

**Dedicated to**

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**Thank You**

**Best of Luck.....!!!!!!**

**CA. Parveen Jindal**



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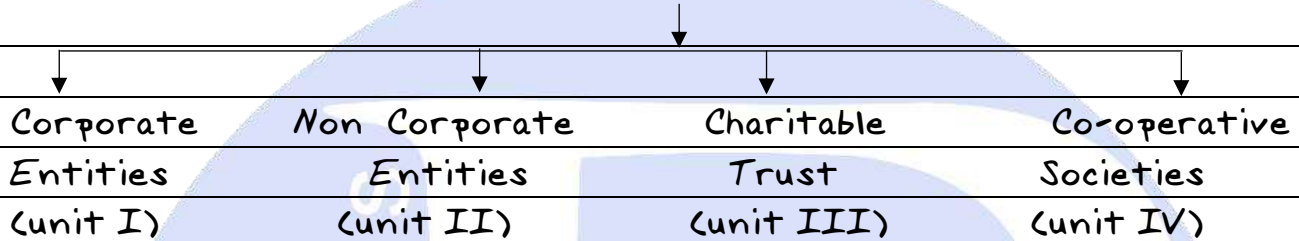
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*CA Parveen Jindal Classes*

## Chapter-1 – Conceptual Framework on "Applicability of Accounting Standard in India"

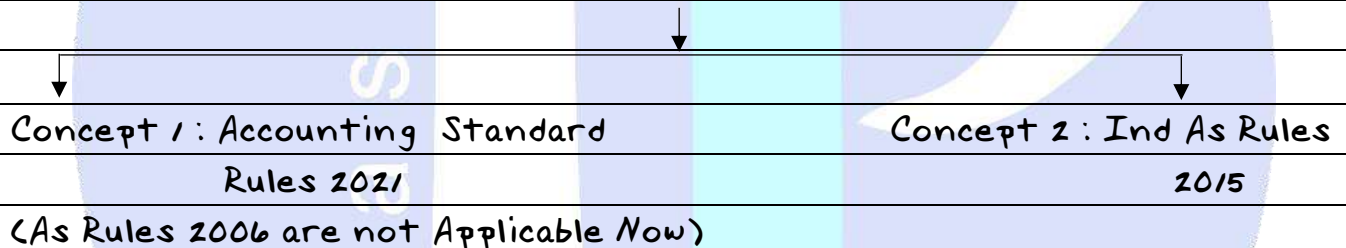
### "Part I"

#### Classification of Entities in India



### Unit I: Application of "As Rules" on Corporate entities

#### Corporate Entities



### Concept 1 : As Rules 2021 (New)

As Per the Provisions of As Rules 2021, All Companies are required to be classified under 2 heading as follows:-

A. SMC (Small & Medium size companies)

B. Non SMC (Other than SMC)

↓ Large Entities

### Important Note

There is no exemption or relaxation from application of Accounting Standard for a Non SMC. It can be said that all Accounting standard are mandatory for a Non SMC.

But, There are some exemptions or Relaxations for a SMC from application of AS. All exemptions / Relaxations shall be discussed ahead in this video



Meaning Of Non SMC: As Per the rules, A Company can be classified as Non SMC Only if " Any Condition " out of the following conditions is satisfied :-

Condition 1: It should be "A listed Company" or "In the process of listing "on a recognised stock exchange in India or outside India (i.e., BSE, NSE, NYSE, LSE etc)

↓                      ↓  
New York      London

OR

↗ Commercial, Regional etc

Condition 2: It should be "A Banking Company".

"An Insurance Company" OR "A financial Institution"

↓  
GIC, LIC etc.

↓  
NBFC

OR

Condition 3: It should have sales exceeding 250 crores in previous year as per Audited Statements

OR

↗ Secured or insecured

Condition 4: It should have Borrowing exceeding so crores in Previous year as per Audited Statements

OR

Condition 5: It should be a Holding company or a subsidiary company of Non SMC

Meaning of SMC : As per the Rules, A Company can be classified as SMC if it it cannot be considered as a Non SMC.





## Explanation on Exemptions for SMCs

### Exemptions

#### Full Exemptions

Specified "As" is  
Not Applicable

- i. AS3 : cash flow statement
- ii. AS17: segment reporting

#### Partial Exemptions

Specified "As" is  
Applicable to  
Limited Extent

- i) AS15 : Employees retirement
- ii) AS-19 : Leases
- iii) AS-20 : EPS
- iv) AS-28 : Impairment
- v) AS-29 : Provisions

Note: On the basis of Explanation as in above, It can be said that there is no Exemption for a SMC from Application Of other Accounting Standards.

Special Note on AS-21, AS-23, AS-27, AS-25 :

Holding Associate Joint venture Quarterly Report

As per Rules, The Application of above specified Accounting Standards can not be made by SMCs due their financial Structure. It means that there is no exemption from 21,23,27,25, but even though there statements can not be applied

"Special Point to be considered" \*Imp.

(A) Conversion of a SMC into Non SMC :-

If A SMC is converted into A Non SMC In Current year then All Exemptions/ Relaxations shall stand withdrawn from current year



itself. It means that all accounting standards shall become applicable from current year, but there will be no need to revise previous year financial statements.

### (B) Conversion of A Non SMC Into SMC

If A non SMC is classified as a SMC then there will be no exemption from any as in the current year due to comparison purpose. It can be said that Exemptions can be claimed by such company only if it remains a SMC for two consecutive years.

### "Part 2"

### Concept-2 : Ind As Rules 2015

As Per the Provisions, Ind As Rules 2015 have become Applicable in Different phases as follows:-

#### Phase I (w.e.f. 1.4.2015)

As Per the Rules, Any Company Can Apply Ind As Under "Voluntary Application" From 1.4.2015.

Note: The Application of Ind AS cannot be Withdraw if these are Adopted by any Company.

#### Phase II (w.e.f. 1.4.2016) [Mandatory Application]

- i. Any Company (Listed or Unlisted) Which has Net worth of ₹500 crores or more
- ii. Holding, Subsidiary, Associate or Joint Venture of above Companies

#### Phase III (w.e.f. 1.4.2017)

- i. Listed Companies having Net worth less than ₹500 crores
- ii. \*Unlisted Companies having Net worth ₹250 crores or more but less



than ₹500 crores

ii. Holding, Subsidiary, Associates or Joint Venture of above Entities

\* All Unlisted Companies having Net worth less than ₹250 crores shall continue Application of simple Accounting Standards.

### Guidelines for NBFC (Ind AS Application)

#### 1.4.2018 (Mandatory Application):

- i. Listed or Unlisted NBFC having Net worth ₹500 crores or more
- ii. Holding, Subsidiary, Associate, Joint Venture of above Companies

#### 1.4.2019 (Mandatory Application):

- i. All Listed Companies having Net worth less than 500 crores
- ii. Unlisted NBFC having Net worth 250 crores or more but less than 500 crores
- iii. Holding, Subsidiary, Associate, Joint Venture of above Companies

\* All NBFC, that are having Net worth less than 250 crores, Shall continue to Apply Simple AS.

### Guidelines for Banking & Insurance Companies

As per the rules, Ind AS were applicable on Banks & Insurance Co. From 1.4.2020, but Govt. had deferred such application before 1.4.2020. Now, Govt. may announce a new date for these Entities for Ind AS Compliance.

### Unit II: Non Corporate Entities (Non Company Entities)

(i.e., Partnership firms, HUF, Prop. etc)

Other Than Company

As Per the Provisions, ICAI will direct its member for Application of Accounting Standards on "Non Company Entities". The ICAI has classified Non Company Entities into 4 Categories as follows:-



i. Level I

ii. \*Level II (Medium), Level III (Small) &amp; Level IV (Micro)

MSMEs

\* There are some Exemptions from Application of AS for MSMEs Which will be discussed a head.

