CA Inter

Super 60
Advanced Accounting Revision Questions

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Introduction to Accounting Standards

1. M/s Omega & Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2021. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

Answer: The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities. Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees two crores at any time during the immediately preceding accounting year.

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

As the turnover of M/s Omega & Co. is less than ₹ 10 crores and borrowings less than ₹ 2 crores, it falls under Level IV non-corporate entities.

2. A company with a turnover of ₹ 225 crores and borrowings of ₹ 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.

Answer: 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 ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

3. 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.

Answer: 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.

4. A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 2022-23. However, the accountant of the company does not agree with the same. Comment.

Answer: As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, shouldnot be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 2022-23.

Framework for preparation & Presentation of Financial Statements

5. Balance sheet of a trader on 31st March, 2021 is given below

Liabilities	₹	Assets	₹

Capital	60,000	Property, Plant and Equipment	65,000
Profit and Loss Account	25,000	Stock	30,000
10% Loan	35,000	Trade receivables	20,000
Trade payables	10,000	Deferred costs	10,000
		Bank	5,000
	1,30,000		1,30,000

Additional information:

(a) The remaining life of fixed assets is 5 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.22 was ₹ 60,000.

(b) The trader's purchases and sales in 2021-12 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.

(c) The cost and net realisable value of stock on 31.03.22 were ₹ 32,000 and ₹ 40,000 respectively.

(d) Expenses for the year amounted to ₹ 14,900.

(e) Deferred cost is amortised equally over 4 years.

(f) Debtors on 31.03.22 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.

(g) Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.

(h) Cash balance on 31.03.22 is ₹ 37,100.

(i) There is an early repayment penalty for the loan ₹ 2,500.

The Profit and Loss Accounts and Balance Sheets of the trader are shown below in two cases (i) assuming going concern (ii) not assuming going concern

Answer: Profit and Loss Account for the year ended 31st March, 2022

	Case (i)	Case (ii)		Case (i)	Case (ii)
To Opening Stock	30,000	30,000	By Sales	4,50,000	4,50,000
To Purchases	4,00,000	4,00,000	By ClosingStock	32,000	40,000
To Expenses	14,900	14,900	By Trade payables	-	600
To Depreciation	13,000	5,000			
To Provision fordoubtful debts	2,000	6,000			
To Deferred expenditure	2,500	10,000			
To Loan penalty	-	2,500			
To Net Profit(b.f.)	19,600	22,200			
	4,82,000	4,90,600		4,82,000	4,90,600

Balance Sheet as at 31st March, 2022

Liabilities	Case (i)	Case (ii)	Assets	Case (i)	Case (ii)
Capital	60,000	60,000	PPE	52,000	60,000
Profit & Loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade receivables (less provision)	23,000	19,000
Trade payables	12,000	11,400	Deferred expenditure	7,500	Nil
			Bank	37,100	37,100
	1,51,600	1,56,100		1,51,600	1,56,100

6. A trader commenced business on April 1, 2020 with ₹ 1,20,000 represented by 6,000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 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.

Answer:

a) Physical Capital Maintenance at Current Cost

Retained Profit = Closing Capital – (Opening Capital + Addition/20 x 25)

= ₹ 1,20,000 – ((₹ 1,20,000 + Nil)/20 x 25

= ₹ 1,20,000 - ₹ 1,50,000

= (₹ 30,000)

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000)

b) If the trader had not withdrawn any amount, then the answer would have been as below:

Retained Profit = Closing Capital – (Opening Capital + Addition/20 x 25)

= ₹ 1,80,000 – ((₹ 1,20,000 + Nil)/20 x 25

= ₹ 1,80,000 - ₹ 1,50,000

= ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

AS 1: Disclosure of Accounting Policies

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

a) 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.

b) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

c) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

d) 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.

e) There is no single list of accounting policies which are applicable to all circumstances.

Answer:

a) **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.

b) **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.

c) **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.

d) **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.

e) **True**: As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

8. In the books of M/s Prashant Ltd., closing Inventory as on 31.03.2015 amounts to ₹ 1,63,000 (on the basis of FIFO method).The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to ₹ 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to ₹ 1,95,000. Discuss disclosure requirement of change in accounting policy as per AS-1.

Answer: As Per "Disclosure of Accounting Policies" any change in an accounting policy and its effect on the financial statement should be disclosed together with reason for change, Disclosure can be somewhat in following line:

'The company values its inventory at cost or NRV whichever is lower accordingly it is valued at cost. This year the company has changed the method of ascertaining cost from FIFO formula to weighted average method, which in the opinion of management gives better information, due to this change the profit for the year and inventory at the end of the year both are lower by ₹ 16,000'.

AS 2: Valuation of Inventories

9. Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31- 3-2015 is ₹ 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.

(iii) 1,500 units of finished Product X and total cost incurred Rs.320 per unit. Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

Answer: As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost (₹ 260) or Net realisable value ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).

(iii) 1,500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹ 320 of product X.

Valuation of Total Inventory as on 31.03.2021:

	Units	Cost (₹)	NRV / Replacement cost	Value = units x cost or NRV whichever is less(₹)

Raw material A	600	120	90	54,000
Partly finished goods	500	260	(300 - 60) 240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

AS 3: Cash Flow Statement

AS-3 "Cash Flow Statement" has already been covered in the Cash Flow Statement chapter

AS 4: Contingencies & Event Occurring After the Balance Sheet Date

10. 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, ₹ 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 23.05.221. Loss was estimated to be ₹ 81,00,000.

Answer:

1. 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.
2. 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 ₹ 53,000 should be adjusted in the accounts of the company for the year ended 31st March, 2021 as it is adjusting event.
3. 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 ₹ 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.

11. Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2013, the company wants to recognize receipt of cheques bearing date 31st March, 2013 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques are presented to the bank in the month of April 2013 and are also realized in the same month in normal course after deposit in the bank. State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard.

a. Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.
b. Cheques sent by the stockists through courier on or before 31st March, 2013.

Answer:

a. Cheques collected by the marketing personnel of the company is an adjusting event as the marketing personnels are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockist to the marketing employees discharges the liability of the stockist. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2013 require adjustment from the stockists' accounts i.e. from 'Trade Receivables A/c' even though these cheques (dated on or before 31st March, 2013) are presented in the bank in the month of April, 2013 in the normal course. Hence, collection of cheques by the marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'. Such 'cheques in hand' will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.
b. Even if the cheques bear the date 31st March or before and are sent by the stockists through courier on or before 31st March, 2013, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2013 does not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though thesame may be dated 31st March or before as per AS 4. Moreover, the collection of cheques after balance sheet date does not represent any

material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

12. **[Nov. 2013]** State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013:

a. An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on15th April, 2013.
b. The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.

Answer:

a. According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", 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.

   In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2013 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013.
b. AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, 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. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, 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, 2013.

   Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2013 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

13. 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

Answer:

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

AS 7: Construction Contracts

14. M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The Contract Price was estimated at Rs. 150 Crore. Up to 31.03.2014, the Company incurred Rs. 120 Crores on the construction. The Engineers involved in the project estimated that a further Rs. 45 Crores would be incurred to complete it.

What amount should be charged to revenue for the year 2013-2014 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s Highway Constructions.

Answer:

Calculation of cost, revenue and loss to be recognized (Rs. In crores)

(a)	Cost incurred till date	120
	Add: Additional cost to be incurred	45
	Total estimate cost	165
	Total contract revenue	150
	Total Estimated Loss	15
(b)	Stage of completion = $\frac{\text{Cost Incurred}}{\text{Total Estimated Cost}} \times 100$ $= \frac{120}{165} \times 100 = 72.73\ \%$	
(c)	Revenue to be recognized (150 x 72.73%)	109.10
	Cost to be recognized 165 x 72.73%	120
	Loss incurred	10.9
	Additional loss to be provided = 15 – 10.9	4.1

15. 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?

Answer:

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:

- separate proposals have been submitted for each asset;
- 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
- 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.

