50,000	By Bank Overdraft	65,000
To Mr. X	20,000	By Tax	1,20,000
To 12% Debentures A/ (bal. fig.)	2,00,000	By Balance C/d	85,000
	2,70,000		2,70,000

3. **The new face value of preference share is 10-2.5**= Rs. **7.5**
   Calculation of Number of 9% Preference shares issued in consideration of reduction:
   1,32,000/7.5 = 17,600

Question 14 : Sept 2025 – Paper

The following scheme of reconstruction has been approved for Megha Limited on 1st April 2025 :

(i) Debenture holders of 9% Debentures of Rs.5,00,000 accepted to receive 25% of their total in cash and take over the Plant and Machinery of Rs.2,85,000 in full settlement of their dues.

(ii) Furniture and Fixtures which stood at the books of Rs.5,50,000 to be written down to Rs.4,45,000.

(iii) The Freehold Premises of book value of Rs.9,25,000 showed an appreciation of Rs.75,000.

(iv) There were capital commitments amounting to Rs.4,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(v) Write off the profit and loss account debit balance of Rs.1,15,000 which had been accumulated over the years.

(vi) In case of shortfall, the balance of the General reserve of Rs.90,000 can be utilized to write off the losses under reconstruction scheme.

You are required to pass necessary journal entries as a part of the reconstruction process as on 1st April 2025.

Solution :

Journal entries in the books of Megha Ltd.

			Rs.	Rs.
i	9% Debentures A/c	Dr.	5,00,000	
	To Bank A/c			1,25,000
	To Plant & Machinery A/c			2,85,000
	To Reconstruction A/c			90,000
	(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
ii	Reconstruction A/c	Dr.	1,05,000	
	To Furniture and Fixtures, A/c			1,05,000
	(Writing off overvalued assets as per reconstruction Scheme)			
iii	Freehold premises A/c	Dr.	75,000	
	To Reconstruction A/c			75,000
	(Being the increase in the value of premises credited to reconstruction account as per reconstruction scheme)			
iv	Reconstruction A/c	Dr.	22,500	
	To Bank A/c			22,500
	(Being payment for cancellation of capital commitment.)			
v	Reconstruction A/c	Dr.	1,15,000	
	To Profit and loss A/c			1,15,000
	(Being the loss written off as per reconstruction scheme)			
vi	General reserve A/c	Dr.	77,500	
	To Reconstruction A/c			77,500
	(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

Thanks ....

CHAPTER

34

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

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Question 1 : May 2018 – RTP / May 2021 – RTP

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

Particulars	Rs.	Particulars	Rs.
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2017.

Solution :

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Rs.74,736 + 1/3 of Rs.74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	
	4,85,888		**4,85,888**

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	Rs.	Particulars	Rs.
To Opening [Rs.74,736 + 1/3 of Rs.74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (Rs.1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		**6,06,080**

Step 3 : Calculation of Commission still due to manager

		Rs.
A	Calculation at 10% profit before charging his commission [Rs.40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of Rs.1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
E	Balance due (C-D)	1,384

Question 2 : May 2018 – Paper

Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}\%$. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	Rs.
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs.48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018.

Solution :

In the books of Head Office

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs.24,000 x 25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		**27,96,000**

*Alternatively, combined posting for the amount of Rs. 24,000 may be passed through Goods pilfered account.

** Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

*** It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	Amount	Particulars	Amount
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (Rs.3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (Rs.24,00,000 – Rs.1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (Rs.3,36,000 x 25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		**6,96,000**

Branch Profit and Loss Account

Particulars	Amount	Particulars	Amount
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & L A/c	5,52,000		
	5,70,000		5,70,000

Question 3 : Nov 2018 – RTP

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid Rs.5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of Rs.1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year Rs.15,000 not recorded by Branch.

(iv) Head Office expenses Rs.75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected Rs.60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to Rs.50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of Rs.10,000 on behalf of other Branches, but not recorded in the books of Branch.

(viii) Head office made payment of Rs.16,000 for purchase of goods by branch, but not recorded in branch books.

Solution :

Books of Branch

Journal Entries

			Dr.(Rs.)	Cr.(Rs.)
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account			60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account			50,000

	(Being goods sent by Head Office still in-transit)			
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			10,000
	(Being expenditure incurred, wrongly recorded in books)			
(viii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account			16,000
	(Being purchases booked)			

Question 4 : May 2019 – RTP / May 2019 - Paper

From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		Rs.
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing Rs.1,200 were destroyed due to fire and a sum of Rs.1,000 was received from the Insurance Company.

Solution :

Pune Branch Account

Particulars		Rs.	Particulars		Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch		1,000
Rent	2,000		(return of goods by the branch to H.O.)		
Salaries	2,400		By Closing Balances:		
Petty Cash	1,000		Stock		
Insurance	600	6,000	Petty Cash		5,000
To Net Profit		78,950	Debtors		650
		1,81,600	Furniture (2,000 – 10% depreciation)		4,900
			Prepaid insurance		1,800
			(1/4 x Rs.600)		150
		1,81,600			**1,81,600**

Working Notes :

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

Question 5 : May 2019 – Paper

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 31st March, 2019 and the additional information thereafter:

	Dr.	Cr.
	(Rs. in thousands)	
Stock on 1st 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	-	3,040
Total	6,520	6,520

Additional information :

(a) 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.

(b) Closing Stock of Delhi branch was Rs.15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(i) on 1.4.2018 @ Rs.50 per Singapore Dollar

(ii) on 31.3.2019 @ Rs.52 per Singapore Dollar

(iii) Average Exchange Rate for the year @ Rs.51 per Singapore Dollar.

(iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) 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 :

(1) Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar)

Solution :

Revenue Statement
for the year ended 31st March, 2019

	Singapore dollar		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		
	77,058.82		77,058.82
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 31st 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 31st March, 2019

			Conversion rate per Singapore dollar	Dr. Singapore dollar	Cr. Singapore dollar
			Rs.		
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			-		59,897.43
				1,27,725.48	1,27,725.48

Question 6 : Nov 2020 – RTP / Nov 2022 – RTP

M & S Co. of Lucknow has a branch(integral foreign operation) in Canberra, Australia. As on 31st March 2022, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		

Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2021	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2022
Lucknow Rs. 1,50,000
Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = Rs. 50
Closing rate	1 A $ = Rs. 53
Average rate	1 A $ = Rs. 51.00
For Fixed Assets	1 A $ = Rs. 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2022 showing to the extent possible H.O. results and Branch results separately.

Solution :

M & S Co. Ltd.

Canberra, Australia Branch Trial Balance as on 31st March 2022

	($ 'thousands)			(Rs. 'thousands)	
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	

Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2021)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	45		Actual	100	
Wages & Salaries	12		Rs. 51	2,295	
Rent	18		Rs. 51	612	
Office expenses		100	Rs. 51	918	
Commission Receipts		7	Rs. 51		5,100
H.O. Current A/c			Actual	_____	120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)	___	___		208	_____
	390	390		19,063	19,063
Closing stock	3.125		53	165.625*	

Trading and Profit & Loss Account for the year ended 31st March, 2022

	H.O.	Branch	Total		H.O.	Branch	Total
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	-	100.000
To Goods received from Head Office	-	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	770	**6,438.625**	**7,208.625**		**770**	**6,438.625**	**7,208.625**
To Rent	-	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts @ 5%	14	159.000	173.000				
To Depreciation (W. N.)	460	644.000	1,104.000				
To Balance c/d	112	4,790.625	4,902.625				
	611	**7,123.625**	**7,734.625**		**611**	**7,123.625**	**7,734.625**
To Managing Partner's Salary			30.000	By Balance b/d			4,902.625
To Exchange Loss			208.000	By Branch stock reserve			4.000
To Balance c/d			4,668.625				
			4,906.625				**4,906.625**

Working Note:

Calculation of Depreciation

	H.O Rs. '000	Branch Rs.'000
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	

Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Question 7 : Nov 2020 – Paper

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & Credit sales. Branch expenses are paid directly from head office and the branch has to remit all cash received into the bank account of head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020.

	Amount (Rs)
Goods received from Head Office at Invoice Price	8,40,000
Goods returned to Head office at Invoice price	60,000
Cash sales for the year 2019 -2020	1,85,000
Credit sales for the year 2019 -2020	6,25,000
Stock at branch as on 1/4/2019 at invoice price	72,000
Debtors at Patna branch as on 1/4/2019	96,000
Cash received from debtors	4,38,000
Discount allowed to debtors	7,500
Goods returned by customers at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from bad debts previously written off as bad	1,000
Rent, rates & Taxes at branch	24,000
Salaries & Wages at Branch	72,000
Office Expenses (At branch)	9,200
Stock at branch as on 31/3/2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following stock and debtors method and ascertain branch profit.