Meaning of Level I: i) Sales Exceeding 250 crores or  
ii) Loans Exceeding 50 crores

Meaning of Level II: i) Sales Exceeding 50 crores but upto 250 crores or  
ii) Loans Exceeding 10 crores but upto 50 crores

Meaning of Level III: i) Sales Exceeding 10 crores but upto 50 crores or  
ii) Loans Exceeding 2 crores but upto 10 crores

Meaning of Level IV: i) Sales Upto 10 crores or  
ii) Loans Upto 2 crores

Exemptions For Level II, III & IV From ASExemptions

| Exemptions   |       |         |       |         |       |         |
|--------------|-------|---------|-------|---------|-------|---------|
| I            | II    |         | III   |         | IV    |         |
| No Exemption | Full  | Partial | Full  | Partial | Full  | Partial |
|              | AS-3  | AS-15   | AS-3  | AS-10   | AS-3  | AS-10   |
|              | AS-17 | AS-19   | AS-17 | AS-11   | AS-14 | AS-11   |
|              | AS-20 | AS-28   | AS-18 | AS-15   | AS-17 | AS-13   |
|              | AS-21 | AS-29   | AS-20 | AS-19   | AS-18 | AS-15   |
|              | AS-27 |         | AS-23 | AS-29   | AS-20 | AS-19   |
|              | AS-25 |         | AS-24 | AS-28   | AS-21 | AS-22   |





AS-23

AS-25

AS-23

AS-26

AS-27

AS-24

AS-28

AS-25

AS-29

AS-27

### Unit III: Application of AS on Charitable Trust

AS Per the rules, Accounting standards are not applicable on charitable trust only if it is providing its services for No Consideration (can 100% free). If some consideration is charged for Services then Application of AS not be denied in that situation.

### Unit IV: Application on Co-operative Societies

#### Co-operative Societies

Objective: Profit Making

For its members



AS Shall be Applied



e.g Amul co-operative society

Objective: Public welfare

of its members



AS Shall not be Applied



e.g Resident welfare Association (RWA)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

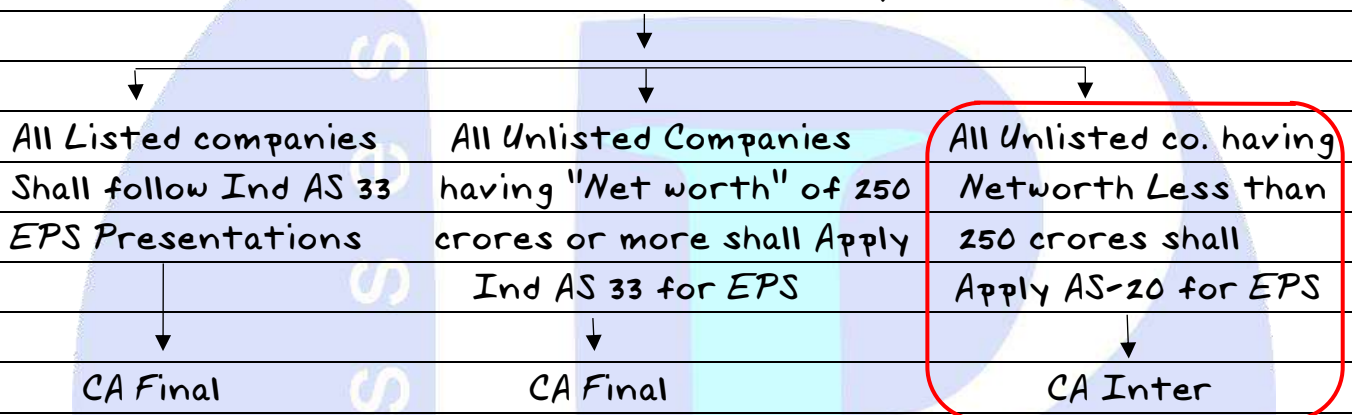


## Chapter-2 Accounting Standard 20 Earning Per Share (EPS)

### \*Part I\*

#### Application of AS -20

#### EPS (Rules at Present)



#### Concept 1 : Objective of AS-20

As per the provisions of AS-20, the main objective of this statement is Comparison of performance of company between two financial years on The basis of "Earnings".

**"The Presentation of EPS will be made on the face of profit & Loss Statement".**

**Note: The calculation & presentation of EPS helps the investor in Decision making regarding investments in company.**

#### Concept 2 : Types of EPS

As per the provisions of AS-20, Earnings Per Share can be classified Under 2 different headings as follows:-

- i. Basic EPS (Present EPS)
- ii. Diluted EPS (Future EPS)



### Important Points to be considered :-

- i. As per the Provisions, An Entity cannot select the disclosure of EPS because Both EPS have equal prominence. It means that both EPS are mandatory for Presentation Purpose.
- ii. The Disclosure of EPS is mandatory even if Entity is incurring Losses or reporting "Nil" Profits because the main Objective of AS-20 is comparison between Performance of two financial years Of company. It means that Level of Profit does not matter and EPS may be +, - or 0.

### Concept 3 : Explanation on Basic EPS

Basic EPS =  $\frac{\text{Earning Available for Equity Shareholders (EAE)}}{\text{Weighted Average Number of Shares}}$   
(Formula)

### Unit I : Meaning of EAE

|                                      |        |
|--------------------------------------|--------|
| EBIT (Earning Before Interest & Tax) | xxxx   |
| Interest Expense                     | (xxxx) |
| EBT (Earning Before Tax)             | xxxx   |
| Tax Expense (As per AS-22)           | (xxxx) |
| EAT (Earning After Taxes)            | xxxx   |
| *Preference Dividend on PSC          | (xxxx) |
| EAE                                  | xxxx   |

\*We have Ignored Dividend Distribution Tax on Preference Dividend Because DDT is not relevant for companies Now

### Additional Points to be considered while computing EAE:- \*Imp

#### 1. Adjustments of Prior Period Items

As per the provisions of AS-20, Company should consider Prior Period Items While Computing EAE for Current year. (PPI : Accounting



Mistakes in financial Statements of Earlier Period)

*Note : It means that Back date Adjustment is not allowed for PPI)*

## 2. Adjustment of Extra-ordinary Activities :-

As per the provisions of AS-20, Company should report its EPS by Including as well as Excluding **Extra-ordinary Activities**. It means that EPS Will be reported **two times** as follows:-

- i. BEPS : Before Extra Ordinary items
- ii. BEPS : After Extra Ordinary items

\*AS-20 requires to show impact of Extra ordinary on Current year's EPS

## 3. Adjustment of Pref-dividend on cumulative PSC

As per the provisions of AS-20, Company should provide for Pref. Dividend on cumulative PSC on Annual basis (Per Annum basis) whether Company has "+" or "-" Profits.

## 4. Adjustment of Pref Dividend on Non Cumulative PSC

As per the provisions of AS-20, Adjustment of Pref Dividend on Non Cumulative PSC will be made only if company has profits.

*Note: If question remains silent on Nature of PSC then we will always Assume that PSC is cumulative in nature*

## 5. Adjustment for Appropriations in EAE

**(i.e, Transfer to Reserves, Equity, Dividend etc)**

As per the provisions of AS-20, EAE should be taken before Appropriations. It means that Transfer to Reserves (Mandatory or Non mandatory) or Equity Dividends shall not be considered while Computing EAE.