AS 9: Revenue Recognition

16. Zigato runs a food-delivery business. As per the arrangement, Zigato allows customers to order food from local restaurants and is responsible the delivery of the food within stipulated time. During a particular year, it collects the money on orders made online as under:

Total price for the food item	-	₹ 200 lakhs
Delivery charges	-	₹ 60 lakhs
GST	-	₹ 40 lakhs
Total	-	₹ 300 lakhs

Zigato has received ₹ 300 lakhs for the above orders from customers and the orders were delivered to the customer in stipulated time.

How much revenue should be recognised by restaurants and how much revenue should be recognised by Zigato for the year?

Answer: The risks and rewards associated with the food item are not with Zigato. When a customer has ordered a food item, whether the item will be prepared or not is the responsibility of the restaurant and not Zigato. Similarly, the responsibility to deliver the food item is with Zigato and the restaurant does not undertake responsibility for the same.

Therefore, the restaurant undertakes the principal's responsibility to prepare the food and ensure its quality. Zigato, on the other hand, is only responsible to deliver the food. Thus, Zigato is acting as an agent. Hence, it can only recognize revenue relating to that activity (which it does in the ordinary course of business). The revenue for Zigato, therefore, is ₹ 60 lakhs, whereas, the revenue for restaurants will be ₹ 200 lakhs.

It may be noted that the GST of ₹ 40 lakhs is a liability payable to the Government (third party), hence it does not form part of revenue.

17. A Ltd. entered into a contract with B Ltd. to dispatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of Rs. 1,00,000 and A Ltd. started dispatching the goods. In third month, due to natural calamity, B Ltd. requested A Ltd. not to dispatch goods until further notice through A Ltd is holding the remaining goods worth Rs. 50,000 ready for dispatch. A Ltd. accounted Rs. 50,000 as sales and transferred the balance to Advance Received against sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

Answer: As per AS-9: Bill and hold sales (Delivery is delayed at buyer's request)

Revenue should be recognized even though physical delivery has not been completed so long as following conditions are satisfied –

a) there is every expectation that delivery will be made.

b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized.

c) delivery is delayed at buyer's request.

d) buyer takes title and accepts billing.

In the case of A Ltd. all the above conditions are fulfilled and hence A Ltd. should record the balance Rs. 50,000 as sale and not to keep as Advance

AS 10: Property, Plant & Equipment

14. A Lt. 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 -included
2. Shipping costs and cost of road transport for taking the machinery to factory -included
3. Insurance for the shipping -included
4. Inauguration costs for the factory - excluded
5. Professional fees charged by consulting engineer for the installation process -included
6. Costs of advertising and promotional activities - excluded
7. Administration and other general overhead costs - excluded
8. Cost of site preparation. -included

15. A Ltd. is installing a new plant at its production facility. It has incurred these costs:

		₹
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.

Answer: Costs which will be capitalized:

		₹
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 ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 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.

16. A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each asset as per AS 10 (Revised:

(i) Machinery purchased for ₹ 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹ 10 lakhs

(ii) Land for ₹ 50 lakhs

(iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020

(iv) Machinery purchased on 1st April.2017 for ₹ 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.

Answer:

Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/15 for ₹ 10 lakhs (having residual value of ₹ 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.	Nil
(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 (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. 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 revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 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 ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

AS 11: The Effect of Changes in Foreign Exchange Rates

17.

	Exchange Rate per $
Goods purchased on 1.1.2021 for US $ 15,000	₹ 75
Exchange rate on 31.3.2021	₹ 74
Date of actual payment 7.7.2021	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years ended 31st March, 2021 and 31st March, 2022 as per AS 11.

Answer:

At the date of Transaction: As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2021 and corresponding creditors would be recorded at ₹ 11,25,000 (i.e. $15,000 × ₹ 75)

At the year end re-statement: According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $15,000 on 31.3.2021 will be reported at ₹ 11,10,000 (i.e. $15,000 × ₹ 74) and exchange profit of ₹ 15,000 (i.e. ₹ 11,25,000 – ₹ 11,10,000) should be credited to Profit and Loss account in the year ended 31st March, 2021.

On maturity/settlement: On 7.7.2021, creditors of $15,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 15,000 (i.e. ₹ 11,10,000 – ₹ 10,95,000) will be credited to Profit and Loss account in the year ended 31st March, 2022.

18. Stem Ltd. purchased a Plant for US$ 30,000 on 30th November, 2013 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 62.15 per dollar. On 30th November, 2013, the exchange rate was ₹ 60.75 per dollar.

How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014?

Answer:

Calculation of Profit or Loss on forward contract to be recognized in the book of Stem Ltd.

Forward contract rate	₹ 62.15 per dollar
Less: Spot Rate	₹ 60.75 per dollar
Loss	₹ 1.40 per dollar
Forward Contract Amount	US$ 30000
Total Loss on entering into forward contract	US$ 30,000 x ₹ 1.40 = ₹ 42,000
Contract Period	6 Months

Out of total contract period of 6 months, 4 months are falling in the financial year 2013-14. Loss for the period from 1st Dec.2013 to 31st March, 2014 = (₹ 42,000/6) x 4 = ₹ 28,000. Thus the loss amounting to ₹ 28,000 for the period is to be recognised in the year ended 31st March, 2014.

AS 12: Accounting for Government Grants

19. Supriya Ltd. received a grant of ₹ 2,500 lakhs during the accounting year 2020-21 from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2021-22, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS-12.

Answer: As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

In the present case, the amount of refund of government grant should be first adjusted against the unamortised deferred income in the books and the excess if any will be debited to profit & loss account of the company as an extraordinary item in the year 2022-2023

20. Santosh Ltd. has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed ₹ 2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12 examine, whether the treatment of both the grants is correct.

Answer: As per AS 12 'Accounting for Government Grants', when government grant is received for a specific purpose, it should be utilised for the same. So the grant received for setting up a factory is not available for distribution of dividend.

In the second case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the elements of the grant is incorrect as per AS 12.

21. On 01.04.2014, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

Answer: According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

Date	Particulars	(₹ in lakhs)
1st April, 2014	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31st March, 2015	Less: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	Less: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	Less: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	Add: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

AS 13: Accounting for Investments

22. 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:

a) 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 ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was ₹ 11 lakhs.

b) 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 ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ₹ 4.5 lakhs.

c) A portion of current investments purchased on 15th March, 2018 for ₹ 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 ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs,

d) Another portion of current investments purchased on 7th December, 2017 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on 31st March, 2018 ₹ 3.5 lakhs
on 15th June, 2018 ₹ 3.8 lakhs

Answer: 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:

a) 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 ₹ 12 lakhs in the books.

b) 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 ₹ 5 lakhs in the books.

c) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

d) In this case, market value (considered as fair value) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

AS 14: Accounting for Amalgamation

AS-14 "Accounting for Amalgamation" has already been covered in the Amalgamation Chapter

AS 15: Employee Benefits

Discussed questions in 'RapidGist.'

AS 16: Borrowing Costs

23. On 1st April, 2011, Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:

a)	Construction of sealink across two cities: (Work was held up totally for a month during the year due to high water levels)	₹ 25 crores
b)	Purchase of equipments and machineries	₹ 3 crores
c)	Working capital	₹ 2 crores
d)	Purchase of vehicles	₹ 50,00,000
e)	Advance for tools/cranes etc	₹ 50,00,000
f)	Purchase of technical know-how	₹ 1 crores
g)	Total interest charged by the bank for the year ending31st March, 2012	₹ 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

Answer: According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per this standard, 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. Other borrowing costs should be recognised as an expense in the period in which they are incurred. The treatment of interest by Amazing Construction Ltd. can be shown as:

Particulars	Qualifying Asset	Interest to be Capitalised	Interest to be Charged to P&L	Calculations
Construction of sea-link	Yes	62,50,000		[80,00,000*(25/32)]
Purchase of equipment's & machineries	No		7,50,000	[80,00,000*(3/32)]
Working capital				
Purchase of vehicles	No		5,00,000	[80,00,000*(2/32)]
Advance for tools, cranes etc.	No		1,25,000	[80,00,000*(.5/32)]
Purchase of technical know-how	No		1,25,000	[80,00,000*(.5/32)]
	No		2,50,000	[80,00,000*(1/32)]
Total		62,50,000	17,50,000	

AS 17: Segment Reporting

24. The Senior Accountant of AMF Ltd. gives the following data regarding its five segments: (₹ in lakhs)

Particulars	P	Q	R	S	T	Total

	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS-17 'Segment Reporting'.