Solution :

Branch Stock Account

		Rs.			Rs.	Rs.	Rs.
1.4.19	To Balance b/d (opening stock)	72,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	8,40,000		Cash		1,85,000	
	To Branch P & L	94,000		Credit	6,25,000		
				Less: Return	(14,000)	6,11,000	7,96,000
				By Goods sent to branch - returns			60,000

				By Balance c/d (closing stock)			1,50,000
		10,06,000					**10,06,000**
1.4.20	To Balance b/d	1,50,000					

Branch Debtors Account

		Rs.			Rs.
1.4.19	By Balance b/d	96,000	31.3.20	By Cash	4,38,000
31.3.20	By Sales	6,25,000		By Returns	14,000
				By Discounts	7,500
				By Bad debts	5,500
				By Balance c/d	2,56,000
		7,21,000			**7,21,000**
1.4.20	By Balance b/d	2,56,000			

Branch Expenses Account

		Rs.			Rs.
31.3.20	To Salaries & Wages	72,000	31.3.20	By Branch P&L A/c	1,18,200
	To Rent, Rates & Taxes	24,000			
	To Office Expenses	9,200			
	To Discounts	7,500			
	To Bad Debts	5,500			
		1,18,200			**1,18,200**

Branch Profit & Loss Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Branch Expenses A/c	1,18,200	31.3.20	By Branch stock	94,000
	To Net Profit transferred to General P & L A/c	93,800		By Branch Stock Adjustment account	1,17,000
				By Bad debts recovered	1,000
		2,12,000			**2,12,000**

Branch Stock Adjustment Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Goods sent to branch (60,000x1/6) -returns	10,000	31.3.20	By Balance b/d (72,000x1/6)	12,000
	To Branch P & L A/c	1,17,000		By Goods sent to branch (8,40,000 x 1/6)	1,40,000
	To Balance c/d (1,50,000 x 1/6)	25,000			
		1,52,000			**1,52,000**

Question 8 : Jan 2021 – Paper

Give Journal entries in the books of Branch to rectify or adjust the following :

(1) Branch paid Rs.5,000 as salary to H.O. supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for Rs.25,000, but the Asset was retained in H.O. Books.

(3) A remittance of Rs.8,000 sent by the branch has not been received by H.O.

(4) H.O. collected Rs.25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O. to branch Rs.5,000 not entered in branch books.

Solution :

Journal Entries in Books of Branch A

	Particulars		Dr. Amount Rs.	Cr. Amount Rs.
(i)	Head office account	Dr.	5,000	
	To Salaries account			5,000
	(Being the rectification of salary paid on behalf of H.O.)			
(ii)	Head office account	Dr.	25,000	
	To Bank / Liability A/c			25,000
	(Being Asset purchased by branch but Asset account retained at head office books)			
(iii)	No Entry in Branch Books			
(iv)	Head office account	Dr.	25,000	
	To Debtors account			25,000
	(Being the amount of branch debtors collected by H.O.)			
(v)	Bank A/c	Dr.	5,000	
	To Head Office			5,000
	(Remittance of Funds by H.O. to Branch)			

Question 9 : July 2021 – Paper

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c.	-
		Cash at Bank	26,000
	2,50,000		**2,50,000**

During the six months ending on 30.09.2020, the following transactions took place at Noida:

	Rs.		Rs.

Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (paid for one year)	11,200	Building Account further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.

Solution :

Journal of Noida

			Rs.	Rs.
30/9/20	Advance Salary A/c	Dr.	5,000	
	To Salary A/c			5,000
30/9/20	Prepaid Insurance A/c	Dr.	5,600	
	To Insurance			5,600
30/9/20	Head Office A/c.	Dr.	1,44,900	
	To Purchase A/c			64,500
	To Wages A/c			24,000
	To Salary (15,600 – 5,000)			10,600
	To General Expense			7,800
	To Fire insurance (11,200 – 5,600)			5,600
	To Manger salary			16,400
	To Discount Allowed			16,000
30/9/20	Discount earned A/c	Dr.		4,600
	Sales A/c	Dr.		2,78,000
	To Head office A/c			2,82,600
30/9/20	Head Office A/c	Dr.	14,000	
	To Building A/c			14,000

Dr. Head Office A/c Cr.

Particulars	Amt.	Assets	Amt.
To Sundry (Rev. A/c)	1,44,900	By Balance b/d.	1,88,000
To Building	14,000	By Sundry (Rev. A/c)	2,82,600
To Cash Remittance	52,900		
To Balance c/d.	2,58,800		
	4,70,600		**4,70,600**

Balance Sheet of Noida on 30/9/2020

Liabilities	Amt.	Assets	Amt.
Head Office A/c	2,58,800	Debtors A/c	2,29,000
Creditors A/c	33,400	Advance Salary	5,000
		Prepaid insurance	5,600
		Building Extension	-
		Cash at Bank	47,000
		Cash in Hand	5,600
	2,92,200		**2,92,200**

Dr. Debtor A/c Cr.

Particulars	Amt.	Assets	Amt.
Op.	2,24,000	By Bank A/c	2,57,000
Sales	2,78,000	By Discount Allowed	16,000
		By Balance c/d.	2,29,000
	5,02,000		**5,02,000**

Dr. Creditor A/c Cr.

Particulars	Amt.	Assets	Amt.
To Bank	88,500	By Balance b/d.	62,000
To Discount Received	4,600	By Purchase	64,500
To Balance c/d.	33,400		
	1,26,500		**1,26,500**

Question 10 : Dec 2021 – Paper

Delta Ltd. has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office.

Prepare necessary Ledger accounts in the books of Delta Ltd. under Stock and Debtors system to show profit earned at the branch for the year ending 31st March, 2021.

Following information related to Branch is given :

Stock on 1st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
Debtors on 1st April, 2020	17,400	Surplus in stock (Invoice price)	600
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch : Cash sales	20,000	Discount allowed to Debtors	700
Credit sales	68,200	Debtors on 31st March, 2021	14,300

Solution :

Books of Delta Ltd.

Kanpur Branch Stock Account

	Rs.		Rs.
To Balance b/d – Opening Stock	31,200	By Bank A/c – Cash Sales	20,000
To Branch Debtors A/c – Sales Return	3,000	By Branch Debtors A/c - Credit Sales	68,200

To Goods sent to Branch A/c (72,000 + 50% of 72,000)	1,08,000	By Balance c/d - Closing stock	54,600
To Surplus in stock	600		
	1,42,800		**1,42,800**

Kanpur Branch Stock Adjustment Account

	Rs.		Rs.
To Branch Profit and Loss Account	28,400	By Balance b/d (1/3 of Rs. 31,200)	10,400
To Balance c/d	18,200	By Goods sent to Branch A/c (1/3 of Rs. 1,08,000)	36,000
(1/3 of 54,600)		By Surplus in stock	200
	46,600		**46,600**

Goods Sent to Branch Account

	Rs.		Rs.
To Kanpur Branch Stock Adjustment A/c	36,000	By Kanpur Branch Stock A/c	1,08,000
To Purchases A/c	72,000		
	1,08,000		**1,08,000**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	17,400	By Bank (Bal fig.)	67,600
To Branch Stock A/c	68,200	By Branch Expenses A/c (Discount allowed)	700
		By Branch Stock - Sales Returns	3,000
		By Balance c/d	
	85,600		**85,600**

Branch Expenses Account

	Rs.		Rs.
To Bank A/c (expenses)	13,400	By Branch Profit & Loss A/c (Transfer)	14,100
To Branch Debtors A/c (Discount allowed)*	700		
	14,100		**14,100**

Branch Profit & Loss Account for the year ending 31st March 2021

	Rs.		Rs.
To Branch Expenses A/c	14,100	By Branch Adjustment A/c	28,400
To Net Profit	14,700	By surplus in stock (Cost)	400
	28,800		**28,800**

Note: * Discount allowed to debtors may be shown in Branch Profit and Loss account directly instead of transferring it through Branch Expenses account.