\*Part 2\*Unit II : Meaning of WANS

WANS = No of Equity Shares o/s during      x Period of o/s  
The period

Example:-

Calculate WANS

- i. Accounting year : 1.4.20 – 31.3.21
- ii. Shares o/s : 1.4 (opening) = 10000 Shares (10)  
1.10 (N. Issue) = 5000 Shares (10)

Solution :

Alternate I : Share wise calculation

Opening Balance = 10000 x 12/12 = 10000 Shares

New Issue = 5000 x 6/12 = 2500 Shares  
12500 Shares

OR

Alternate II : Date wise Calculation ( I will prefer it in question)

1.4-30.9      10000 x 6/12 = 5000 Shares

1.10 – 31.3      15000 x 6/12 = 7500 Shares  
12500 Shares

As per the provisions of AS-20, there may be many Adjustments in WANS which are to be discussed as follows:-

Adjustment I: Buy Back of Shares

As per the Provisions of AS-20, WANS shall be reduced due to Buy back of Shares, but formula to calculate WANS will remain same as we discussed in above.





Q.1

Calculation of WANS

$$1.1.99 - 31.5.99 \quad 1800 \times 5/12 = 750 \text{ Shares}$$

$$1.6.99 - 31.10.99 \quad (1800 + 600) \times 5/12 = 1000 \text{ Shares}$$

$$1.11.99 - 31.12.99 \quad (2400 - 300) \times 2/12 = \underline{350 \text{ Shares}}$$

2100 Shares

Q.2

Calculation of BEPS

$$\text{BEPS} = \frac{\text{EAE}}{\text{WANS}} = \frac{240 \text{ Lacs}}{120 \text{ Lacs (W.N \#1)}} = 2 \text{ Per share}$$

W.N #1

Calculation of WANS

$$1.1.2001 - 30.6.2001 \quad 100 \times 6/12 = 50L$$

$$1.7.2001 - 31.10.2001 \quad 150 \times 4/12 = 50L$$

$$1.11.2001 - 31.12.2001 \quad 120 \times 2/12 = \underline{20L}$$

120 LAdjustment 2 : Different Face valuesDifferent Face values

Case I : Similar Dividend Rights

Case II : Different Dividend Rights

Case I : Similar Dividend Rights

If any company has Equity Shares of different face value then it will be the responsibility of company to calculate \$ Present Basic EPS for Each class of Share Separately on the Face of P&L. The following Steps should

Be applied for computing Basic EPS in the Given Case :-



Step I : The company should convert all shares into single face value by Taking any base.

Step II : Calculate WANS for all converted Shares/Equal Shares

Step III : Calculate BEPS ("Equal EPS for all") on the basis of WANS as in Step II

Step IV : Re-convert the BEPS in accordance with face value Per share

Step III

Example :-

i. A.Y = 1.4.21 – 31.3.22

ii. OB (1.4.21) : 10000 Shares of 100 each  
100000 Shares of 10 each

iii. EAE (21-22) : ₹ 50,00,000

Calculate Class wise BEPS

Solution :

Step I : Equal No. of Shares (Base : ₹100)

Class A (₹100) =  $10000 \times 100 / 100 = 10000$  Shares

Class B (₹10) =  $100000 \times 10 / 100 = 10000$  Shares  
20000 Shares

Step II : WANS

1.4.21 – 31.3.22       $20000 \times 12/12 = 20000$  shares

Step III : BEPS (Equal)

BEPS =  $\frac{₹ 50000000}{20000 \text{ shares}} = 250$  per share

Step IV : Reconversion of EPS

Class A =  $₹ 250 \times ₹ 100 / ₹ 100 = 250$  On the face of P&L

Class B =  $₹ 250 \times ₹ 10 / ₹ 100 = 25$



Example :

With the help of given information in previous Example, calculate class wise EPS if No. of shares are as follows:-

1.4.21 (O. balance) : 10000 shares of 100 each

1.10.21 (N Issue) : 100000 shares of 10 each

Solution :

Step I : Equal No. of shares

$$\text{Class A (100)} = \frac{10000 \times 100}{100} = 10000 \text{ shares}$$

$$\text{Class B (10)} = \frac{100000 \times 10}{100} = 10000 \text{ shares}$$

Step II : WANS (₹100)

$$1.4.21 - 30.9.21 \quad 10000 \times 6/12 = 5000$$

$$1.10.21 - 31.3.21 \quad 20000 \times 6/12 = 10000$$

$$\text{WANS} \quad 15000$$

Step III : BEPS (₹100)

$$\text{BEPS} = \frac{\text{₹ } 5000000}{15000 \text{ Shares}} = 333.33 \text{ Per share}$$

Step IV : Reconversion of EPS

$$\text{₹100} = \frac{333.33 \times 100}{100} = 333.33$$

$$\text{₹10} = \frac{333.33 \times 10}{100} = 33.33$$

Class wise Disclosure



### Case II : Different Dividend Rights

Step I : Calculate "Equal EAE" With the help of following Statement :

|                                     |               |
|-------------------------------------|---------------|
| Total EAE (Given in questions)      | xxxx          |
| Extra Dividends (Given in question) | <u>(xxxx)</u> |
| Normal EAE                          | <u>xxxx</u>   |

Step II : Calculate Equal no of shares on the basis of single face value

Step III : Calculate WANS for Equal shares

Step IV :  $BEPs = \text{Normal EAE} / \text{WANS}$

Step V : Reconvert the Basic EPS as per different face values

Step VI : Extra Dividend per share will be added to normal EPS to find Out Total EPS

Example:

- i. Opening Balance : 10000 shares of 50 Each  
20000 Shares of 20 Each
- ii. EAE : ₹ 4000000
- iii. Extra Dividend to : 5% above normal Dividend  
50 each shares

Calculate class wise EPS

Solution

Calculation of Normal EAE

|                                                 |                 |
|-------------------------------------------------|-----------------|
| Total EAE                                       | ₹4000000        |
| Extra Dividend for Class A<br>(10000 x 50 x 5%) | <u>(₹25000)</u> |
| Normal EAE                                      | ₹3975000        |

Calculation of Equal Shares (base : ₹50)

- i. ₹50 Each =  $10000 \times 50 / 50 = 10000$  Shares
- ii. ₹20 Each =  $20000 \times 20 / 50 = \underline{8000}$  Shares  
18000 Shares



## Calculation of Equal EPS

$$BEPS (\text{₹}50) = \frac{\text{₹}3975000}{18000 \text{ Shares}} = \text{₹}220.83$$

## Calculation of BEPS (Class Wise)

| Class  | Normal EPS                | Extra Per share      | Total EPS |
|--------|---------------------------|----------------------|-----------|
| A (50) | 220.83                    | 2.5<br>(25000/10000) | 223.33    |
| B (20) | 88.33<br>(220.83 x 20/50) | -                    | 88.33     |

\*Part 3\*

Q.4

I Calculation of Equal no of Shares  
(Base Value : ₹25 each)

$$\text{Class A (₹10)} = \frac{20000000 \text{ Shares} \times 10}{25} = 8000000$$

$$\text{Class B (₹25)} = \frac{10000000 \text{ Shares} \times 25}{25} = 10000000$$

$$\text{Class C (₹5)} = \frac{60000000 \text{ Shares} \times 5}{25} = 12000000$$

30000000 Shares

## II Calculation of BEPS (Equal)

$$BEPS (\text{Equal}) = \frac{\text{₹}15,00,00,000}{300,00,000 \text{ Shares}} = 5 \text{ Per share}$$

## III Reconversion of EPS (Class Wise)

$$\text{Class A} = 5/25 \times 10 = 2 \text{ Per share}$$

$$\text{Class B} = 5/25 \times 25 = 5 \text{ Per share}$$





Class C =  $5/25 \times 5 = 1$  Per share

Q.5

I Calculation of Equal EAE

Profit after Tax ₹ 15,00,00,000

Extra Dividends :