Answer: As per 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.

Accordingly,

(a) On the basis of revenue from sales criteria, segment P is a reportable segment.

(b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).

(c) On the basis of asset criteria, all segments except T 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 AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

25. M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are 10.00 crores. Segment X has Rs. 2.00 crores, segment Y has Rs. 3.00 crores and segment Z has Rs. 5.00 crores. Deferred tax assets included in the assets of each segments are X- Rs. 0.50 crores, Y— Rs. 0.40 crores and Z— Rs. 0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

Answer: According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are ₹ 8.8 crores [₹ 10 crores – (₹ 0.5 +₹ 0.4 +₹ 0.3)]. Segment X holds total assets of ₹ 1.5 crores (₹ 2 crores –₹ 0.5 crores); Segment Y holds ₹ 2.6 crores (₹ 3 crores –₹ 0.4 crores); and Segment Z holds ₹ 4.7 crores (₹ 5 crores –₹ 0.3 crores). Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

AS 18: Related Party Disclosure

26. **[Nov. 2018]** Following transactions are disclosed as on 31st March, 2018:

(i) Mr. Sumit, a relative of Managing Director, received remuneration of ₹ 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 ₹ 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.

Answer:

(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 for his services in the company from1st April, 2017 to 30th June, 2017 and 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 ₹ 50 Lakhs only are required to be disclosed as related party transaction on 31.3.18.

27. **[May 2019 & RTP Nov. 2023]** 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.)

(ii) Mr. Subhash Kumar is Managing Director of A Ltd. and also holds 72% capital of B Ltd.

Answer:

(i) (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

(ii) Mr. Subhash Kumar is Key management personnel as he has the authority for planning, directing and controlling the activities of A Ltd. He also holds substantial interest in B Ltd. as he holds 72% capital of B Ltd. Thus, Mr. Subhash is related party for both A Ltd. and B Ltd. Moreover, as per the definition of related party relationship described in AS 18, enterprises over which Subhash is able to exercise significant influence are also related parties. Thus, A Ltd. and B Ltd. will also be construed as related to each other.

AS 19: Lease

28. Classify the following into either operating or finance lease:

a) Lessee has option to purchase the asset at lower than fair value, at the end of lease term;

b) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;

c) 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;

d) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

Answer:

a) **Finance Lease** - If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.

b) **Finance Lease** - 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.

c) **Finance Lease** - Since the asset is procured only for the use of lessee, it is a finance lease.

d) **Finance Lease** - The lease is a finance lease if X = Y, or where X substantially equals Y.

29. B & P Ltd. availed a lease from N & L Ltd. The conditions of the lease terms are as under:

a) Lease period is 3 years, in the beginning of the year 2020, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.

b) The Fair market value is also ₹ 10,00,000.
c) The property reverts back to the lessor on termination of the lease.
d) The unguaranteed residual value is estimated at ₹ 1,00,000 at the end of the year 2022
e) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513. The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the lease constitute finance lease and also calculate unearned finance income

Answer:

a) Computation of annual lease payment to the lessor

Particulars	₹
Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
Present value of residual value after third year @ 10% (₹ 1,00,000 x 0.7513)	75,130
Fair value to be recovered from lease payments (₹ 10,00,000 – ₹ 75,130)	9,24,870
Present value of annuity for three years is 2.4868	
Annual lease payment = ₹ 9,24,870 / 2.4868	3,71,911.70

The present value of lease payment i.e., ₹ 9,24,870 equals 92.48% of the fair market value i.e., ₹ 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

b) Computation of Unearned Finance Income

Particulars	₹
Total lease payments (₹ 3,71,911.70 x 3)	11,15,735
Add : Unguaranteed residual value	1,00,000
Gross investment in the lease	12,15,735
Less: Present value of investment (lease payments and residual value) (₹ 75,130 + ₹ 9,24,870)	10,00,000
	2,15,735

AS 20: Earning Per Share

30. ABC Ltd. has 10,000 equity shares outstanding on 1-1-21. Find out the weighted average number of equity shares for the year 2021, for the purpose of calculation of Basic EPS in each of the following cases:

a) The company issued 2,000 equity shares for cash on 1-1-21
b) The company issued 2,000 equity shares for cash on 1-4-21

c) The company issued 2,000 equity shares for cash on 1-10-21

d) The company issued 2,000 equity shares for cash, 50% paid up, on 1-10-21

e) The company issued 2,000 equity shares as Bonus shares on 1-4-21

f) The company issued 2,000 equity shares for cash on 1-7-21 and 3,000 Bonus shares on 1-10-21.

Answer:

a. Weighted Average Number of equity shares	= 10,000 + (2,000 x 12/12) = 12,000 shares
b. Weighted Average No. of equity shares	= 10,000 + (2,000 × 9/12) = 11,500 shares
c. Weighted Average No. of equity shares	= 10,000 + (2,000 × 3/12) = 10,500 shares
d. Weighted Average No. of equity shares	= 10,000 + (2,000 × 3/12 x 50%)= 10,250 shares
e. Weighted Average No. of equity shares	= 10,000 + (2,000 x 12/12) = 12,000 shares
f. Weighted Average No. of equity shares	= 10,000 + (2,000 × 6/12) + (3,000 x 12/12) = 14,000 shares

31. Net profit for the year 2012 : ₹ 24,00,000

Weighted average number of equity shares outstanding during the year 2012: 10,00,000

Average Fair value of one equity share during the year 2012 : ₹ 25.00

Weighted average number of shares under option during the year 2012: 2,00,000

Exercise price for shares under option during the year 2012 : ₹ 20.00

Compute Basic and diluted earnings per share

Answer:

Computation of earnings per share

Particulars	Earnings ₹	Shares	Earnings per share
Net profit for the year 2012 Weighted average number of shares outstanding during the year 2012 Basic earnings per share Number of shares under option Number of shares that would have been issued at fair value: (2,00,000 x 20.00)/25.00	24,00,000 --*	 10,00,000 2,00,000 (1,60,000)	 ₹ 2.40
Diluted earnings per share	24,00,000	10,40,000	₹2.31

- The earnings have not been increased as the total number of shares has been increased only by the number of shares (40,000) deemed for the purpose of computation to have been issued for no consideration.

AS 21: Consolidated Financial Statements

AS-21 "Accounting for Consolidated Financial Statements" has already been covered in the Consolidated Financial Statements chapter.

AS 22: Accounting for Taxes on Income

32. The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2018:

	(₹ in lakh)
Deferred Tax Liability (Cr.)	30.00
Deferred Tax Assets (Dr.)	15.00

The following transactions were reported during the year 2018 -2019:

i.	Tax Rate	30%
		(₹ in lakh)
ii.	Depreciation as per books	80.00
	Depreciation for tax purposes	70.00
iii.	Items disallowed in 2017-2018 and allowed for tax purposes in 2018-2019.	10.00
iv.	Donations to Private Trust made in 2018-2019.	10.00

There were no additions to Fixed Assets during the year. You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31.03.2019.

Answer: Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset

Transactions	Analysis	Nature of difference	Effect	Amount ₹ in Lakh
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.	Timing difference	Reversal of DTL	₹ (80-70) * 30% = ₹ 3
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Timing difference	Reversal of DTA	₹ 10 * 30% = ₹ 3
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable

AS 23: Accounting for Investments in Associates in Consolidated Financial Statements

33. A Ltd. acquire 45% of B Ltd. shares on April 01, 2021, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 2021:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 2022. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 2022.