Question 11 : May 2022 – RTP

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee @ Rs. 5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs. 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O. Amount (Rs.)	Salem B.O. Amount (Rs.)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	**1/4/2020 Amount (Rs.)**	**31-03-2021 Amount (Rs.)**
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Brach Office		
Balance as on	**1/4/2020 Amount (Rs.)**	**31-03-2021 Amount (Rs.)**
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2020 Rs. 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of Rs. 20,000 per month.

(v) General expenses incurred by Head Office is Rs. 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

Solution :

In the books of Mr. Chena Swami

Salem Branch Account

	Rs.		Rs.
To Balance b/d		By Bank (Remittance to H.O.)	
Opening stock:		By Balance c/d	
Ghee	40,000	Closing stock:	
Refined Oil	22,500	Refined oil	19,500
Debtors	1,80,000	Ghee	90,000
Cash on hand	25,690	Debtors (W.N. 1)	2,10,000
Furniture & fittings	23,800	Cash on hand (W.N. 2)	44,800
To Goods sent to Branch A/c		Furniture & fittings	21,420
Refined Oil (30 x Rs. 1,500x12)	5,40,000		
Ghee (20 x Rs. 5,000 x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Manager's commission in profits 10% (2,26,930x10/110)	20,630		
To Net Profit transferred to General P & L A/c	2,06,300		
	23,35,720		**23,35,720**

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2021

(Excluding branch transactions)

		Rs.		Rs.
To Opening Stock:			By Sales:	
Refined Oil		44,000	Refined Oil	24,10,000
Ghee		10,65,000	Ghee	38,40,500
To Purchases:			By Closing Stock:	
Refined Oil	27,50,000		Refined Oil	8,90,000
Less: Goods sent to Branch	(5,40,000)	22,10,000	Ghee	15,70,000
Ghee	48,28,000			
Less: Goods sent to Branch	(12,00,000)	36,28,000		
To Direct Expenses		6,35,800		
To Gross Profit		11,27,700		

	87,10,500		**87,10,500**
To Manager's Salary	2,40,000	By Gross Profit	11,27,700
To General Expenses	1,86,000	By Branch Profit transferred	2,06,300
To Depreciation			
Furniture (88,600 - 79,740)	8,860		
Building (5,10,800 + 2,41,600 - 7,14,780)	37,620		
To Net profit	8,61,520		
	13,34,000		**13,34,000**

Working Notes:

(1) **Debtors Account :**

	Rs.		**Rs.**
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during the year :		By Balance c/d (Bal. Figure)	2,10,000
Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		**22,25,000**

(2) **Branch Cash Account**

	Rs.		**Rs.**
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		**20,40,690**

Question 12 : May 2022 – Paper

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March, 2022.

(Figures in Rs.)

Stock on 1st April, 2021 (invoice price)		12,000
Debtors on 1st April, 2021		10,000
Goods received from head office (invoice price)		1,32,000
Sales: Cash	46,000	
Credit	1,00,000	1,46,000
Cash received from debtors		85,000
Expenses at branch		17,500
Debtors on 31st March, 2022		25,000

Stock on 31st March, 2022 (invoice price)	17,600
Remittances to head office	1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Debtor Account for the year ended 31st March, 2022.

Solution :

In the books of walkaway footwears

Patna Branch Stock Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
1.1.21	To Balance b/d	12,000	31.12.21	By Bank A/c (Cash sales)	46,000
	Goods sent to			By Branch debtors A/c (credit sales)	1,00,000
31.12.21	To Branch A/c	1,32,000	31.12.21	By Shortage in stock A/c	400
	To Branch adjustment A/c (Surplus over invoice price)	20,000		By Balance c/d	17,600
		1,64,000			**1,64,000**

Patna Branch Adjustment Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
31.12.21	To Stock reserve - Rs. 17,600 x 60/160 (closing stock)	6,600	31.12.21	By Stock reserve – Rs. 12,000 x 60/160 (Opening stock)	4,500
	To Shortage (400x 60/160)	150		By Goods sent to branch A/c	49,500
	To Branch profit & loss A/c (Gross profit)	67,250		(Rs. 1,32,000 x 60/160)	
				By Branch stock A/c	20,000
		74,000			**74,000**

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c	17,500	By Branch adjustment A/c	67,250
To Shortage in stock A/c	250	(Gross Profit)	
To Net profit (transferred to Profit & Loss A/c)	49,500		
	67,250		**67,250**

Branch Debtors Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
1.1.21	To Balance b/d	10,000	31.12.21	By Bank A/c	85,000

31.12.21	To Branch stock A/c	1,00,000		By Balance c/d (bal. fig.)	25,000
		1,10,000			**1,10,000**

Question 13 : Nov 2022 – Paper

Modern Stores of Delhi operates a retail branch at Nagpur. The Head office affects all the purchases and the branch is charged at cost plus 60%. All the cash received by the Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintain a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022 :

	Rs.
Goods received from Delhi at Selling Price	1,50,000
Cash Sales	69,000
Goods returned to Delhi at Selling Price	3,000
Credit Sales (Net of returns)	63,000
Authorized Reduction in selling Price of Goods Sold	1,500
Cash Received from Debtors	48,000
Debtors written off as irrecoverable	2,000
Cash Discount allowed to Debtors	1,500

- On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to Rs.60,000 and the debtors were Rs.40,000.
- A consignment of goods sent to the Branch on 27th March, 2022 with a Selling Price of Rs.1,800 was not received until 5th April, 2022 and had not been accounted for in stock.
- The Closing Stock at Selling Price was Rs.72,900.
- The expenses relating to the Branch for the year ended 31st March, 2022 amounted to Rs.18,000.

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage.

Solution :

Books of Modern Store Delhi

Nagpur Branch Stock A/c

Particulars	Rs.	Particulars	Rs.
To Opening stock	60,000	By Bank A/c (Cash Sales)	69,000
To Goods sent to branch A/c	1,50,000	By Branch Debtors A/c (Credit sales)	63,000
To Goods sent to branch A/c	1,800	By Goods sent to branch A/c (Return)	3,000
		By Branch adjustment A/c (Reduction in selling price)	1,500
		By Branch adjustment A/c (Normal Loss)	600

		By Closing stock (including stock in transit of Rs. 1,800)	
	2,11,800		**2,11,800**

Branch Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Bal. b/d	40,000	By Cash/Bank A/c	48,000
To Branch Stock (Sales)	63,000	By Branch P&L A/c (Bad debts)	2,000
		By Branch P&L A/c (Discount)	1,500
		By Bal. c/d	51,500
	1,03,000		**1,03,000**

Branch Adjustment A/c

Particulars	Rs.	Particulars	Rs.
To Branch Stock Account (Reduction in selling price)	1,500	By Stock reserve A/c (60,000 X 60/160)	22,500
To Branch Stock Account (Normal loss*)	600	By Goods sent to branch A/c (Loading) (1,51,800 X 60/160)	56,925
To Goods sent to branch A/c (loading on returns) (3,000 X 60/160)	1,125		
To Branch P&L A/c	48,187		
To Stock reserve A/c (74,700 X 60/160)	28,013**		
	79,425		**79,425**

Note: * Alternatively, the loading of Rs. 225 on normal loss may be charged to Branch Adjustment A/c and cost Rs.375 thereof may be charged to Branch P&L A/c.
** rounded off. Alternatively may be rounded off as Rs. 28,012.

Branch P&L A/c

Particulars	Rs.	Particulars	Rs.
To Branch expenses A/c	18,000	By Branch Adjustment A/c	48,187
To Bad debts A/c	2,000		
To Discount A/c	1,500		
To Net Profit	26,687		
	48,187		**48,187**

Question 14 : May 2023 – RTP

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US$	
	Debit	Credit
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		37,322
Total	**2,34,462**	**2,34,462**

Following further information are given:

(i) Salaries outstanding as on 31st March, 2022 is US$ 600.

(ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.

(iii) Closing stock as on 31st March, 2022 is US $, 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as Rs. 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2021.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2021 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates are :

Date	1 US $ is equivalent to
1st April, 2021	Rs. 64
31st December, 2021	Rs. 70
31st March, 2022	Rs. 75
Average for the year	Rs. 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US $ into rupees.

Solution :

In the books of PQR

Trial Balance (in Rupees) of Houston (USA) Branch – Non Integral foreign operation as on 31st March, 2022

	Dr. US $	Cr. US $	Conversion rate	Dr. Rs.	Cr. Rs.
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	
Furniture and fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on furniture and fixtures (Accumulated) (6,840-50-45 +2,916)		9,661	75		7,24,575
Stock (1st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		1,26,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614 (given)
Trade receivables	12,560		75	9,42,000	
Trade payables		8,650	75		6,48,750
Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M (Receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig.)					3,75,100
	2,42,983	2,42,983		1,76,46,539	1,76,46,539

Closing stock 24,650 US$ x Rs. 75 =Rs.18,48,750.