1. Class B (1 crore x 25 x 1%) ( ₹ 25,00,000 )

2. Class C (6 crore x ₹ 5 x 2%) ( ₹ 60,00,000 )

Equal EAE ₹ 14,15,00,000

II Calculation of BEPS (Equal)

BEPS (Equal) =  $\frac{₹14,15,00,000}{300,00,000 \text{ Shares}} = 4.72$  Per share

III Calculation of Total EPS for Each Class

| Class | Normal EPS                       | Extra Per share                 | Total EPS |
|-------|----------------------------------|---------------------------------|-----------|
| A     | 1.888<br>( $4.72 \times 10/25$ ) | -                               | 1.888     |
| B     | 4.72<br>( $4.72 \times 25/25$ )  | .25<br>( ₹ 25 L / 1 cr shares ) | 4.97      |
| C     | .944<br>( $4.72 \times 5/25$ )   | .10<br>( ₹ 60 L / 6 cr shares ) | 1.044     |

Q.6

In the Given question, the company has done wrong Treatment with the Allocation of Profits while computing BEPS. The company should not have distributed profits in the ratio of face values because company should have computed equal No. of shares on the basis of single face value. The following calculations may be referred :-

I calculation of Equal No. of shares (Base Value : Class A)



$$\text{Class A} = \frac{(100000 \text{ Shares} \times 1)}{1} = 100,000 \text{ Shares}$$

$$\text{Class B} = \frac{(30000 \text{ Shares} \times 3)}{2} = 45,000 \text{ Shares}$$

$$\text{Class C} = \frac{(30000 \text{ Shares} \times 5)}{2} = 75,000 \text{ Shares}$$

$$\text{Class D} = \frac{(40000 \text{ Shares} \times 3)}{1} = 120,000 \text{ Shares}$$

$$\underline{340000 \text{ Shares}}$$

Calculation of BEPS (Equal)

$$\text{BEPS} = \frac{\text{₹ } 800000}{340000 \text{ Shares}} = 2.35 \text{ Per Share}$$

Calculation of Class Wise EPS

$$\text{Class A} = 2.35/1 \times 1 = 2.35 \text{ Per share}$$

$$\text{Class B} = 2.35/3 \times 2 = 3.52 \text{ Per share}$$

$$\text{Class C} = 2.35/5 \times 2 = 5.875 \text{ Per share}$$

$$\text{Class D} = 2.35/3 \times 1 = 7.05 \text{ Per share}$$

### Adjustment 3: Different Paid up Values

If any Entity has different paid up values then the following steps should be applied:-

Step I : Convert All Partly Paid up Shares into fully Paid up Shares for EPS Purpose by taking fully paid up value in Denominator

Step II : Calculate WANS for Shares computed in Step I

Step III : Calculate BEPS for Fully Paid up Share

**Note :** There will be no need for Reconversion of BEPS because AS-20 requires Class –wise disclosure of EPS, but there is no requirement to disclose EPS for each paid up value of Share



**Example:**

i. Net Profit = ₹20,00,000

ii. No of Shares :-

a. 1.4.2021 10000 Shares of 10 each fully paid up

b. 1.10.2021 10000 Shares of 10 each, 5 paid up

Calculate BEPS

**Solution****I Calculation of fully Paid up Shares**i. Fully Paid =  $10000 \times 10/10 = 10000$  Sharesii. Partly paid =  $10000 \times 5/10 = 5000$  Shares**II Calculation of WANS**1.4 – 30.9  $10000 \times 6/12 = 5000$  Shares1.10 – 31.3  $15000 \times 6/12 = 7500$  Shares

12500 Shares

**III Calculation of BEPS**

$$\text{BEPS} = \frac{\text{₹}20,00,000}{12500 \text{ Shares}} = 160 \text{ Per Share}$$
**Q.7****Calculation of fully Paid up Shares (Equal)**i. Opening balance (1.4) =  $\text{₹}99,00,0000 / 10 = 990000$  Sharesii. Calls in Arrear (1.6) =  $\text{₹}50000 / 10 = 5000$  Sharesiii. New Issue (1.10) =  $\text{₹}7500000 / 10 = 750000$  Sharesiv. Calls in Arrear (1.3) =  $\text{₹}50000 / 10 = 5000$  Shares**Calculation of WANS**1.4 – 31.5  $990000 \times 2/12 = 165000$ 1.6 – 30.9  $995000 \times 4/12 = 331667$ 1.10 – 28.2  $1745000 \times 5/12 = 727083$ 

$$1.3 - 31.3 \quad 1750000 \times 1/12 = \underline{145833}$$

$$\underline{13,69,583}$$

Calculation of EAE

|                                  |              |
|----------------------------------|--------------|
| EBIT                             | ₹262,00,000  |
| Extra Ordinary Item              | (₹200,000)   |
| EBIT after Extra Ordinary Items  | ₹260,00,000  |
| Interest                         | Nil          |
| EBT                              | ₹260,00,000  |
| Tax Provisions                   | (₹30,00,000) |
| EAT                              | ₹230,00,000  |
| Pref Dividend (20L x 10% x 9/12) | (₹150,000)   |
| EAE                              | ₹228,50,000  |

$$BEPS = \frac{₹228,50,000}{1369583 \text{ Shares}} = 16.68$$

(after including Extra Ordinary Items)

$$BEPS = \frac{₹228,50,000 + ₹200,000}{1369583 \text{ Shares}} = 16.83$$

(before including Extra Ordinary Items)

Q.8

Calculation of fully Paid up Shares

$$1. \text{ O.Balance (1.1)} \quad 1800 \times 10/10 = 1800$$

$$2. \text{ N.Issue (31.10)} = 600 \times 5/10 = 300$$

Calculation of WANS

$$1.1 - 31.10 \quad 1800 \times 10/12 = 1500$$

$$1.11 - 31.12 \quad 2100 \times 2/12 = \underline{350}$$

$$1850$$



Q.9

Calculation of Fully paid up Shares

O.Balance =  $\frac{500000}{10} \times 10 = 500000$  SharesApplication  $\frac{100000}{10} \times 5 = 50000$  SharesAllotment  $\frac{100000}{10} \times 10 = 100000$  SharesFirst Call =  $\frac{100000}{10} \times 2 = 20000$  SharesSecond  $\frac{100000}{10} \times 3 = 30000$  SharesFinal Call  $\frac{100000}{10} \times 10 = 100000$  Shares

Calculation of WANS

1.4 – 30.6  $500000 \times \frac{3}{12} = 125000$  Shares1.7 – 30.9  $550000 \times \frac{3}{12} = 137500$  Shares1.10 – 31.12  $570000 \times \frac{3}{12} = 142500$  Shares1.1 – 31.3  $600000 \times \frac{3}{12} = 150000$  Shares  
555000 Shares\*Part 4\*Adjustment 4: Bonus Shares \*Imp (5 Marks)

If A company Issues Bonus Shares in Current year then the following Points should be considered while computing BEPS :

- A. The company should not consider Date of Bonus Shares while computing WANS. It means that Time factor will not be applied on Bonus Shares

Note : In questions , we will Add Bonus Shares directly to WANS in Denominator without considering Time factor in the calculation of BEPS.





$$\text{Current Year BEPS} = \frac{\text{EAE}}{\text{WANS} + \text{Bonus Shares}}$$

B. As per the provisions of AS-20, The BEPS for previous year should Be Re-stated by including Bonus Shares as follows :-

$$\begin{array}{lcl} \text{Previous year} & = & \frac{\text{EAE}}{\text{WANS} + \text{Bonus Shares}} \\ \text{Restated EPS} & & \text{PY} \end{array}$$

Note : The Restatement of EPS is mandatory because the main objective of AS-20 is the comparison of results between two financial year on uniform basis.