Answer: Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		₹	₹
Cost of Investment	(A)		15,00,000
Less: Dividend out of pre-acquisition profit			-
Net Cost of Investment in B Ltd.			15,00,000
Equity Shares		10,00,000	
Security Premium		1,00,000	
Reserves & Surplus		5,00,000	
Net Assets		16,00,000	
45% of Net Asset (16,00,000 x 45%)	(B)		7,20,000
Goodwill (A-B)			7,80,000

Calculation of Carrying Amount of Investment in the year ended on 31st March, 2022

Particulars	
Investment in Associate as per AS 23:	
Share of Net Assets on 1 April 2021	7,20,000
Add: Goodwill	7,80,000
Cost of Investment	15,00,000
Add: Profit during the year (3,00,000 x 45%)	1,35,000
Less: Dividend paid (1,00,000 x 45%)	(45,000)
Carrying Amount of Investment	15,90,000

34. A Ltd. acquired 40% share in B Ltd. on April 01, 2021 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 2021-2022, B Ltd. suffered a loss of ₹ 10,00,000; during 2022-2023 loss of ₹ 12,50,000 and during 2023-2024 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Answer: Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		₹
Cost of acquisition		10,00,000
Less: Dividend out of pre-acquisition profit		-
Net Cost of Investment		10,00,000
Equity Shares	10,00,000	
Reserves & Surplus	2,00,000	
Net Assets	12,00,000	
40% share of Net Assets		4,80,000
Goodwill		5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 2021: ASSETS

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

31 March 2022:

Calculation of Carrying Amount of Investment as at 31 March 2022:

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 2021	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2022: ASSETS

Investment in Associate as per AS 23	₹	₹

Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

31 March 2023:

Calculation of Carrying Amount of Investment as at 31 March 2023

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 2022	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2023: ASSETS

Investment in Associate as per AS 23		
Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above (₹ 4,00,000 + ₹ 5,00,000)	(9,00,000)	
Add: Goodwill	5,20,000	1,00,000

31 March 2024:

Calculation of Carrying Amount of Investment as at 31 March 2024

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

* If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value.

Consolidated Balance Sheet (Extract) as on March 31, 2024: ASSETS

Investment in Associate as per AS 23		₹
Share of Net Assets	4,80,000	

Less: Share in Loss (4,00,000 + 5,00,000 +*1,00,000) Add: Goodwill	(10,00,000) 5,20,000	 -

AS 24: Discontinuing Operation

35. 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?

Answer: In response to the market forces, business enterprises often abandon products or even product lines and reduce the size of their work-force. These actions are not in themselves discontinuing operations unless they satisfy the definition criteria.

In the instant case the company has been gradually reducing operation in the product line of Washing Soap, simultaneously increasing operation in the product line of Bathing Soap. The company was not disposing of any of its components. Phasing out a product line as undertaken by the company does not meet definition criteria of AS 24, namely, disposing of substantially in its entirety a component of the enterprise. Therefore, this change over is not a discontinuing operation.

AS 25: Interim Financial Reporting

36. Sincere Corporation is dealing in seasonal product. Sales pattern of the product quarter-wise is as follows:

1st quarter 30th June	10%
2nd quarter 30th September	10%
3rd quarter 31st December	60%
4th quarter 31st March	20%

Information regarding the 1st quarter ended on 30th June, 2021 is as follows:

Sales	80 crores
Salary and other expenses	60 crores

Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer ₹ 10 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, the third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

Answer:

Particulars	(₹ In crores)	
Result of first quarter ended 30th June, 2021		
Turnover	80	
Other Income	Nil	
Total (a)		80
Less: Changes in inventories		Nil
Salaries and other cost		60
Administrative and selling Expenses (4+8)		12
Total (b)		72
Profit (a)-(b)		8

According to AS 25, the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized when they occur. Thus, the company's view is not as per AS 25.

37. An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000. Calculate the tax expense to be recognized in each quarter.

Answer:

As per AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

		₹
Estimated Annual Income	(A)	10,00,000
Tax expense:		
30% on ₹ 5,00,000		1,50,000
40% on remaining ₹ 5,00,000		2,00,000

	(B)	3,50,000

Weighted average annual income tax rate = 3,50,000/10,00,000 * 100 = 35%

Tax expense to be recognized in each of the quarterly reports	₹
Quarter I - ₹ 75,000 x 35%	26,250
Quarter II - ₹ 2,50,000 x 35%	87,500
Quarter III - ₹ 3,75,000 x 35%	1,31,250
Quarter IV - ₹ 3,00,000 x 35%	1,05,000
₹ 10,00,000	3,50,000

AS 26: Intangible Assets

38. An Enterprise has incurred expense for purchase of Technical know-how for manufacturing a Moped. The Enterprise has paid ₹ 5 crores for the use of know-how for a period of 4 years. The Enterprise estimates the production of mopeds as follows:

Year	No. of Mopeds
1	25,000
2	50,000
3	75,000
4	1,00,000

On going into production, at the end of the 1^{st} year it achieved its targeted production, but considered to revise the estimates for the next 3 years as follows:

Year	No. of Mopeds
1	35,000
2	65,000
3	80,000

How will the Enterprise amortize the Technical know-how Fees as per AS – 26.

Answer: Based on the revised estimate, total sales is 2,05,000, the first year charge should be a proportion of 25,000 / 2,05,000, on ₹ 5 crores, second year will be 35,000 / 2,05,000, and so on unless the estimates are again revised. If these estimates cannot be determined reliably it would be preferable to charge them off on a straight line basis, otherwise, as can be seen from the above example, significant amortization amount is inappropriately postponed to later years.

39. Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of Rs. 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs. 1 for 5 years @ 10% is 3.7908. Decide the treatment of Research and Development Cost of the project as per AS 26.

Answer:

Research Expenditure – According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product Rs. 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2012-13. Hence, it should be written off as an expense in that year itself.

Cost of internally generated intangible asset – it is given that development phase expenditure amounting Rs. 8 lakhs incurred upto 31st March, 2013 meets asset recognition criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	Rs. 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (Rs. 2 lakhs x 3.7908)	Rs. 7.582 lakhs

The cost of an internally generated intangible asset would be lower of cost value Rs. 8 lakhs or present value of future net cash flows Rs. 7.582 lakhs. Hence, cost of an internally generated intangible asset will be Rs. 7.582 lakhs. The difference of Rs. 0.418 lakhs (i.e. Rs. 8 lakhs – Rs. 7.582 lakhs) will be amortized by Plymouth for the financial year 2012-13.

Amortisation - The company can amortise Rs. 7.582 lakhs over a period of five years by charging Rs. 1.516 lakhs per annum from the financial year 2013-2014 onwards.

AS 27: Financial Reporting of Interests in Joint Ventures

40. Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.2021 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.2021 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow:

Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.
You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer

Answer: Draft Consolidated Profit & Loss Account

Particulars	₹	₹	Particulars	₹	₹
To Purchase of Land:			By Sale of Flats:		
Mr. A		60,00,000	Mr. A	40,00,000	
To Registration Fees:			Mr. B	20,00,000	
Mr. A		60,000	Mr. C	10,00,000	70,00,000
To Materials:		9,50,000	By Flats taken by Venturers:		
Mr. B					
To Other Expenses:			Mr. A	10,00,000	
Mr. C		9,00,000	Mr. B	10,00,000	30,00,000
To Bank Interest:			Mr. C	10,00,000	
Mr. A		2,00,000			
To Profits:					
Mr. A	6,30,000				
Mr. B	6,30,000				
Mr. C	6,30,000	18,90,000			
		1,00,00,000			1,00,00,000

In the Books of Mr. A

Joint Venture Account

Particulars	₹	Particulars	₹
To Bank Loan (Purchase of Land)	50,00,000	By Bank (Sale of Flats)	40,00,000
To Bank:(Purchase of Land)	10,00,000	By Land & Building	10,00,000
To Bank (Registration Fees)	60,000	By Bank (Received from Mr. B)	14,20,000
To Bank (Bank Interest)	2,00,000	By Bank (Received from Mr. C)	4,70,000
To Profit on JV	6,30,000		
	68,90,000		68,90,000

In the Books of Mr. B
Joint Venture Account

Particulars	₹	Particulars	₹

To Purchases (Material Supplied) To Bank (Materials) To Profit on JV To Bank (Paid to Mr. A)	4,50,000 5,00,000 6,30,000 14,20,000	By Bank (Sale of Flats) By Land & Building	20,00,000 10,00,000
	30,00,000		30,00,000

In the Books of Mr. C

Joint Venture Account

Particulars	₹	Particulars	₹
To Bank (Misc. Expenses) To Profit on JV To Bank (Paid to Mr. A)	9,00,000 6,30,000 4,70,000	By Bank (Sale of Flats) By Land & Building	10,00,000 10,00,000
	20,00,000		20,00,000

AS 28: Impairment of Assets

41. Ergo Industries Ltd. gives the following estimates of cash flows relating to Property, Plant and Equipment on 31-12-2021. The discount rate is 15%.