Question 15 : May 2023 – Paper

Artis Limited has a branch at Seattle USA. Its Trial Balance as on 31st December, 2022 is as follows:

	Dr.in US $	Cr.in US $
Stock as on 01.01.2022	22,000	—
Purchases	1,00,000	—
Sales	—	1,30,500
Goods from H.O.	30,000	—

Salaries	4,000	—
Head Office A/c.	—	27,000
Sundry Debtors	2,200	—
Sundry Creditors	—	1,500
Cash at Bank & Hand	800	—
Total	**1,59,000**	**1,59,000**

The following information is given :

(i) Salaries outstanding are $ 500.

(ii) The Head Office sent goods to Branch for Rs.24,00,000.

(iii) The Head Office shows an amount of Rs.21,90,000 due from Branch.

The exchange rates were as below :

- On 1st January 2022 – Rs.79 to 1 $
- On 31st December 2022 - ? 83 to 1 $
- Average rate during the year was 79.50 to 1 $

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees.

Solution :

Seattle Branch Trial balance (in Rs.)

Particulars	Rate as per Rs.	Debit Rs.	Credit Rs.
Stock (01-01-2022)	79.00	17,38,000	
Purchases	79.50	79,50,000	
Sales	79.50		1,03,74,750
Goods from HO	Given	24,00,000	
Salaries ($ 4,000 + $ 500 = $ 4,500 x Rs. 79.50)	79.50	3,57,750	
Head Office A/c	Given		21,90,000
Sundry Debtors	83.00	1,82,600	
Sundry Creditors	83.00		1,24,500
Cash at Bank & Hand	83.00	66,400	
Salaries Outstanding ($ 500 x Rs. 83)	83.00		41,500
Exchange gain		36,000	
Total		**1,27,30,750**	**1,27,30,750**

Question 16 : Nov 2023 – RTP

Treadmill invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding Rs. 20,000 necessary for meeting immediate requirements of cash. On 31st March, 2022 the assets at the branch were as follows:

	Rs. ('000)
Cash in Hand	20
Trade Debtors	768
Stock, at Invoice Price	2,160
Furniture and Fittings	1,000

During the accounting year ended 31st March, 2023 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 2 crore 64 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs. 1,44,000. Other transactions at the branch during the year were as follows:

	Rs. ('000)
Cash Sales	19,400
Credit Sales	6,280
Cash collected by Branch from Credit Customers	5,684
Cash Discount allowed to Debtors	116
Returns by Customers direct to Head office (at invoice price)	204
Bad Debts written off	74
Expenses paid by Branch	1,684

On 1st January, 2023 the branch purchased new furniture for Rs. 2 lakh for which payment was made by head office through a cheque.

On 31st March, 2023 branch expenses amounting to Rs. 12,000 were outstanding and cash in hand was again Rs. 20,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2023.

Solution :

In the Head Office Books

Branch Account

for the year ended 31st March, 2023

	Rs.'000		Rs.'000
To Balance b/d		By Balance b/d	
Cash in hand	20	Stock reserve Rs. 2,160 × $\frac{1}{6}$	360
Trade debtors	768	By Goods sent to branch A/c	314
Stock	2,160	(Returns to H.O.)	
Furniture and fittings	1,000	{144 + [204 -34 (loading]}	
To Goods sent to branch A/c	26,400	By Goods sent to branch A/c (Loading	4,376
To Bank A/c (Payment for furniture)	200	on net goods sent to branch –	
To Balance c/d	456	(26,256 x 1/6)	
Stock reserve (2,736 x 1/6)		By Bank A/c (Remittance from branch to	23,400
		H.O.)	
To Outstanding expenses	12	By Balance c/d	
To Profit and loss A/c (Net Profit)	2,192	Cash in hand	20
		Trade debtors	970
		Stock	2,736
		Furniture and fittings	1,032
	33,208		**33,208**

Working Notes:

1. Invoice price and cost

Let cost be 100
So, invoice price 120
Loading 20
Loading: Invoice price = 20 : 120 = 1 : 6

2. Invoice price of closing stock in branch

Branch Stock Account

	Rs. '000		Rs. '000
To Balance b/d	2,160	By Goods sent to branch	144
To Goods sent to branch	26,400	By Branch Cash	19,400
		By Branch debtors	6,280
		By Balance c/d (Bal fig)	2,736
	28,560		**28,560**

Note: adjustment regarding returns by Customers direct to Head office has not been made in branch stock account.

3. Closing balance of branch debtors

Branch Debtors Account

	Rs. '000		Rs. '000
To Balance b/d	768	By Branch cash	5,684
To Branch stock	6,280	By Branch expenses discount	116
		By Goods sent to Branch (Returns)	204
		By Branch expenses (Bad debts)	74
		By Balance c/d (Bal fig)	970
	7,048		**7,048**

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	Rs. '000		Rs. '000
To Balance b/d	1,000	By Depreciation (160+8)	168
To Bank	200	By Balance c/d	1,032
	1,200		**1,200**

Note: Since the new furniture was purchased on 1st Jan 2023 depreciation will be for 3 months.

5. Remittance by branch to head office

Branch Cash Account

	Rs. '000		Rs. '000
To Balance b/d	20	By Branch expenses	1,684
To Branch stock	19,400	By Remittances to H.O.	23,400
To Branch debtors	5,684	By Balance b/d	20
	25,104		**25,104**

Question 17 : May 2024 – Paper

Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	1,03,095
Cash & bank balances	:	2,175
Debtors	:	7,365
Fixed Assets (Gross)	:	34,200
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory-Stock 'P'	:	5,520
Inventory- Stock 'Q'	:	1,035

(ii) Credit Balances (in USD)

Incomes	:	1,32,000
Creditors	:	15,570
HO Control a/c	:	5,820

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = Rs. 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD Rs. 55.

(3) The closing exchange rate on reporting date is 1 USD = Rs. 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was Rs. 56.50. The present net realizable value of this item is Rs. 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = Rs. 53.

(6) Branch Control Account as per HO books was Rs. 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation

Solution :

Converted branch trail balance (in the books of head office)

Particular	Dr. $	Cr. $	Rate per $	Rs. Dr.	Rs. Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				12,240	
				85,61,325	85,61,325

Working Note:

Inventory P	**$ 5,520**	**Inventory Q**	**$ 1,065**
Purchased Cost rate	56.50	NRV	$ 1,035
NRV	Rs. 2,85,000	Closing rate	58
Cost	Rs. 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	Rs. 2,85,000	Value at cost or NRV whichever is less	$ 1,035 @ Rs. 58 or $1,065 @ Rs. 53 = 56,445 or 60,030

Question 18 : Sept 2024 – RTP

From the following particulars relating to Pune branch for the year ending December 31, 2024, prepare Branch Account in the books of Head office.

		Rs.
Stock at Branch on January 1, 2024		10,000
Branch Debtors on January 1, 2024		4,000
Branch Debtors on Dec. 31, 2024		4,900
Petty cash at branch on January 1, 2024		500
Furniture at branch on January 1, 2024		2,000
Prepaid fire insurance premium on January 1, 2024		150
Salaries outstanding at branch on January 1, 2024		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2025	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2024		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing Rs. 1,200 were destroyed due to fire and a sum of Rs. 1,000 was received from the Insurance Company.

Solution :

Pune Branch Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,68,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x Rs. 600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

Question 19 : Sept 2024 – Paper

Following is the information of Kullu Branch of M/s Best Enterprises of Shimla for the year ending 31st March 2023 :

(1) Goods are invoiced to the branch at cost plus 20%

(2) Branch sold goods at invoice price plus 25%.

(3) Other Information is as follows:

(i) Stock (at cost price) as on 1st April, 2022 is Rs.2,25,000

(ii) Goods sent by Head office to branch during the year (at cost price) are Rs.14,85,000

(iii) Goods returned by Branch to Head office during the year (at Invoice price) are Rs.75,000

(iv) Sales by the branch during the year Rs.19,50,000
(v) Expenses incurred at Branch Rs.56,000.