Q.10

Calculation of BEPS

$$\begin{aligned} 2001 \text{ (Current year)} & :- \frac{\text{EAE}}{\text{WANS} + \text{Bonus Shares}} \\ & = \frac{\text{₹60,00,000}}{20,00,000 \text{ Shares} + (20,00,000 \times 2/1)} \\ & = \frac{\text{₹60,00,000}}{60,00,000 \text{ Shares}} \\ & = 1 \text{ Per Share} \end{aligned}$$

2000 (Previous year)

$$\begin{aligned} \text{Original EPS} & = \frac{\text{₹18,00,000}}{20,00,000 \text{ Shares}} = .90 \\ \text{Restated EPS} & = \frac{\text{₹18,00,000}}{(20,00,000 \text{ Shares} + 40,00,000) \text{ Bonus Share}} = .30 \\ & \text{(Reportable)} \end{aligned}$$

Q.11

Calculation of BEPS

$$\begin{aligned} \text{Current year (2001)} & : \frac{\text{₹60,00,000}}{10,00,000 \text{ Shares} + 10,00,000 \text{ Bonus}} = 3 \end{aligned}$$



Previous year (2000) :

$$\text{i. Original EPS} = \frac{\text{₹ } 45,00,000}{10,00,000 \text{ Shares}} = 4.5$$

$$\text{ii. Restated EPS} = \frac{\text{₹ } 45,00,000}{10,00,000 \text{ Shares} + 10,00,000 \text{ Shares}} = 2.25$$

Q.12 \*Imp

As per the Provisions of AS-20, It is mandatory to revise the BEPS for Previous year if a Company issues Bonus Shares in Current year. In the Given question, Company has not restated EPS for Previous year by including Bonus Shares. The correct EPS for Previous year in the Disclosures of current year shall be as follows :-

$$\text{BEPS (Revised)} = \frac{\text{₹ } 8.5 \text{ Crores}}{1 \text{ crore Shares} + 1 \text{ crore Bonus}} = 4.25 \text{ (Restated EPS)}$$

Adjustment 5 : Right Shares \*V.V. Imp

Step I : Calculate Ex Right Price ( Post Right Issue) by the following Formula

$$\frac{\left( \begin{array}{c} \text{Original Shares} \\ \text{(before Right} \\ \text{Issue)} \end{array} \times \begin{array}{c} \text{Market Price} \\ \text{per share} \\ \text{(before R.I)} \end{array} \right) + \left( \begin{array}{c} \text{No. of Shares in} \\ \text{Right Issue} \end{array} \times \begin{array}{c} \text{Right Issue} \\ \text{Price} \end{array} \right)}{\text{Total No. of Shares}}$$

Step II : Calculate Right Adjustment factor by the following formula :-

$$\text{R.A factor} = \frac{\text{Market Price Per share before R.I}}{\text{Ex-right value Per share}}$$

Step III : Apply R.A factor on No. of shares which were o/s prior to Right Issue but there will be no use of R.A factor in Post Right Issue period. The following formula may be considered :



We are converting cum right value into Ex right value

No of Shares before R.I x R.A.F x Time factor      xxxx

No. of shares After R.I x Time factor      xxxx

WANS      xxxx

**\*Imp** Step IV: Restatement for Previous year EPS should also be given because WANS in previous year are required to be adjusted by Right Adjustment factor for comparison purpose.

Restated EPS (PY) =  $\frac{EAE}{WANS \times RAF}$

Q.14

Step I : Calculation of Ex Right Value

Ex right Value =  $\frac{(500,000 \text{ Shares} \times 21) + (100,000 \text{ Shares} \times 15)}{600,000 \text{ Shares}}$   
= 20/-

Step II : Calculation of R.A factor

$RAF = \frac{MP \text{ before R. Issue}}{Ex \text{ Right Value}} = \frac{21}{20} = 1.05$

Step III : Calculation of WANS

1.1.2001 – 28.2.2001    500,000 Shares x 1.05 x 2/12 = 87500

1.3.2001 – 31.12.2001    600,000 Shares x 10/12 = 500,000

587500 Shares

Step IV : Calculation of BEPS

2001 (Current Year) =  $\frac{₹15,00,000}{587500 \text{ Shares}} = 2.55$  (Ex Price)

2000 (Previous Year)



$$\text{Original EPS} = \frac{\text{₹}11,00,000}{500000 \text{ Shares}} = 2.20$$

$$\text{Restated EPS due to right issue} = \frac{\text{₹}11,00,000}{500000 \text{ Shares} \times 1.05} = 2.09 \text{ (Ex Price)}$$

Q.15

Calculation of BEPS

$$\text{i. Ex Right Value Per share} = \frac{(1000 \times 35) + (1000 \times 20)}{2000} = 27.50$$

$$\text{ii. RAF} = \frac{35}{27.50} = 1.2727$$

iii. WANS

$$1.1 - 30.6 \quad 1000 \times 1.2727 \times 6/12 = 636$$

$$1.7 - 31.12 \quad 2000 \times 6/12 = 1000$$

$$1636$$

iv. EPS

$$\text{CY} = \frac{2400}{1636} = 1.47$$

$$\text{PY (Original)} = \frac{2200}{1000} = 2.20$$

$$\text{Restated} = \frac{2200}{(1000 \times 1.2727)} = 1.72$$

Q.16

$$1. \text{ Ex Right Value} = \frac{(10,00,000 \times 25) + (250000 \times 20)}{1250000} = 24$$

$$2. \text{ RAF} = \frac{25}{24} = 1.0417$$

3. WANS =

$$1.1 - 31.3 \quad 10,00,000 \times 3/12 \times 1.0417 = 260425$$

$$1.4 - 31.12 \quad 1250000 \times 9/12 = 937500$$

$$1197925$$

4. EPS



$$CY = \frac{30,00,000}{1197925} = 2.5$$

1197925

$$PY (Original) = \frac{20,00,000}{10,00,000} = 2$$

$$(Revised) = \frac{20,00,000}{10,00,000 \times 1.041} = 1.919$$

### Adjustment 6 : Amalgamation

We will Discuss this Concept in AS-14 for Better Understanding

### \*Part 5\*

### Concept 4 : Diluted EPS

Adjusted BEPS =  $\frac{\text{Adjusted EAE}}{\text{Adjusted WANS}}$  → If Adjusted BEPS is Less than BEPS then It will be reported as as Dillutive EPS. In Vice versa situation, It will be considered as Anti -Dillutive EPS and It will not be reported as a matter of Prudence. We will show "-" Sign for Dilluted EPS

Note 1: It means that we can show reduction in BEPS only.