Year	Cash Flow (₹ in lakhs)
2022	4000
2023	6000
2024	6000
2025	8000
2026	4000

Residual value at the end of 2026	=	₹ 1000 lakhs
Property, Plant and Equipment purchased on 1-1-2019	=	₹ 40,000 lakhs
Useful life	=	8 years
Net selling price on 31-12-2021	=	₹ 20,000 lakhs

Calculate on 31-12-2021:

(a) Carrying amount at the end of 2021

(b) Value in use on 31-12-2021

(c) Recoverable amount on 31-12-2021

(d) Impairment loss to be recognized for the year ended 31-12-2021

(e) Revised carrying amount

(f) Depreciation charge for 2022.

Note: The year 2019 is the immediate preceding year before the year 2020.

Answer:

(a) Calculation of carrying amount:

Original cost = ₹ 40,000 lakhs

Depreciation for 3 years = [(40,000-1000) x 3/8] = ₹ 14,625 lakhs Carrying amount on 31-12-2021 = [40,000-14,625] = ₹ 25,375 lakhs

(b) Calculation of value in use

Year	Cash Flow	Discount as per 15%	Discounted cash flow
2022	4,000	0.870	3,480
2023	6,000	0.756	4,536
2024	6,000	0.658	3,948
2025	8,000	0.572	4,576
2026	4,000	0.497	1,988
2026	(residual) 1,000	0.497	497
			19,025

Value in use = ₹ 19,025 lakhs

(c) Recoverable amount = higher of value in use and net selling price i.e. ₹ 20,000 lakhs

Recoverable amount = ₹ 20,000 lakhs

(d) Impairment Loss = Carrying amount – Recoverable Amount = ₹ (25,375-20,000) = ₹ 5,375 lakhs

(e) Revised carrying amount = ₹ (25,375-5,375) = ₹ 20,000 lakhs

(f) Depreciation charge for 2022 = (20,000-1000)/5 = ₹ 3,800 lakhs

42. X Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs on 31.3.2021. Its balance useful life is 5 years and residual value at the end of 5 years is ₹ 5 lakhs. Estimated future cash flow from using the plant in next 5 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.3.2022	50
31.3.2023	30
31.3.2024	30
31.3.2025	20
31.3.2026	20

Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.2021 is ₹ 60 lakhs.

Answer: Present value of future cash flow

Year ended	Future Cash Flow	Discount @ 10% Rate	Discounted cash flow
31.3.2022	50	0.909	45.45
31.3.2023	30	0.826	24.78
31.3.2024	30	0.751	22.53
31.3.2025	20	0.683	13.66
31.3.2026	20	0.620	12.40
			118.82
Present value of residual price on 31.3.2026 = 5 x 0.620			3.10
Present value of estimated cash flow by use of an asset and residual value, which is called "value in use".			121.92

AS 29: Provisions, Contingent Liabilities & Contingent Assets

43. **[A Court Case]** After a wedding in 2020-21, ten people died, possibly as a result of food poisoning from products sold by the enterprise. Legal proceedings are started seeking damages from the enterprise but it disputes liability. Up to the date of approval of the financial statements for the year 31 March 2021, the enterprise's lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year 31 March 2022, its lawyers advise that, owing to developments in the case, it is probable that the enterprise will be found liable.

Answer:

a) At 31 March 2021

- **Present obligation as a result of a past obligating event** – On the basis of the evidence available when the financial statements were approved, there is no present obligation as a result of past events.
- **Conclusion** – No provision is recognized. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

b) At 31 March 2022

- **Present obligation as a result of a past obligating event** – On the basis of the evidence available, there is a present obligation.
- **An outflow of resources embodying economic benefits in settlement** – Probable.

- **Conclusion** – A provision is recognized for the best estimate of the amount to settle the obligation.

44. **[A Court Case]** A company has at its financial year ended 31st March, 2004 fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the possible outcomes are as below:

Result	Probability	Amount of Loss (Rs.)
For first ten cases:		
Win	0.6	-
Lose-low damages	0.3	90,000
Lose-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	-
Lose-low damages	0.3	60,000
Lose-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others. Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Answer:

As per AS – 29 Contingent liability should be disclosed in financial statements if following conditions are satisfied:-

- There should be present obligation arising out of past event but not recognized as provision.
- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- The possibility of an outflow of resources embodying economic benefits is not remote.
- 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 10 cases is 60% and for remaining, five cases 50%. In other words, the probability of losing is 40% or 50% respectively. As per the AS – 29, 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 not remote rather there is reasonable possibility of loss, 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 first ten cases:

  = Rs. 90,000 × 0.3 + Rs. 1,60,000 × 0.1

  = Rs. 43,000 × 10

= Rs. 4,30,000

Expected loss in remaining five cases:

= Rs. 60,000 × 0.3 + Rs. 95,000 × 0.2

= Rs. 37,000 × 5

= Rs. 1,85,000

Total Contingent Liability:

= Rs. 4,30,000 + Rs. 1,85,000 = Rs. 6,15,000

Financial Statement of Company

45. **[Nov. 2022 – Profit & Loss And Balance Sheet]** The following is the Trial Balance of Anmol Limited as on 31st March, 2022:

Debit Balance	Amount (₹)	Credit Balances	Amount (₹)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000	General Reserve	10,00,000
Selling & Distribution Expenses	4,36,000	Surplus (P&L A/c) 01.04.2021	8,75,500
Directors Fees	32,000	Securities Premium	2,50,000
Bad Debts	38,500	Term Loan from Public Sector Bank	1,02,00,000
Interest on Term Loan	8,05,000	Trade Payables	55,08,875
Land	24,00,000	Provision for Depreciation:	
Factory Building	36,80,000	On Plant & Machinery	9,37,500
Plant and Machinery	62,50,000	On Furniture and Fittings	82,500
Furniture and Fittings	8,25,000	On Factory Building	1,84,000
Trade Receivables	64,75,000		
Advance Income Tax Paid	37,500	Provision for Doubtful Debts	25,000
Stock (1st April,2021)	9,25,000	Bills Payable	1,25,000
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875	Total	3,28,47,875

Following information is provided:

1. The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.
2. Rent of ₹ 20,000 and Wages of ₹ 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 ₹ 11,37,500.
5. Make a provision for Doubtful Debt @ 5% on Debtors.
6. Make a provision of 25% for Corporate Income Tax.
7. Transfer ₹ 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 ₹ 17,00,000.
9. Trade Receivables of ₹ 85,600 are outstanding for more than six months.
10. The Board declared a dividend @10% on Paid up Share Capital on 5 th April, 2022.

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

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

Particulars			Note No	₹
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
				1,96,03,825

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

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

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Authorized		
	2,00,000 equity shares of ₹ 10 each		20,00,000
	Issued & subscribed		
	1,00,000 equity shares of ₹ 10 each		10,00,000
2	Reserves and Surplus		
	General Reserve	10,00,000	
	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	
	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	Long-term borrowings		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000

	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	Trade payables		
	Trade payables	55,08,875	
	Bills payable	1,25,000	56,33,875
5	Other current liabilities		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500
6	PPE (Note 2)		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	Trade receivables		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	
	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	Cash and bank balances		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	Changes in Inventories		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)
10	Employee benefit expense		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	Other operating expenses		
	Rent	2,20,000	
	Add: outstanding	20,000	2,40,000
	Rates and Taxes		50,000
	Selling & Distribution expenses		4,36,000
	Bad debts		38,500
	Provision for Doubtful Debts (3,23,750-25,000)		2,98,750
	Director's fee		32,000
	Total		10,95,250

Note:

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

Buy Back of Securities

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

(in crores ₹)

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

Notes to accounts:

No.	Particulars		₹

1	Share Capital		
	Authorized, issued and subscribed share capital:		
	12% Redeemable preference shares of ₹ 100 each, fully paid up		75
	Equity shares of ₹ 10 each, fully paid up		25
	Total		100
2	Reserves and Surplus		
	Capital reserve		15
	Securities premium		25
	Revenue reserves		260
	Total		300
3	Property, Plant and Equipment		
	PPE Cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		NIL
4	Non-Current Investments		
	Non-current investments at cost (Market value ₹ 400 Cr.)		100

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

(i) Pass journal entries to record the above.