You are required to ascertain the following

(a) Profit earned by the Branch by Preparing Trading and profit and loss account for the year ended 31st March 2023

(b) Also find the stock reserve on Closing stock

Solution :

(i) **In the books of Kullu Branch**

Trading and Profit and Loss Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000
To Net profit (Bal fig)	3,34,000		
	24,42,000		**24,42,000**

(ii) **Calculation of Closing Stock**

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	4,17,000

Stock reserve in respect of unrealised profit
= 4,17,000 x (20/120) = Rs. 69,500

Question 20 : Jan 2025 – Paper

Give Journal Entries (with Narrations) in the books of an Independent Branch of a business entity to rectify or adjust the following :

(i) Commission (income) of Rs.7,500 allocated to Branch by Head office but still no entity is passed in the books of branch.

(ii) Head office paid Rs.12,000 directly to one of branch's supplier. The intimation is received by branch on reconciliation of bank statement of branch with its books.

(iii) A remittance of Rs.85,000 is sent by branch to Head office has not been received by Head office till date.

(iv) Branch paid Rs.9,800 as salary to Head office's employee, but the amount paid has been wrongly debited to salary account.

(v) Branch purchased furniture for Rs.18,000 through cheque, but the Furniture account was retained in Head Office Books. No entry has yet been passed.

(vi) Branch incurred Rs.5,500 of expense on behalf of other branches of Head office, this transaction was not recorded in the books of branch.

Solution :

In the books of Branch
Journal Entries

	Particulars		Rs.	Rs.
1	Head office account	Dr.	7,500	
	To Commission Income			7,500
	(Being commission income recognized)			
2	Creditors A/c	Dr.	12,000	
	To Head office account			12,000
	(Being H.O. paid off a creditor directly)			
3	No entry in Branch Books			
4	Head office account	Dr.	9,800	
	To Salary A/c			9,800
	(Being amount debited to salary account by mistake now rectified)			
5	Head office account	Dr.	18,000	
	To Bank A/c			18,000
	(Being furniture purchased by branch retained by H.O.)			
6	Head Office A/c	Dr.	5,500	
	To Bank A/c			5,500
	(Being expenses incurred on behalf of other branches, due from H.O.)			

Question 21 : May 2025 – Paper

M/s Marena, having head office at Chennai has a branch at Hyderabad. The head office does wholesale trade only at cost plus 60%. The goods are sent to branch at the wholesale price i.e. cost plus 60%. The branch at Hyderabad is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 80%.

Following details are furnished for the year ended 31st March, 2025:

	Chennai office Rs.	Hyderabad office Rs.
Opening Stock	75,000	-
Purchases	9,25,000	-
Goods sent to branch (Cost plus 60%)	3,60,000	-
Sales	10,25,000	2,70,000
Office expenses	9,000	3,000
Staff Salary	13,700	2,500

Prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2025.

Solution :

Trading and Profit and Loss A/c
for the year ended 31st March 2025

	Head office	Branch		Head office	Branch
	Rs.	Rs.		Rs.	Rs.
To Opening stock	75,000	-	By Sales	10,25,000	2,70,000
To Purchases	9,25,000	-	By Goods sent to branch	3,60,000	_
To Goods received from head office		3,60,000	By Closing stock	1,34,375	1,20,000
			(W.N. 1 & 2)		
To Gross profit c/d	5,19,375	30,000			
	15,19,375	**3,90,000**		**15,19,375**	**3,90,000**
To Office expenses	9,000	3,000	By Gross profit b/d	5,19,375	5,19,375
To Staff salaries	13,700	2,500			
To Branch Stock Reserve (W.N.3)	45,000	_			
To Net Profit	4,51,675	24,500			
	5,19,375	**30,000**		**5,19,375**	**30,000**

Working Notes

(1)	Calculation of closing stock of head office:	Rs.
	Opening Stock of head office	75,000
	Goods purchased by head office	9,25,000
		10,00,000
	Less: Cost of goods sold [(10,25,000 + 3,60,000 x 100/160]	(8,65,625)
		1,34,375
(2)	Calculation of closing stock of branch:	Rs.
	Goods received from head office [At invoice value]	3,60,000
	Less: Invoice value of goods sold [2,70,000 x 160/180]	(2,40,000)
		1,20,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock Rs. 1,20,000	
	Profit included 60% of cost	
	Hence, unrealized profit would be = Rs. 1,20,000 x 60/160	Rs. 45,000

Question 22 : Sept 2025 – Paper

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	Tiruchi
	(Rs.in Lakhs)	(Rs.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.

Solution :

1. When Goods are sent and recorded at Invoice price:

In the Books of Head Office

Branch Account (For the year ended 31st March, 2025)

Particulars	Madurai Rs. In Lakhs	Tiruchi Rs. In Lakhs		Madurai Rs. In Lakhs	Tiruchi Rs. In Lakhs
To Goods sent to Branch A/c (invoice price)	1,50,000	1,25,000	By Cash Account		
To Rent & Taxes A/c	3,200	4,500	Cash Sales	78,600	85,200
To Salaries A/c	16,000	18,000	Collection from Debtors (W.N.-1)	82,400	85,200
To General Expenses A/c	2,600	1,500	By Debtors	34,500	23,600
To Advertisement A/c	7,500	5,200	By Closing Stock (at invoice price)	45,000	35,000
To Stock reserve A/c	9,000	7,000	By Goods sent to Branch (Stock reserve)	30,000	25,000
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 Rs. In Lakhs	Tiruchi Rs. In Lakhs	Particulars	Madurai Rs. In Lakhs	Tiruchi Rs. 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**

Note: As per the information provided in the question, the weekly statements sent by the branches show the stock as on 31st March 2025 at Rs. 45,000 and Rs. 35,000, respectively. This indicates that the closing stock figures are stated at the invoiced price.

Alternative Solution

1. When Goods are sent and recorded at Cost Price:

In the Books of Head Office

Branch Account (For the year ended 31st March, 2025)

Particulars	Madurai Rs. In Lakhs	Tiruchi Rs. In Lakhs	Particulars	Madurai Rs. In Lakhs	Tiruchi Rs. In Lakhs
To Goods sent to Branch A/c (at cost price)	1,20,000	1,00,000	By Cash Account		
To Rent & Taxes A/c	3,200	4,500	- Cash Sales	78,600	85,200
To Salaries A/c	16,000	18,000	- Collection from Debtors (W.N.-1)	82,400	85,200
To General Expenses A/c	2,600	1,500	By Debtors	34,500	23,600
To Advertisement A/c	7,500	5,200	By Closing Stock (at cost price)	36,000	28,000
To net profit transferred to General P&L A/c	82,200	92,800			
Total	**2,31,500**	**2,22,000**	**Total**	**2,31,500**	**2,22,000**

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 Rs. In Lakhs	Tiruchi Rs. In Lakhs	Particulars	Madurai Rs. In Lakhs	Tiruchi Rs. 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

Thanks ....

CHAPTER

35

CASE STUDY

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Question 1 : May 2025 – Paper

Case Scenario - I

Gray Ltd. is engaged in the business of constructing towers since 15 years. Alpha Ltd gave a contract to Gray Ltd. for construction of 2 towers.

Contract price for 2 towers is agreed at Rs. 160 crore. (each tower has contract price of Rs. 80 crore)

At the time of contract, Gray Ltd has estimated that the contract cost will be Rs. 141 crore. It is assumed that construction will be completed in 3 years.

At the end of year 1, Gray Ltd has revised the construction cost to Rs. 150 crore.

At the beginning of year 2, the customer has requested for a variation in the contract. Customer now wants construction of 3 towers instead of 2 towers. The term of the contract will not change, construction of all the towers will be completed simultaneously.

As a result of this variation, contract price will increase by Rs. 80 crore and contract costs will increase by Rs. 75 crore.

Gray Ltd has decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs.

Contract costs incurred at the end of each year is:

Year 1: Rs. 35.25 crore.

Year 2: Rs. 148.5 crore (including unused material of Rs. 2.25 crore) Year 3: Total Revised contract costs.