Note 2: If Adjusted BEPS comes higher than Original EPS the following Disclosure will be made:-

BEPS      xxxx

DEPS      -

Note 3: If BEPS & Adjusted BEPS are equal in any case then company will  
↓ Report both EPS in Single Line as follows

Knowledge \* BEPS & DEPS      xxxx

\*Company cannot disclose its EPS in two Lines in Given Case





Unit I : Adjusted EAE

|                                     |      |
|-------------------------------------|------|
| Earning Available for Equity holder | xxxx |
| (As per Basic EPS)                  |      |

Savings in future due to "Potential Equity Shares"

- |                                           |             |
|-------------------------------------------|-------------|
| i. Interest on Convrt. Debenture          | xxxx        |
| (Net of Tax)                              |             |
| ii. Pref. Dividend on convrt. Pref Shares | <u>xxxx</u> |
| Adjusted EAE                              | <u>xxxx</u> |

Unit II : Adjusted WANS

|                            |      |
|----------------------------|------|
| Weighted Avg No. of Shares | xxxx |
| (As per BEPS)              |      |

Increase in Equity Shares in future due to "Potential Equity Shares"

- |                                                |             |
|------------------------------------------------|-------------|
| i. Increase in Shares due to convrt. Debenture | xxxx        |
| ii. Increase in Shares due to convrt. PSC      | xxxx        |
| iii. Increase in Shares due to ESOP            | xxxx        |
| iv. Increase in Shares due to Share warrants   | xxxx        |
| v. Increase in Shares due to Share Suspense    | <u>xxxx</u> |
| Adjusted WANS                                  | <u>xxxx</u> |

\*Meaning of Potential Equity Share :-

As per the Provisions of AS-20, Potential Equity Share is a contract that Entitles or may Entitle its holder Equity Share in future. These contracts may be in the form of :-

- i. Convertible Debentures
- ii. Convertible Pref. Shares
- iii. ESOP
- iv. Warrants
- v. Share Suspense etc.



### Example (Convert. Debentures)

i. Net profits ₹10,00,000

ii. WANS 10000

iii. BEPS 100

iv. Additional Information

15% convt. Debentures (100 each) ₹10,00,000

Conversion Ratio = 1:1

Tax Rate 25%

Calculate Dilute EPS (if any)

Solution

|                                               | <u>Adjusted EAE</u> |                                                     | <u>Adjusted WANS</u> |
|-----------------------------------------------|---------------------|-----------------------------------------------------|----------------------|
| EAE (Given)                                   | ₹10,00,000          | WANS (Given)                                        | 10,000               |
| Saving in Interest<br>(10,00,000 x 15% x 75%) | <u>₹1,12,500</u>    | Increase in Shares<br>(10,00,000/100 = 10000 x 1/1) | <u>10,000</u>        |
|                                               | <u>₹11,12,500</u>   |                                                     | <u>20000</u>         |

Adjusted BEPS =  $\frac{₹11,12,500}{20000 \text{ Shares}}$  = 55.625 (Dillutive) (It should be reported)

BEPS : 100

DEPS : 55.625

### Example : (convertible Pref Shares)

i. Net profit : ₹10,00,000

ii. WANS : 50000

iii. BEPS : 20

iv. Additional Information :

10% P.S Capital (100) : ₹20,00,000

Conversion Ratio : 1:2 (One Equity Share for two Pref. Shares)

Calculate Diluted EPS (if any)



| Solution                                                                                                        |                                                                                                                                         |                               |                      |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------|
|                                                                                                                 | <u>Adjusted EAE</u>                                                                                                                     |                               | <u>Adjusted WANS</u> |
| EAE (Given)                                                                                                     | ₹10,00,000                                                                                                                              | WANS (Given)                  | 50,000               |
| Saving in Interest<br>(20,00,000 x 10% )                                                                        | <u>₹200000</u>                                                                                                                          | Increase in Shares            | <u>10,000</u>        |
|                                                                                                                 |                                                                                                                                         | (20,00,000/100 = 20000 x 1/2) |                      |
|                                                                                                                 | <u>₹12,00,000</u>                                                                                                                       |                               | <u>60000</u>         |
| Adjusted BEPS = $\frac{₹12,00,000}{60000 \text{ Shares}}$ = 20 (It is equal to BEPS)                            |                                                                                                                                         |                               |                      |
| *In the Given case, there is no decline or increase in original EPS.<br>The Following disclosure will be Given. |                                                                                                                                         |                               |                      |
| BEPS & DEPS = 20                                                                                                |                                                                                                                                         |                               |                      |
| Example : ESOP                                                                                                  |                                                                                                                                         |                               |                      |
| i.                                                                                                              | Net profit : ₹50,00,000                                                                                                                 |                               |                      |
| ii.                                                                                                             | WANS : 100000                                                                                                                           |                               |                      |
| iii.                                                                                                            | BEPS : 50                                                                                                                               |                               |                      |
| iv.                                                                                                             | Additional Information :                                                                                                                |                               |                      |
|                                                                                                                 | ESOP (Promised) : 1,00,000 Shares                                                                                                       |                               |                      |
|                                                                                                                 | Fair value Per Share : 160                                                                                                              |                               |                      |
|                                                                                                                 | Exercise Price : 80                                                                                                                     |                               |                      |
| Calculate Diluted EPS (if any)                                                                                  |                                                                                                                                         |                               |                      |
| Solution                                                                                                        |                                                                                                                                         |                               |                      |
| i.                                                                                                              | Free ESOP : $\frac{(160 - 80) \times 100,000 \text{ Shares}}{160}$ = 50000 Shares                                                       |                               |                      |
| ii.                                                                                                             | Adjusted BEPS : $\frac{₹50,00,000 + 0 \text{ (Saving)}}{100,000 \text{ Shares} + 50000 \text{ Shares (Dillutive) (Free ESOP)}}$ = 33.33 |                               |                      |
| BEPS : 50                                                                                                       |                                                                                                                                         |                               |                      |
| DEPS : 33.33                                                                                                    |                                                                                                                                         |                               |                      |
| *ESOP are always Dillutive                                                                                      |                                                                                                                                         |                               |                      |



**Example : (Share Suspense)**

i. Net profit : ₹10,00,000

ii. WANS : 100000

iii. BEPS : 100

iv. Additional Information :

Share Suspense : ₹5,00,000 (Face value 10 each)

Calculate Diluted EPS (if any)

Solution :

Adjusted BEPS :  $\frac{₹10,00,000 + 0}{10000 \text{ Shares} + (500000/10)}$ 

= 16.67 (Dillutive) It should be reported

**Example : (Share Warrant)**

i. Net profit : ₹10,00,000

ii. WANS : 10000

iii. BEPS : 100

iv. Share Warrants : 10000

Fair Value 180, EP 120

Calculate Diluted EPS (if any)

Solution:

$$1. \text{ Free Share} = \frac{180 - 120}{180} \times 10000 = 3333$$

$$2. \text{ Adjusted BEPS} = \frac{₹10,00,000 + 0}{10000 \text{ Shares} + 3333 \text{ Shares}} = 75 \quad (\text{Dillutive})$$

Q.23

Calculation of Diluted EPS

|                                             | <u>Adjusted EAE</u> |                                         | <u>Adjusted WANS</u> |
|---------------------------------------------|---------------------|-----------------------------------------|----------------------|
| EAE (Given)                                 | ₹100,00,000         | WANS (Given)                            | 50,00,000            |
| Saving in Interest<br>(12,00,000 – 360,000) | <u>₹840000</u>      | Increase in Shares<br>(1,00,000 x 10/1) | <u>10,00,000</u>     |
|                                             | <u>₹108,40,000</u>  |                                         | <u>60,00,000</u>     |



$$\text{Diluted EPS} = \frac{\text{₹}108,40,000 + 0}{60,00,000 \text{ Shares}} = 1.81 \text{ (Dillutive)}$$

(It is Less than BEPS)

Disclosure

Basic EPS : 2

Diluted EPS : 1.81

Q.24

Calculation of BEPS

$$\text{Basic EPS} = \frac{\text{₹}1200,000 \text{ (EAE)}}{500,000 \text{ Shares (WANS)}} = 2.40 \text{ Per share}$$

Calculation of DEPS

$$\text{i. Free Shares} : \left( \frac{20 - 15}{20} \right) \times 100,000 \text{ Shares} = 25000 \text{ Shares}$$

$$\text{ii. DEPS} : \frac{\text{₹}1200,000 + 0}{500,000 \text{ Share} + 25000 \text{ Share}} = 2.29 \text{ (Dillutive)}$$

(It is Less than BEPS)

Disclosure : BEPS = 2.4  
DEPS = 2.29

\*Part 6\*Additional concepts to be considered :A. Adjustment of Multiple Potential Shares

Step I : Calculate "Incremental EPS" for each Potential Share separately as follows:

$$\text{Incremental EPS} = \frac{\text{Savings (Individual)}}{\text{Increase in shares (Individual)}}$$





Step II : Provide Ranks to Incremental EPS on "Lower to higher Basis"

Note : Rank I will be given to ESOP always due to zero Incremental EPS

\*Lower Incremental EPS will always show Dillusion in BEPS which is the Objective of AS-20

Step III : Adjust Each Potential Share in the calculation of Diluted EPS on the Basis of Ranks

Step IV : Identify the maximum dillusion in BEPS in all Adjustments & Report it on the Face of P&L.