(ii) Prepare balance sheet as at 1.4.2021.

Answer: Journal entries in the books of Anu Ltd.

₹ in crores

	Particulars	Dr.	Cr.
1st April, 2021	12% Preference share capital A/c Dr.	75	
	To Preference shareholders A/c		75
	(Being preference share capital account transferred to shareholders account)		
	Preference shareholders A/c Dr.	75	
	To Bank A/c		75
	(Being payment made to shareholders)		
	Equity Shares buy-back A/c Dr.	25	

	To Bank A/c (Being 50 lakhs equity shares bought back @ ₹ 50 per share)			25
	Equity share capital A/c (50 lakhs x ₹ 10)	Dr.	5	
	Premium on buyback A/c (50 lakhs x ₹ 40)	Dr.	20	
	To Equity Shares buy-back A/c (Being cancellation of shares bought back)			25
	Securities Premium A/c Dr. To Premium on buyback A/c (50 lakhs x ₹ 40) (Being premium payable on buy-back charged from Securities premium)		20	20
	Revenue Reserve A/c	Dr.	80	
	To Capital Redemption Reserve A/c (75+5) (Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			80

47. **[May 2019]** Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

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

	93,00,000

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

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

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

Answer:

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

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

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

2. Shares Outstanding Test

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

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

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

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

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

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

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

Working Note:

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

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back

of equity is 'y'.

Then

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

$\left(\frac{y}{30} \times 10\right) = x$ Or $3x = y$ (2)

by solving the above equation, we get

x = ₹ 5,43,750 y = ₹ 16,31,250

Investment Accounts

48. The following information is presented by Mr. Z (a stock broker), relating to his holding in 9% Central Government Bonds.

Opening balance (nominal value) ₹ 1,20,000, Cost ₹ 1,18,000 (Nominal value of each unit is ₹ 100).

1.3.2021	Purchased 200 units, ex-interest at ₹ 98.
1.7.2021	Sold 500 units, ex-interest out of original holding at ₹ 100.
1.10.2021	Purchased 150 units at ₹ 98, cum interest.
1.11.2021	Sold 300 units, ex-interest at ₹ 99 out of original holdings.

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

Answer:

In the Books of Mr. Z

9% Central Government Bonds (Investment) Account

Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)	Date	Particulars	Face Value (₹)	Interest (₹)	Invest... (₹)
1.1.21	To Opening Bal	1,20,000	2,700	1,18,000	31.3.21	By Bank a/c	-	6,300	-
1.3.21	To Bank a/c.	20,000	750	19,600	1.7.21	By Bank a/c	50,000	1,125	50,000
1.7.21	To P & L a/c	-	-	833	30.9.21	By Bank a/c	-	4,050	-
1.10.21	To Bank a/c (150x9)	15,000	-	14,700	1.11.21	By Bank a/c	30,000	225	29,700
1.11.21	To P & L a/c	-	-	200	31.12.21	Closing Bal.	75,,000	1,688	73,633
31.12.21	To P & L a/c	-	9,938	-					
		1,55,000	13,388	1,53,333			1,55,000	13,388	1,53,333

Working Note:

1. Interest element in opening balance of bonds = 1,20,000 x 9% x 3/12 = ₹ 2,700
2. Purchase of bonds on 1. 3.2021

   Interest element in purchase of bonds = 200 x 100 x 9% x 5/12 = ₹

   750 Investment element in purchase of bonds = 200 x 98 = ₹ 19,600
3. Interest for half-year ended 31 March = 1,400 x 100 x 9% x 6/12 = ₹ 6,300
4. Sale of bonds on 1.7.2021

   Interest element = 500 x 100 x 9% x 3/12 = ₹ 1,125

   Investment element = 500 x 100 = ₹ 50,000
5. Profit on sale of bonds on 1.7.2021

   Cost of bonds = (1,18,000/ 1,200) x 500 = ₹ 49,167

   Sale proceeds = ₹ 50,000

   Profit element = ₹ 833
6. Interest for half-year ended 30 September

   = 900 x 100 x 9% x 6/12 = ₹ 4,050
7. Sale of bonds on 1.11.2021

   Interest element = 300 x 100 x 9% x 1/12 = ₹ 225

   Investment element = 300 x 99 = ₹ 29,700
8. Profit on sale of bonds on 1.11.2021

   Cost of bonds = (1,18,000/ 1,200) x 300 = ₹ 29,500

   Sale proceeds = ₹ 29,700

Profit element = ₹ 200

9. Closing value of investment

Calculation of closing balance:	Nominal value		₹
Bonds in hand remained in hand at 31st December 2021 From original holding (1,20,000 – 50,000 – 30,000) =	40,000	1,18,000/1,20,000 x 40,000	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

Interest element in closing balance of bonds = 750 x 100 x 9% x 3/12 =₹ 1,688

49. On 1st April, 2010, Rajat has 50,000 equity shares of P Ltd., at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

a) On 20th June, 2010 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

b) On 1st August, 2010, P Ltd. issue one equity bonus share for every six shares held by the shareholders.

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

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

Answer:

In the books of Rajat

Investment Account Equity shares in P Ltd.

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

5.11.10	To Bank A/c (right Shares) (W.N.4)	20,000		3,00,000					
		90,000	-	12,10,000			90,000	-	12,10,000

Working Notes:

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

   Note: – Right sale proceed shall be treated as income to be credited to Profit & Loss account as per AS-13
4. Rights subscribed = 30,000 shares x 2/3 x ₹ 15 = ₹ 3,00,000

Cash Flow Statement

50. The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March, 2020 and 2021:

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

Additional Information:

1. Depreciation written off on land and building ₹ 20,000.

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

You are required to prepare a cash flow statement for the year ended 31st March, 2011 as per AS-3, by using indirect method.

Answer:

Lotus Ltd.
Cash Flow Statement (Indirect Method)
For the year ended 31st March, 2021

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

Working Note:

1. Profit & Loss A/c

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

	5,35,000		5,35,000

2. Plant & Machinery A/c

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

3. Equity Share Capital A/c

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

4. Investment A/c

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

5. Provision for Tax A/c

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

Amalgamation of Companies

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

P Limited

Balance Sheet as at 31.03.2014

	Particulars	Amount ₹
I.	Equity and Liabilities	
1.	Shareholder's Fund	

	(a) Share Capital	1,40,000
	(b) Reserve & Surplus	
	Profit & Loss A/c	30,000
2.	Non Current Liabilities	
	8% Secured Debentures	1,10,000
3.	Current Liabilities	
	Trade Payables	54,000
	Total Liabilities	3,34,000
II.	Assets	
1.	Non-current assets	
	(a) Property Plant & Equipment	
	Building at cost less depreciation	1,00,000
	Plant & Machinery at cost less depreciation	25,000
2.	Current Assets	
	(a) Inventories	1,35,000
	(b) Trade Receivables	44,000
	(c) Cash at Bank	30,000
	Total Assets	3,34,000

Q Limited

Balance Sheet as at 31.03.2014

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

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

a) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

b) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

c) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the neptundry creditors are to be paid out of the proceeds thereof.

d) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,

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

Answer:

Calculation of Purchase Consideration

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

PQ Limited

Balance Sheet as at 1st April, 2014

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus		

	(2) Non-current Liabilities	2	1,21,000
	(a) Long term borrowings		
	(3) Current Liabilities		1,40,000
	(a) Trade Payables		10,15,000
II.	Assets Total		
	(1) Non-current assets		
	(a) PPE	3	4,30,000
	(b) Intangible	4	2,00,000
	(2) Current Assets		
	a) Inventories		1,85,000
	b) Trade Receivables		1,42,000
	c) Cash at Bank		58,000
	Total		10,15,000