Based on the information given in above Case Scenario, answer the following Question 1 - 3:

1. What is the stage of completion of contract on the basis of proportion of contract costs incurred to the total estimated contract costs at the end of year 1 and Year 2 respectively?
   (A) Year 1: 23.5 % and Year 2: 66%
   (B) Year 1: 23.5 % and Year 2: 65%
   (C) Year 1: 25 % and Year 2: 66%
   (D) Year 1: 25 % and Year 2: 65%
2. What is the amount of the profit to be recognized at the end of Year 1?
   (A) Rs. 2.35 crore (B) Rs. 44.75 crore

(C) Rs. 4.75 crore (D) Rs. 21 crore

3. What is the amount of contract revenue recognized in each year of contract?
   (A) Year 1: Rs. 80 crore, Year 2: Rs. 80 crore and Year 3: Rs. 80 crore
   (B) Year 1: Rs. 40 crore, Year 2: Rs. 116 crore and Year 3: Rs. 84 crore
   (C) Year 1: Rs. 37.60 crore, Year 2: Rs. 118.40 crore and Year 3: Rs. 84 crore
   (D) Year 1: Rs. 37.60 crore, Year 2: Rs. 120.80 crore and Year 3: Rs. 81.60 crore

4. X Ltd. has entered into a binding agreement with Beta Ltd. to buy a custommade machine for Rs. 2 lakhs. During the year 2024-25 X Ltd has to change its method of production due to changes in market trend. Before the delivery of the machine, X Ltd had already changed its method of production and the new method will not require the machine ordered. Now the company decides to scrap it after delivery. The expected scrap value is Rs. 25,000. Machine was received on 10th October, 2024 and was scrapped on 15th October, 2024. The correct accounting treatment for above machine in the year 2024-25 is -
   (A) Machine A/c to be debited with Rs. 2 lakhs and Bank A/c to be credited with Rs. 2 lakhs.
   (B) Impairment A/c to be debited with Rs. 1.75 lakhs and Bank A/c to be credited with Rs. 1.75 lakhs.
   (C) Profit and Loss A/c to be debited with Rs. 2 lakhs and Bank A/c to be credited with Rs. 2 lakhs.
   (D) Profit and Loss A/c to be debited with Rs. 1.75 lakhs and Bank A/c to be credited with Rs. 1.75 lakhs.

5. ABC Ltd. is in the business of creating contents for various OTT platforms. The company has developed a technical know-how (the asset) by incurring expenditure of Rs. 25 lakhs. The company started using the asset from 1st April 2019. The management of the company is of the view that the asset has infinite lifetime and therefore has not amortized the asset till date.
   What should be the total amortization amount (including current as well as the previous years amortization) to be charged to Profit and loss account for the year ended March 31st 2024, with reference to AS 26?
   (A) Nil, as per the management the know how has infinite life and the management is correct.
   (B) Rs. 25 lakhs as the know how is an intangible asset as per AS 26.
   (C) Rs. 12.5 lakhs (including current year's amortization of Rs. 2.5 lakhs) to be charged to Profit and loss Account.
   (D) Rs. 15 lakhs (including current year's amortization of Rs. 2.5 lakhs) to be charged to Profit and Loss account.

Case Scenario - II

Health India Limited (HIL), incorporated under the Companies Act, 2013, is engaged in the production and distribution of medicines. It has manufacturing plants at Baddi (Himachal Pradesh) and Bhopal (Madhya Pradesh). It also imports medicines from Pharma Inc. New York (United States). On 1st Jan 2024, HIL sold 2,00,000 strips of Medicine to Dee Limited for Rs. 50 Lakhs on 60 days of credit. Cost per strip of this medicine, was Rs. 20. (i.e.) total cost Rs. 40 Lakhs (2,00,000 strips@Rs. 20). Dee Ltd. paid 20% of the amount due on 5th January, 2024. In March 2024, Dee Limited is having significant cash flow issues and is trying to raise funds through bank loan to run

its operations. However, it is unable to do so and not able to release payment to HIL on due date. Subsequent to this, it has gone under liquidation on 15th March, 2024. At the time when medicine was sold by HIL to Dee Limited, there was no reason for HIL to believe that it will not be able to collect the sales proceeds from Dee Limited in future.

On 1st April,2023 HIL has made an investment of Rs. 200 Lakhs in the equity shares of Rose Limited of which 50% is made in the long-term category i.e. long-term investment and rest as temporary investment i.e. current investment. The realisable value of all such investments on 31st March, 2024 becomes Rs. 50 Lakhs as Rose Limited lost a copyright. From the given market conditions, it is apparent that the reduction in the value of investment is not temporary in nature.

HIL imported medicine from Pharma Inc. for a sum. of US $ 2,50,000 on 1st January, 2024. HIL released full payment on 17th April, 2024 to Medicine Ltd. The exchange rates are as follows:

Exchange rate per $	
1st April, 2023	Rs. 76
1st January, 2024	Rs. 81
31st March, 2024	Rs. 80
17th April, 2024	Rs. 79

HIL is working on a strategic plan to close the production unit of Bhopal due to change in technology. The board of directors approved the closure of Bhopal Plan on 1st March, 2024. The company did a formal announcement regarding closure to the affected parties on 10th March, 2024. The company entered into a binding-sale agreement on 21 April, 2024.

Reporting date of the company is 31st March,2024.

Based on the information given in the above Case Scenario, answer the following Question No. 6 to 9:

6. How the recognition of revenue from sales of medicine to Dee Limited will be done by HIL under AS 9 and what would be the treatment of unrealized amount for the year ended 31st March, 2024?
   (A) Revenue will be recognised for Rs. 50 Lakhs, subsequently unrealized amount Rs. 50 lakhs will be debited to bad debts A/c.
   (B) Revenue will be recognised for Rs. 40 Lakhs, subsequently unrealized amount Rs. 40 lakhs will be debited to bad debts A/c.
   (C) Revenue will be recognised for Rs. 50 Lakhs, subsequently unrealized amount Rs. 40 lakhs will be debited to bad debts A/c.
   (D) Revenue will be recognised for Rs. 40 Lakhs, unrealised amount of Rs. 40 lakhs will be shown in Sundry Debtors list.
7. How will you recognize the reduction in the value of the investments in the financial statements for the year ended 31st March 2024 as per AS 13 (Revised)?
   (A) The reduction of Rs. 50 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.
   (B) The reduction of Rs. 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.
   (C) The reduction of Rs. 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of Rs. 75 Lakhs in the carrying value of long-term investment will also be charged to the profit and loss account.

(D) The reduction of Rs. 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of Rs. 75 Lakhs in the carrying value of long-term investment will also be charged to capital reserve account.

8. Ascertain the loss/gain due to change in foreign exchange rates to be recognised in the financial statements for the year ended 31st March, 2024 as per 11.
   (A) Rs. 2,50, 000 Exchange gain should be credited to profit and loss account.
   (B) Rs. 5,00,000 Exchange gain should be credited to profit and loss account.
   (C) Rs. 5,00,000 Exchange loss should be debited to profit and loss account.
   (D) Rs. 2,50,000 Exchange loss should be debited to profit and loss account.
9. What would be the date of "initial disclosure of event" be considered for Bhopal Plant?
   (A) 31st March, 2024 (B) 1st March, 2024
   (C) 21st April, 2024 (D) 10th March, 2024
10. X Ltd. sold Plant & Machinery having WDV of Rs. 60 lakhs to Y Ltd. for Rs. 75 lakhs (Fair value of Rs. 75 Lakhs) and the same plant was leased back by Y Ltd. to X Ltd. The lease back is in the nature of operating lease. The treatment will be:
   (A) X Ltd. should amortize the profit of Rs. 15 lakhs over the lease term.
   (B) X Ltd. should recognize the Profit of Rs. 15 lakhs immediately.
   (C) No profit/loss, as fair value is equal to sale price.
   (D) Y Ltd. should recognize the profit of Rs. 15 lakhs immediately.

Case Scenario - III

Following information is given by Z Ltd as o 31st March 2025:

	Rs. in lakhs
Share Capital	
Equity shares of Rs. 10 each fully paid up	800
11% Redeemable Preference shares of Rs. 100 each fully paid up	200
Reserve and surplus	
Capital redemption Reserve	50
Securities Premium	100
General Reserve and profit and Loss (Combined balance)	600
Secured Loans 9% Debentures	250
Current Liabilities	10
Fixed Assets	1200
Investments	95
Cash at bank	320
Other Current Assets	840

On 1st April, 2024 Z Ltd redeemed all its preference shares at a premium of 5%. Z Ltd. bought back 8,00,000 equity shares @ Rs. 20 per share.

Buy back is fully authorized by Z Ltd.'s articles and necessary resolution has been passed for this.

The payment for buy back of shares will be made through available balance in bank account.

To finance Redemption of preference shares and buy back of shares, company has decided to sell its investments for Rs. 98 Lakhs.