Note : On the basis of above Explanation, we can Say that We are finding Maximum Dillusion in BEPS.

Q.26

Calculation of Incremental EPS

$$\text{ESOP} = \frac{\text{Savings}}{\text{Increase in Shares}} = \frac{0}{\left( \frac{75-60}{75} \right) \times 100,000} = \frac{0}{20,000 \text{ Shares}} = 0 \text{ Rank 1}$$

$$\text{Pref. Shares} = \frac{\text{Savings}}{\text{Increase in Shares}} = \frac{800000 \times 8}{800000 \times 2/1} = \frac{\text{₹}64,00,000}{16,00,000 \text{ Shares}} = 4 \text{ Rank 3}$$

$$\begin{aligned} \text{Debentures} &= \frac{\text{Savings}}{\text{Increase in Shares}} = \frac{\text{₹}1 \text{ crore} \times 12\% \times 70\%}{\text{₹}1 \text{ Crore} / \text{₹}100 = 100000 \text{ Deb} \times 4/1} \\ &= \frac{840,000}{400,000 \text{ Shares}} = 2.1 \text{ Rank 2} \end{aligned}$$



### Calculation of Diluted EPS

| <u>Particulars</u> | <u>Earnings</u>   | <u>Shares</u>    | <u>EPS</u>        |
|--------------------|-------------------|------------------|-------------------|
| Basic              | ₹100,00,000       | 20,00,000        | 5                 |
| ESOP               | <u>0</u>          | <u>20000</u>     | <u>          </u> |
|                    | ₹100,00,000       | 20,20,000        | 4.95              |
|                    |                   |                  | Dillutive         |
| Debenture          | <u>₹840,000</u>   | <u>400,000</u>   | <u>          </u> |
|                    | ₹108,40,000       | 24,20,000        | 4.48              |
|                    |                   |                  | Dillutive         |
| Pref Shares        | <u>₹64,00,000</u> | <u>16,00,000</u> | <u>          </u> |
|                    | ₹17240000         | 40,20,000        | 4.29 (Dillutive)  |

↓  
Maximum Dillutive

↓  
It should be reported

Q.27

Adjusted EPS =  $\frac{₹1000 + (₹20,000 \times 10\% \times 61.5\%)}{1000 \text{ Shares} + (200 \times 8/1)} = \frac{₹2230}{2600 \text{ Shares}}$

= .86 (Dillutive)

Disclosures:

Basic EPS = 1

Diluted EPS = .86

### B. Dilluted EPS for "Loss Making Company"

If company is a Loss making company then Dillutive EPS will be disclosed only if **"Loss Per Share is increased"** after adjusting **Potential Equity share**. In Case Loss Per share declines after adjusting Potential shares then **It will be considered as an "Anti-dillutive" EPS** & It will not be reported.



Q.28

Calculation of EPS

$$\text{i. Basic EPS} = \frac{₹12,00,000}{2000 \text{ Shares}} = (600) \text{ Per share}$$

$$\begin{aligned} \text{ii. Adjusted BEPS} &= \frac{₹12,00,000 + 0}{2000 \text{ Shares} + (100 - 60) \times 400/100} \\ &= \frac{₹12,00,000}{2160 \text{ Shares}} = (555.56) \text{ Per share} \end{aligned}$$

(Anti - Dillutive)

It will not be reported

Disclosures:

BEPS = (600)

DEPS = -

C. Issue of Convert. Deb/PSC in Current year \*V.V. Imp.

In Case company has issued convertible Deb/PSC in current year then Time factor will be considered for these Potential Shares while

Computing Dilluted EPS.

We will consider "Savings" and "Increase in Shares" from the date of Issue till B/s date.

Example:-

1. Net Profit : ₹50,00,000
2. WANS : 100,000
3. BEPS : 50

Additional Information :-

Company has issued debentures ₹100,00,000 @ 10% which are convertible into Equity Shares @ 1:1 Ratio. Face value Per Deb is 100 ₹ Tax rate is 30%.

Date of Issue of Debentures is 1.1.21

Calculate Diluted EPS assuming F. year is from 1.4.20 – 31.3.21



Solution

|                                                      | <u>Adjusted EAE</u> |                                                       | <u>Adjusted Shares</u> |
|------------------------------------------------------|---------------------|-------------------------------------------------------|------------------------|
| EAE (Given)                                          | ₹50,00,000          | WANS (Given)                                          | 1,00,000 Shares        |
| Saving in Interest                                   | <u>₹175000</u>      | Increase in Shares                                    | <u>25,000</u>          |
| $(1 \text{ cr} \times 10\% \times 3/12) \times 70\%$ |                     | $(1 \text{ Cr}/100 = 100,000 \times 1/1 \times 3/12)$ |                        |
|                                                      | <u>₹51,75,000</u>   |                                                       | <u>125,000 Shares</u>  |

Adjusted EPS =  $\frac{\text{₹51,75,000}}{125,000 \text{ Shares}} = 41.40$  (Dillutive)

D. Conversion of convert. Deb/ PSC into Equity Shares in  
Current year \*V.V Imp.

If Convertible Deb./ Convertible PSC are converted into Equity Shares in Current year then we will consider Time factor while computing Diluted EPS from the beginning of year till the date of Conversion. after the date of conversion, these shares shall be considered in BEPS.

Example :-

i. Net profit : ₹20,00,000

ii. Current F.Y : 2021-22

iii. O/s No. of shares :

1.4.21 : 200,000 Shares of 10 each

1.4.21 : 10,000 Convrt Deb of 100 each @ 8% p.a Tax Rate 25% and  
 1 Deb is to be converted into 10 shares

iv. On 1.7.21 company converted Deb into Shares

Compute BEPS &amp; DEPS

Solution :

Calculation of BEPS

i. WANS :

1.4.21 – 30.6.21  $200,000 \times 3/12 = 50,000$  Shares1.7.21 – 31.3.22  $300,000 \times 9/12 = \underline{225,000}$  Shares

275,000 Shares



$$\text{ii. BEPS} = \frac{\text{₹20,00,000}}{275,000 \text{ Shares}} = 7.27$$

### Calculation of Diluted EPS

|                                                                                     | <u>Adjusted EAE</u> |                                   | <u>Adjusted Shares</u> |
|-------------------------------------------------------------------------------------|---------------------|-----------------------------------|------------------------|
| EAE (Given)                                                                         | ₹20,00,000          | WANS (Given)                      | 2,75,000               |
| Saving in Interest                                                                  | <u>₹15,000</u>      | Increase in Shares                | <u>25,000</u>          |
| $(10000 \times 100 \times 8\% \times 3/12) \times 75\%$                             |                     | $(10000 \times 10/1 \times 3/12)$ |                        |
|                                                                                     | <u>₹20,15,000</u>   |                                   | <u>300,000</u>         |
| Adjusted EPS = $\frac{\text{₹20,15,000}}{300,000 \text{ Shares}} = 6.72$ (Dilutive) |                     |                                   |                        |

### Concept 5 : Other Issues in AS-20

#### Issue I : Share Split/ Share Consolidation

$$100 \times 1 = 10 \times .10 \quad \swarrow$$

$$\nwarrow 10 \times 10 = 100 \times 1$$

If any company has made any share split or share consolidation in Current year then BEPS for current year will be based on New No. of Shares after such split or consolidation. In addition to it, company will also re-state EPS for Previous year on the basis of New face value after such Split or consolidation by Adjusting No. of shares for comparison Purpose.