Notes to Account:

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

In the books of P Ltd. (Journal Entries)

			₹	₹
1	Realization Account	Dr.	3,04,000	
	To Building			1,00,000
	To Plant & Machinery			25,000
	To Inventories			1,35,000
	To Trade Receivables			44,000
	(Being all assets except cash transferred to Realization Account)			
2	8% Debentures Account	Dr.	1,10,000	
	Trade Payables	Dr.	54,000	
	To Realization Account			1,64,000
	(Being all liabilities transferred to Realization Account)			
3	Equity Share Capital	Dr.	1,40,000	
	Profit & Loss Account	Dr.	30,000	
	To Equity Shareholder's Account			1,70,000
	(Being Equity transferred to Equity Shareholders' Account)			
4	PQ Ltd	Dr.	1,89,000	
	To Realization Account			1,89,000
	(Being Purchase consideration due)			
5	Bank Account	Dr.	44,000	
	To Realization Account			44,000
	(Being Cash received from trade receivables in full)			
6	Realization	Dr.	54,000	
	Account To			54,000
	Bank Account			
	(Being payment made to Trade Payables)			
7	Shares in PQ Ltd.	Dr.	1,89,000	
	To PQ Ltd.			1,89,000
	(Being purchase consideration received in the form of Equity Shares of PQ Ltd.)			
8	Realization Account (balancing figure)	Dr.	39,000	
	To Equity Shareholders' Account			39,000
	(Being profit on realization transferred to Equity Shareholders' Account)			
9	Equity Shareholders' Account	Dr.	2,09,000	
	To Shares in PQ Ltd.			1,89,000
	To Bank Account			20,000
	(Being final payment made to shareholders)			

Internal Reconstruction

52. The Balance Sheet of M/s Cube Limited as on 31-03-2013 is given below:

Particulars	Note No.	Amount (₹in Lakhs)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	700
Reserves & Surplus	2	(261)
Non-Current Liabilities		
Long-term Borrowings	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
Assets		
Non-Current Assets		
Property Plant & Equipment	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		852

Notes:

		Amount (₹in Lakh)
1.	Share Capital	
	Authorised	
	100 lakh Equity Shares of ₹10 each	1,000
	4 lakh, 8% Preference Shares of ₹100 each	400
		1,400
	Issued, Subscribed & Paid-up	
	50 lakh Equity Shares of ₹10 each, fully paid up	500
	2 lakh, 8% Preference Shares of ₹100 each, fully paid up	200
		700
2.	Reserves & Surplus	
	Debit Balance of Profit & Loss A/c	(261)

3.	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	200
	Directors' Loan	150
		350
4.	Trade Payables	
	Sundry Creditors for Goods	51
5.	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	12
6.	Property Plant & Equipment	
	Freehold Property	275
	Plant & Machinery	100
		375
7.	Current Investment	
	Investment in Equity Instruments	100
8.	Inventories	
	Finished Goods	150
9.	Trade Receivables	
	Sundry Debtors for Goods	225
10.	Cash and Cash Equivalents	
	Balance with Bank	2

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 ₹80 each and Equity Shares to ₹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 ₹2 each to be allotted.
3. Debenture Holders agreed to take one Freehold Property at its book value of ₹150 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 ₹200 lakh.
6. All investments sold out for ₹125 lakh.
7. 70% of Director's loan to be waived and for the balance, Equity Shares of ₹2 each to be allowed.
8. 40% of Sundry Debtors and 80% of Inventories to be written off.
9. Company's contractual commitments amounting to ₹300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

a. Pass Journal Entries for all the transactions related to internal reconstruction.
b. Prepare Reconstruction Account
c. Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after implementation of scheme of internal reconstruction.

Answer:

a) Journal Entries in the books of M/s. Cube Ltd.

Point No.	Particulars		Debit (Rs. in lakhs)	Credit (Rs. in lakhs)
(1)	8% Preference share capital A/c (Rs. 100 each)	Dr.	200	
	To 8% Preference share capital A/c (Rs. 80 each)			160
	To Reconstruction A/c			40
	(Being the preference shares of Rs. 100 each reduced to Rs. 80 each as per the approved scheme)			
	Equity share capital A/c (Rs. 10 each)	Dr.	500	
	To Equity share capital A/c (Rs. 2 each)			100
	To Reconstruction A/c			400
	(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
(2)	Reconstruction A/c	Dr.	16	
	To Equity share capital A/c (Rs. 2 each)			16
	(Being 1/3rd (200x8%x3) arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of (Rs. 2 each)			
(3)	6% Debentures A/c	Dr.	150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(4)	Accrued debenture interest A/c	Dr.	12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
(5)	Freehold property A/c	Dr.	75	
	To Reconstruction A/c			75
	(Being appreciation in the value of freehold property)			
(6)	Bank A/c	Dr.	125	
	To Investments A/c			100
	To Reconstruction A/c			25
	(Being investment sold at profit)			
(7)	Director's loan A/c	Dr.	150	
	To Equity share capital A/c (Rs. 2 each)			45
	To Reconstruction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of Rs. 2 each)			

(8) (9)	Reconstruction A/c Dr.	629	
	To Profit and loss A/c		261
	To Sundry debtors A/c (225 x 40%)		90
	To Stock-in-trade A/c (150 x 80%)		120
	To Bank A/c (300 x 5%)		15
	To Capital reserve A/c		143
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)		

b) Reconstruction Account

Dr. Cr.

	(Rs. in lakhs)		(Rs. in lakhs)
To Equity Share Capital (pref. div.)	16	By Preference Share Capital	40
	90	By Equity Share Capital	400
To Sundry Debtors	120	By Freehold Property	75
To Finished Goods	261	By Bank	25
To Profit & Loss A/c	15	By Director's Loan	105
To Bank A/c (Penalty)	143		
To Capital Reserve (balance transf.)			
	645		645

c) Notes to Accounts

		(Rs. in lakhs)	(Rs. in lakhs)
1.	Share Capital		
	Authorised:		
	100 lakhs Equity shares of Rs. 2 each		200
	4 lakhs 8% Preference shares of Rs. 80 each		320
			520
	Issued:		
	80.5 lakhs equity shares of Rs. 2 each		161
	2 lakhs Preference Shares of Rs. 80 each		160
			321
2.	Tangible Assets		
	Freehold Property	275	
	Less: Utilized to pay Debenture holders	(150)	
		125	
	Add: Appreciation	75	200

	Plant and Machinery		100 300

Consolidated Financial Statement

53. On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
Shareholders' Fund		
Issued and subscribed		
Equity shares of ₹ 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-Current Assets		
(a) Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd.	3,84,000	-
(19,200 shares at ₹ 20 each)		
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill 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 ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 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 ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

Answer:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars	Note No.	(₹)
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
(2) 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

				₹
1.	Share Capital			
	Equity share capital			13,40,000
	1,34,000 shares of ₹ 10 each fully paid up			
2.	Reserves and Surplus			
	Reserves		4,80,000	
	Add: 4/5th share of S Ltd.'s post acquisition reserves - (W.N.3)		96,000	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s post acquisition profits - (W.N.4)		11,040	2,51,040
				8,27,040
3.	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
4.	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
5.	Intangible assets			

	Goodwill [WN 6]			28,800
6.	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.	₹
	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 ₹ (3,60,000 – 2,40,000)	1,20,000
	Less: Loss on Furniture ₹(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 less pre-acquisition profits = ₹ 60,000 – ₹ 36,000)	24,000
	Add: Excess depreciation charged on furniture @ 15% on ₹ 12,000 i.e. (48,000 – 36,000)	1,800
		25,800
	Less: Under depreciation on machinery @ 10%	

on ₹ 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

54. H Ltd and its subsidiary S Ltd provide the following information for the year ended31st March, 2013:

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

Other Information:

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

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

Prepare a consolidated statement of profit and loss

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

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	5,865
II. Total Income		5,865
III. Expenses		
Cost of material purchased/consumed	2	1,180
Changes of inventories of finished goods	3	(1,196)
Employee benefit expense	4	950
Finance cost	5	150
Depreciation and amortization expense	6	150
Other expenses	7	535
Total expenses		1,769
IV. Profit before tax (II-III)		4,096

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from operationsSales and other income		
	H Ltd.	5,000	
	S Ltd.	1,000	
		6,000	
	Less: Inter-company sales	(120)	

	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	(10)	5,865
2.			
	Cost of material purchased/consumed		
	H Ltd.	800	
	S Ltd.	200	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	(120)	880
	Direct expenses (Production)		
	H Ltd.	200	
	S Ltd.	100	300
			1,180
3.	Changes of inventories of finished goodsH		
	Ltd.	1,000	
	S Ltd.	200	
	Less: Unrealized profits ₹24 lacs × $\frac{20}{120}$	(4)	1,196
4.	Employee benefits and expenses		
	Wages and salaries:		
	H Ltd.	800	
	S Ltd.	150	950
5.	Finance cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	50	150
6.	Depreciation		
	H Ltd.	100	
	S Ltd.	50	150
7.	Other expenses		
	Administrative expenses		
	H Ltd.	200	
	S Ltd.	100	
	Less: Consultancy fees received by H Ltd. from S Ltd.	(5)	295
	Selling and distribution Expenses:		
	H Ltd.	200	

	S Ltd. Less: Commission received by S Ltd. from H Ltd.	50 (10)	 240 535

55. King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 2021 at a cost of ₹ 140 lakhs. The following information is available from the balance sheetof Queen Ltd. as on 31st March, 2021:

	₹ in lakhs
Property, plant and equipment	240
Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the abovefigures):

Property, plant and equipment- up by 20% and Investments- down by 10%.

King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share (Face value - ₹10). Calculate the amount of goodwill/capital reserve on acquisition of shares of QueenLtd.

Answer: Revalued net assets of Queen Ltd. as on 31st March, 2021

	₹ in lakhs	₹ in lakhs
PPE [240 X 120%]		288
Investments [110 X 90%]		99
Current Assets		140
Loans and Advances		30
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		277
King Ltd.'s share of net assets (70% of 277)		193.9
King Ltd.'s cost of acquisition of shares of Queen Ltd. (₹140 lakhs)		(140)
Capital reserve		53.9

56.

a. A Ltd holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2019.

b. A Ltd holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019.

Suggest the accounting treatment for the above mentioned transactions in the consolidated financial statements of A Ltd giving reference of the relevant guidance/standard.

Answer: As per AS 21, intragroup balances, transactions, and unrealized profits should be eliminated. Upstream transactions involve the subsidiary selling to the holding company, sharing profits. In downstream transactions, the holding company earns the whole profit. Adjustments for downstream and upstream transactions are as follows:

a. Downstream Transaction:
- Eliminate sale and purchase transactions of ₹200 lacs each in the consolidated P&L account.
- Eliminate unrealized profits of ₹20 lacs from consolidated financial statements by reducing profits, losses, and closing inventories as of 31 March 20X1.

b. Upstream Transaction:
- Eliminate sale and purchase transactions of ₹200 lacs each in the consolidated P&L account.
- Eliminate unrealized profits of ₹50 lacs from consolidated financial statements by reducing closing inventories by ₹50 lacs as of 31 March 20X1.
- In the consolidated balance sheet, reduce A Ltd.'s share of profit from B Ltd by ₹37.50 lacs (75% of ₹50 lacs) and minority's share by ₹12.50 lacs (25% of ₹50 lacs).

Branch Accounts

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

Particulars	₹
Goods received from Head Office at invoice price	1,20,000
Returns of Head Office at invoice price	2,400
Stock in Nagpur Branch on 1.1.2009	12,000
Sales during the year – Cash	40,000
Credit	72,000

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

Answer: Stock Debtor Method

Branch Stock A/c

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

Branch Adjustment A/c (Loading)

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

Branch Debtor A/c

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

Branch Expenses A/c

Particulars	₹	Particulars	₹
To Branch Debtor A/c (Discount)	1,200	By Branch Profit & Loss A/c	18,800
To Branch Debtor A/c (Bad Debt)	800		
To Head Office Cash/Bank A/c	12,000		
Salaries & Wages	3,600		
Rent	1,200		
Office Expenses	16,800		

	18,800		18,800

Branch Profit & Loss A/c

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

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

Particulars	Head Office	Noida
Stock on April 1, 2009	50,000	
Purchases	3,00,000	-
Goods sent to Branch (at invoice value)	1,08,000	-
Sales	3,06,000	1,00,000
Expenses	90,000	4,000

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

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2010.

Answer:

Cost Price Relationship

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

Trading & Profit & Loss A/c

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

Working Note:

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

Alternatively:

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

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

59. Give Journal Entries in the books of Branch A to rectify or adjust the following:

i. Head Office expenses ₹ 3,500 allowed the Branch, but not recorded in the Branch Books.

ii. Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

iii. Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

iv. H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

v. A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

vi. Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

Answer:

In the Books of Branch A

Particulars	Dr. ₹	Cr. ₹
i. Share in Head Office Expense a/c – Dr.	3,500	
To Head Office a/c		3,500
(Head Office expenses allocated to the Branch)		

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

60. An Indian company has a branch at Washington. Its Balance Sheet as at 30th September, 2011 is as follows:

Particulars	US $ (Dr.)	US $ (Cr.)
Plant and Machinery	1,20,000	-
Furniture and Fixtures	8,000	-
Stock, Oct 1,2010	56,000	-
Purchases	2,40,000	-
Sales	-	4,16,000
Goods from Indian Co. H.O.	80,000	-
Wages	2,000	-
Carriages Inward	1,000	-
Salaries	6,000	-
Rent, Rates & Taxes	2,000	-
Insurance	1,000	-
Trade Expenses	1,000	-
Head Office a/c	-	1,14,000
Trade Debtors	24,000	-
Trade Creditors	-	17,000
Cash at bank	5,000	-
Cash in hand	1,000	-
	5,47,000	5,47,000

The following further information is given:

(1) Wages Outstanding - $ 1,000.

(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10% p.a.
(3) The Head Office sent goods to Branch for ₹ 39,40,000.
(4) The Head Office shows an amount of ₹ 43,00,000 due from branch.
(5) Stock on 30th September, 2011 - $ 52,000.
(6) There were no in transit items either at the start or at the end of the year.
(7) On September 1, 2009, when fixed assets were purchased, the rate of exchange was ₹ 38 to 1 $.
On October 1, 2010, the rate was ₹ 39 to 1 $.
On September 30, 2011, the rate was ₹ 41 to 1 $.
Average rate during the year was ₹ 40 to 1 $.

You are asked to prepare:
(a) Trial Balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees;
(b) Trading and Profit and Loss Account for the year ended 30th September, 2011 and the balance sheet as on that date depicting the profitability and net position of the branch as would appear in India for the purpose for incorporating in the main Balance Sheet.

Answer:

Branch Trial Balance

Particulars	$		Exc. Rate	₹	
	Dr.	Cr.		Dr.	Cr.
Plant and Machinery	1,08,000		38	41,04,000	
Depreciation on P & M	12,000		38	4,56,000	
Furniture	7,200		38	2,73,600	
Depreciation on Furniture	800		38	30,400	
Opening Stock	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from HO	80,000		Actual	39,40,000	
Wages	3,000		40	1,20,000	
Carriage inward	1,000		40	40,000	
Wages Outstanding		1,000	41		41,000
Salaries	6,000		40	2,40,000	
Rent rates	2,000		40	80,000	
Insurance	1,000		40	40,000	
Trade Expenses	1,000		40	40,000	
HO A/c		1,14,000	Actual		43,00,000
Debtors / Creditors	24,000	17,000	41	9,84,000	6,97,000
Bank	5,000		41	2,05,000	
Cash	1,000		41	41,000	
Exch. Diff. Gain (Bal. fig.)					7,00,000
	5,48,000	5,48,000		2,23,78,000	2,23,78,000

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

Branch Trading Profit & Loss A/c

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

Branch Balance Sheet

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