Z Ltd had 80,000 Equity stock options outstanding on the above mentioned date, to the employees @ Rs. 15 per share when the market price was Rs. 20 per share. (This was included under the head current liabilities). On 1st April, 2024, 70% of the employees exercised their options.

Based on the information given in the above Case Scenario, answer the following Question No. 11 - 13:

11. What will be the balance of capital redemption reserve as on 31st March 2025?
    (A) Rs. 280 Lakhs (B) Rs. 330 Lakhs
    (C) Rs. 250 Lakhs (D) Rs. 130 Lakhs
12. What will be the Cash and Bank Balance as on 31st March 2025?
    (A) Rs. 56.40 Lakhs (B) Rs. 66.40 Lakhs
    (C) Rs. 59.20 Lakhs (D) Rs. 48 Lakhs
13. What will be the Balance of Reserves as on 31st March 2025 excluding capital redemption Reserve?
    (A) General Reserve and Profit Loss Rs. 323 Lakhs and securities Premium Rs. 10 lakhs
    (B) General Reserve and Profit Loss Rs. 243 Lakhs and securities Premium Rs. 10 lakhs
    (C) General Reserve and Profit Loss Rs. 323 Lakhs and securities Premium Rs. 15.60 lakhs
    (D) General Reserve and Profit Loss Rs. 243 Lakhs and securities Premium Rs. 15.60 lakhs
14. Past Ltd. had the following items under the head "Reserves and Surplus" the Balance Sheet as on 31st March 2025:

	(Amount Rs. in lakhs)
Securities Premium Account	90
Capital Reserve	40
Revaluation Reserve	70

    The company had an accumulated loss of Rs. 280 lakhs on the same date, which was disclosed under the head "Statement of Profit and Loss" as asset in Balance Sheet. What should be disclosed on the face of Balance Sheet as per Schedule III to the Companies Act, 2013?
    (A) Reserve and Surplus-Securities premium 90 lakhs; others Rs. 110 lakh and Accumulated loss Rs. 280 lakhs in the Asset side.
    (B) Reserve and Surplus Rs. 200 lakhs; and Accumulated loss Rs. 280 lakhs in the Asset side.
    (C) Reserve and Surplus - Rs. 200 lakhs only
    (D Reserve and Surplus - Rs. 80 lakhs only
15. During the process of Internal Reconstruction, JAY Ltd has come across the following adjustment:
    There is a contingent liability for which no provision had been made. This contingent liability was settled at Rs. 7,500 and also Rs. 6,000 was recovered from the insurance company in this regard.
    Which of the following is the correct treatment for the above adjustment?
    (A) Reconstruction A/c Dr Rs. 1,500 and Bank A/c Cr Rs. 1,500
    (B) Reconstruction A/c Dr Rs. 7,500 and Bank A/c Cr Rs. 7,500
    (C) Contingent Liability A/c Dr Rs. 1,500 and Bank A/c Cr Rs. 1,500
    (D) Profit and Loss A/c Dr 1,500 and Bank A/c Cr Rs. 1,500

Solution :

MCQ. No.	Correct Answer	MCQ. No.	Correct Answer	MCQ. No.	Correct Answer
1	**B**	6	**C**	11	**B**
2	**A**	7	**C**	12	**A**
3	**C**	8	**A**	13	**C**
4	**D**	9	**D**	14	**D**
5	**C**	10	**B**	15	**A**

Question 2 : Sept 2025 – RTP

1. Surat Ltd. has received a grant of Rs. 40 crore for purchase of a qualified machine costing Rs. 90 crores. The residual value is Rs. 2 crore and expected useful life of the machine is 20 years.

   Answer the following question as per the requirements of AS 12, Government Grants assuming that the depreciation method is straight line:

   (a) What is the nature of Grant being received by Surat Ltd.?
   - (i) Non-Monetary Government Grant
   - (ii) Grant related to specific fixed assets
   - (iii) Grant related to Revenue
   - (iv) Promoter's Contribution

   (b) If Surat Ltd. has the policy to recognise the grant as deduction from the cost of the asset, what will be the amount of depreciation to be charged as expense in statement of profit and loss account every year:
   - (i) Rs. 4.5 crores (ii) Rs. 2.5 crores
   - (iii) Rs. 2.4 crores (iv) Rs. 2 crores

   (c) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of grant to be recognised as other income in statement of profit and loss account every year:
   - (i) Rs. 4.5 crores (ii) Rs. 2.5 crores
   - (iii) Rs. 2 crores (iv) Rs. 1 crores

   (d) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of depreciation to be charged as expense in statement of profit and loss account, every year:
   - (i) Rs. 4.5 crores (ii) Rs. 4.4 crores
   - (iii) Rs. 2.5 crores (iv) Rs. 2 crores

2. In the books of G Ltd., closing inventory as at 31.03.2024 amounts to Rs. 10,40,000 (on the basis of FIFO method).

   The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to Rs. 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to Rs. 12,00,000.

   What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

   (i) The value of inventory will be Rs. 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.

(ii) The value of inventory will be Rs. 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(iii) The value of inventory will be Rs. 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.

(iv) The value of inventory will be Rs. 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

3. Cost of current investment acquired was Rs. 1000 but the fair value was Rs. 800. The Investment was recorded at Rs. 800. Now the fair value of Investment is Rs. 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.

(i) No change is required and it will continue at Rs. 800

(ii) Current investment will be recorded at Rs. 1000 and gain of Rs. 200 will be credited to profit and loss account.

(iii) Current investment will be recorded at Rs. 1200 and gain of Rs. 400 will be credited to profit and loss account.

(iv) Current investment will be recorded at Rs. 1200 but no gain will be credited to profit and loss account.

Solution :

MCQ. No.		Correct Answer
1	(a)	(ii)
	(b)	(iii)
	(c)	(iii)
	(d)	(ii)
2		(iv)
3		(ii)

Question 3 : Sept 2025 – Paper

Case Scenario - I

PTU Limited has 6 segments namely P, Q, R, S, T & U. The total revenues (internal and external), profit and losses and assets are set out below:

Rs. in Lakh

Segment	P	Q	R	S	T	U	Total
External Sales	66	94	6	5	70	9	250
Internal Sales	10	5	10	10	10	5	50
Result (P&L)	22	4	(4)	3	20	1	46
Total Assets	112	147	28	28	21	14	350

Based on the information given in above Case Scenario, answer the following Question Nos. 1-4 as per AS 17 'Segment Reporting':

1. Which would be the Reportable Segment on the basis of Revenue Test?

(A) P, Q, S & T (B) P, Q & T

(C) P & T (D) P & Q

2. Which would be the Reportable Segment on the basis of Profitability Test?

(A) P, Q, S & T (B) P, Q & T

(C) P & T (D) P & Q

3. Which would be the Reportable Segment on the basis of Assets Test?
   (A) P, Q, S & T (B) P. Q & T
   (C) P&T (D) P & Q
4. Which would be the Reportable Segment on the basis of Overall Test?
   (A) P, Q, S & T (B) P, Q & T
   (C) P & T (D) P & Q

Solution :

MCQ. No.	Correct Answer
1.	B
2.	C
3.	D
4.	B

Case Scenario - II

On 3rd April 2022, ZYX Limited received a State Government grant of Rs. 150 lakhs for setting up a Manufacturing Unit in a notified backward area. A bank loan of Rs. 50 lakhs was also obtained on 1st April 2024. ZYX utilized the grant and loan as under:

Particulars	Rs. in Lakhs	Out of Grant Rs. in Lakhs	Out of Loan Rs. in Lakhs
Construction of Factory building	100.00	60.00	30.00
Purchase of Machinery	50.00	40.00	20.00
Advance for purchases of loading vehicle	30.00	30.00	-
Working capital	20.00	20.00	-
	200.00	150.00	50.00

Construction of Factory Building and Installation of Machinery was completed on 31.03.2025. Delivery of loading vehicle was not received. Total interest charged by bank for the year ending 31.03.2025 was Rs. 5,50,000.

The State Government grant was credited to the Deferred Grant Account. Out of the Grant Rs. 30 lakhs used for the purchase of Machinery were refunded in March 2025, due to non-compliance with certain Government conditions. The estimated life of Machinery is 4 years with Nil residual value.

During the year 2024-2025, the Company also received a subsidy of Rs. 8 lakhs from the Central Government for setting up a unit in notified backward area. This subsidy is in the nature of promoters' contribution.

During the year 2024-2025, the Company incurred Rs. 18 lakhs on publicity and research for a new consumer product, which was marketed in the same year but proved to be a failure.

Based on the information given in above Case Scenario, answer the following Question Nos. 5-8:

5. What is the amount of net borrowing cost to be capitaised?
   (A) Rs. 5,50,000 (B) Rs. 3,30,000
   (C) Rs. 1,65,000 (D) Rs. 2,75,000
6. In March 2025, what will be the amount of the deferred grant debited when the grant received of Rs. 30 lakhs is refunded?
   (A) Rs. 15 lakhs (B) Rs. 22.5 lakhs

(C) Rs. 7.5 lakhs (D) Rs. 30 lakhs

7. The following options have been suggested by the accountant of ZYX Limited for the accounting treatment of the subsidy received in the nature of promoters' contribution during the year 2024-2025:

(i) It is not considered as a deferred income.
(ii) It is not distributable as a dividend.
(iii) It is treated as a capital reserve.
(iv) It is not distributable as a dividend but considered as deferred income.

Considering the above, what is correct with reference to the subsidy received in the nature of promoters' contribution during the year 2024-2025?

(A) (i), (ii) and (iii) (B) (iii) and (iv)
(C) (ii) and (iii) (D) (i) and (ii)

8. As per AS-26 'Intangible Assets', what is the correct accounting treatment for Rs. 18 lakhs spent on publicity and research expenses during the year 2024-2025 ?

(A) Rs. 18 lakhs is treated as an intangible asset and amortised equally over 5 years.
(B) Rs. 18 lakhs is treated as an intangible asset and amortised equally over 10 years.
(C) Rs. 18 lakhs is treated as goodwill and appears as an asset in the Balance Sheet.
(D) Rs. 18 lakhs is charged as an expense in the Statement of Profit and Loss.

9. KPK Limited is installing a new Plant at its production facility. It provides you the following information:

Cost of the Plant (Cost as per Supplier's Invoice)	Rs. 45,00,000
Estimated Dismantling Costs to be incurred after 5 years	Rs. 3,25,000
Initial Operating Losses before commercial production	Rs. 4,00,000
Interest paid to Supplier of Plant for deferred credit	Rs. 2,50,000
Initial Delivery and Handling Costs	Rs. 1,85,000
Cost of Site Preparation	Rs. 5,00,000

Consultants used for advice on the acquisition of the Plant Rs. 6,75,000

What will be cost that can be capitalized for Plant in accordance with AS 10 'Property, Plant & Equipment'?

(A) Rs. 62,60,000 (B) Rs. 61,85,000
(C) Rs. 68,35,000 (D) Rs. 58,60,000

10. The following data apply to SRS Limited's defined benefit pension plan for the year ended 31st March 2025:

Particulars	Amount (Rs.)
Fair market value of plan assets as on 01.04.24	10,00,000
Fair market value of plan assets as on 31.03.25	14,25,000
Employer Contribution	3,50,000
Benefits paid	2,50,000

What is the actual return on plan assets as per AS-15 'Employee Benefits'?

(A) Rs. 5,25,000 (B) Rs. 2,50,000
(C) Rs. 3,25,000 (D) Rs. 3,50,000

Solution :

MCQ. No.	Correct Answer
5.	B
6.	D
7.	A
8.	D
9.	B
10.	C

Case Scenario - III

Quick Limited is in business of production of life saving medicines. It has sufficient cash funds available with it. It decided to buy back shares to the maximum permissible limit on 4th July 2025. On 1st July 2025, the company has the following Capital Structure:

	Particular	(Rs. in lakhs)
I	Equity Share Capital	
	(Shares of Rs. 100 each fully paid)	45.00
II	Reserve and Surplus	
	General Reserve	74.00
	Securities Premium Account	30.00
	Profit & Loss Account	25.00
	Revaluation Reserve	4.00
	Statutory Reserve	6.50
III	Loan Funds	350.00

Quick Limited is considering to reduce the Loan Fund amount to Rs. 300 Lakhs by paying the Loan Funds amounting to Rs. 50 Lakhs before 4th July 2025.

The current market value of the company's shares is Rs. 250 per share and to induce the existing shareholders to offer their shares for buy-back, it is decided to offer a price 20% over the market value.

Based on the information given in above Case Scenario, answer the following Question Nos. 11-14:

11. What is the maximum permissible number of Equity Shares that can be bought back if the Loan Fund is Rs. 350 Lakhs?
    (A) 11250 Shares (B) 14500 Shares
    (C) Nil Shares (D) 6000 Shares
12. What is the maximum permissible number of Equity Shares that can be bought back if the Loan Fund is Rs.300 Lakhs?
    (A) 11250 Shares (B) 14500 Shares
    (C) Nil Shares (D) 6000 Shares
13. What will be the maximum number of shares that can be bought back as per Companies Act, 2013 according to the decision made on basis of above two questions?
    (A) 11250 Shares (B) 14500 Shares
    (C) Nil Shares (D) 6000 Shares
14. What will be Equity Share Capital after buy-back?
    (A) Rs. 33,75,000 (B) Rs. 30,50,000
    (C) Rs. 45,00,000 (D) Rs. 39,00,000

15. As per Rule 7 of the Companies (Declaration & Payment of Dividend) Rules, 2014, in the event of inadequacy or absence of profits in any year, a Company may declare dividend out of surplus subject to the fulfilment of the condition that total amount to be drawn from such accumulated profits shall not exceed _____as appearing in the latest audited financial statement.
(A) 1/10th of the total assets
(B) 1/5th of the sum of its paid-up share capital
(C) 1/10th of the sum of its paid-up share capital and free reserves
(D) 1/5th of the sum of its paid-up share capital and free reserves

Solution :

MCQ. No.	Correct Answer
11.	C
12.	D
13.	D
14.	D
15.	C

Question 4 : Jan 2026 – RTP

1. Gases Ltd. is installing a 2,000 kms long gas pipeline for distribution of gasses (Project is a qualifying asset as per AS 16). For this purpose it borrowed funds for Rs. 700 Lakhs at subsidised rates and has to pay annually an interest of Rs. 70 Lakhs. The Company has also invested unused funds and is earning an income of Rs. 7 Lakhs annually. During the next year the Company used all funds and no income is now being earned.
During the year 5, the Company has completed 1 stretch of 100 kms which is operational between two points and is capable of intended use.
a. For the year 1, how much borrowing cost should be capitalised to the project:
(i) Rs. 70 Lakhs (ii) Rs. 77 Lakhs
(iii) Rs. 63 Lakhs (iv) Rs. 60 Lakhs
b. For the year 2, how much borrowing cost should be capitalised to the project:
(i) Rs. 70 Lakhs (ii) Rs. 77 Lakhs
(iii) Rs. 63 Lakhs (iv) Rs. 60 Lakhs
c. For the year 5, how much borrowing cost should expensed:
(i) Rs. 7 Lakhs (ii) Rs. 6 Lakhs
(iii) Rs. 3.5 Lakhs (iv) Nil
d. For the year 5, how much borrowing cost should be capitalised to the project:
(i) Rs. 70 Lakhs (ii) Rs. 66.5 Lakhs
(iii) Rs. 63 Lakhs (iv) Rs. 53 Lakhs

2. A dealer in machinery, Shakti Equipments Pvt. Ltd., leased out one of its machines to Delta Tools Ltd. on a 3-year operating lease. The machine was given on equal annual lease rentals, and the dealer intended to earn a 20% profit margin on the cost of the machinery.
The cost of the machinery to the dealer was Rs. 3,00,000. The economic life of the machinery is estimated at 5 years, and the total expected output over its useful life is given below:

Year	Estimated Output (units)

I	50,000
II	60,000
III	40,000
IV	65,000
V	85,000

Under the lease agreement, Delta Tools Ltd. will use the machine for 3 years (Years I-III) and then return it to Shakti Equipments Pvt. Ltd. The dealer recognizes revenue as per AS 9 Revenue Recognition, since the transaction represents revenue from services rendered in the form of lease rentals.

You are required to compute the amount of annual lease rent that will provide the dealer with a 20% profit margin on cost.

Options

(i) Rs. 30,000 (ii) Rs. 60,000

(iii) Rs. 50,000 (iv) Rs. 36,000

Solution :

MCQ. No.		Correct Answer
1	(a)	(iii)
	(b)	(i)
	(c)	(iii)
	(d)	(ii)
2		(ii)

Thanks ....

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KANDIVALI

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