Q.29

#### Calculation of BEPS

$$\text{i. No. of Shares after consolidation} = \frac{80000 \times 10}{100} = 8000 \text{ Shares}$$

\*Date of Split/ consolidation does not matter because there is no Cash flow due to which concept of WANS shall not be applied





ii. BEPS (CY) :  $\frac{\text{₹ } 20,00,000}{8000 \text{ Shares}} = 250 \text{ Per share}$

iii. BEPS (PY) :

Original :  $\frac{\text{₹ } 16,00,000}{80000 \text{ Shares}} = 20 \text{ Per share}$

Re-stated:  $\frac{\text{₹ } 16,00,000}{8000 \text{ Shares}} = 200 \text{ Per share}$

### Issue II : EPS for Discontinued Operations

As per the Provisions of AS-20, company should Disclose its EPS under 3 headings as follows:-

I. EPS from Continuing Operations  $\begin{cases} \rightarrow \text{Before Extra Ordinary item} \\ \rightarrow \text{After Extra Ordinary items} \end{cases}$

II. EPS from Discontinuing Operations

III. Total EPS

Q.30

Calculation of EPS

1. Basic EPS :

|               | <u>Continuing<br/>Operation</u> | <u>Discontinuing<br/>Operation</u> | <u>Total</u> |
|---------------|---------------------------------|------------------------------------|--------------|
| Earnings      | 40,000                          | (30,000)                           | 10,000       |
| No. of shares | 20,000                          | 20,000                             | 20,000       |
| Basic EPS     | 2                               | (1.5)                              | .5           |

2. Diluted EPS :

|               |        |          |        |
|---------------|--------|----------|--------|
| Earnings      | 40,000 | (30,000) | 10,000 |
| No. of shares | 20,500 | 20,500   | 20,500 |
| D. EPS        | 1.95   | (1.46)   | .49    |



\*Part 7\*Additional Questions

Q.3 , Q.4, Q.7 Discussed in Class

\*Part 8\*Test your Knowledge

(S M)

Q.9

Calculation of WANS

$$1.4.x1 - 31.12.x1 \quad 10,00,000 \times 9/12 = 750,000$$

$$1.1.x2 - 31.3.x2 \quad 12,00,000 \times 3/12 = \underline{300,000}$$

$$10,50,000$$

$$\text{Add: Bonus Shares} \quad \underline{500,000}$$

$$(10L \times \frac{1}{2})$$

$$\text{WANS} \quad \underline{15,50,000}$$

Calculation of EAEI 20x1 - x2

$$\text{NP} \quad 90,00,000$$

$$\text{Pref. Dividend} \quad \underline{(800,000)}$$

$$\text{EAE} \quad \underline{82,00,000}$$

II 20x0 - x1

$$\text{EAE} = \text{EPS} \times \text{shares}$$

$$= 62.30 \times 10,00,000$$

$$= 623,00,000$$



Calculation of EPS

$$CY = ₹82,00,000 / 15,50,000 \text{ Shares}$$

$$= 5.29$$

$$PY = ₹623,00,000 / 15,00,000 \text{ (including Bonus)}$$

$$= 41.53$$

Q.6 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-3 Accounting Standard 13

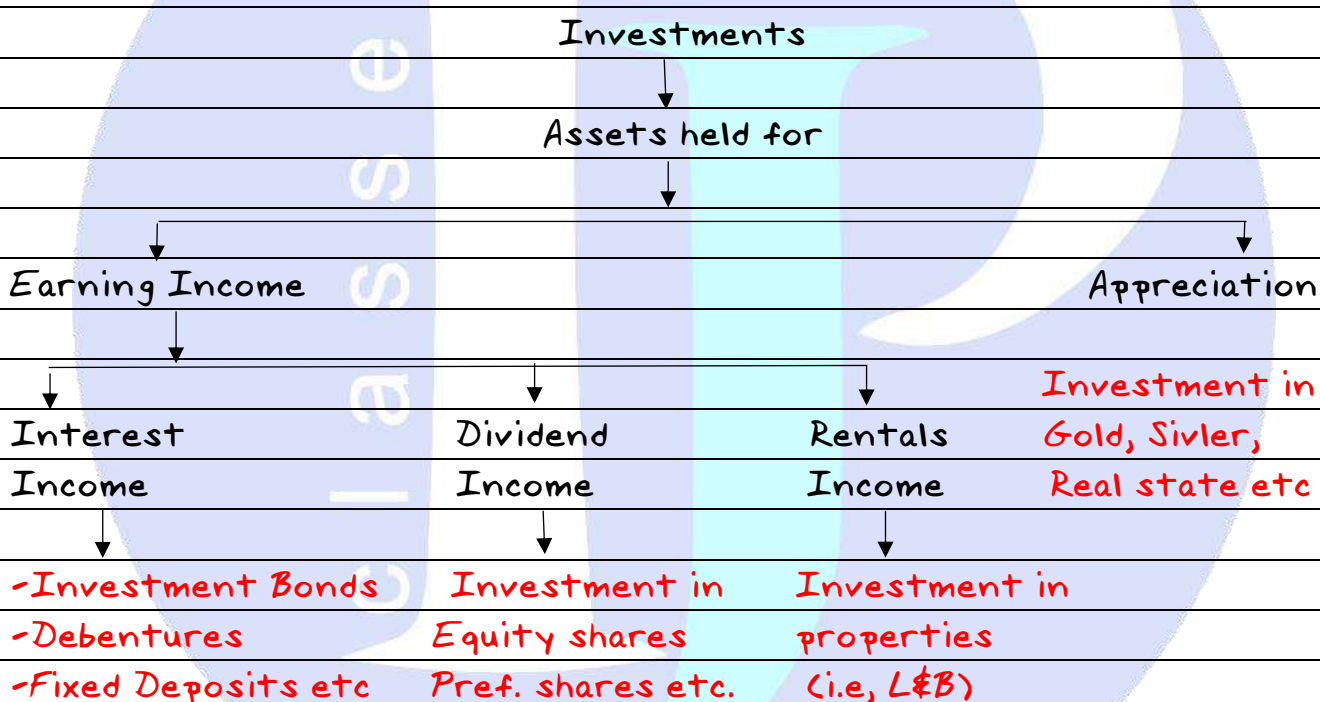
### Investment Accounting

#### \*Part 1\*

#### Concept 1: Meaning of Investments \*Imp

(In the books of Investor)

As per the provisions of AS-13, Investment are the Assets which are held for Earning Income or for capital Appreciation



Note: In Study Material of ICAI, Investment in Shares & Debentures / Bonds have been Discussed in detail

#### Concept 2: Classification of Investments

As per the Provisions of AS-13, Investment should be Classified under 2 headings as Follows :-



- i. Short Term Investments (Current Invest /Temporary Invest)
- ii. Long Term Investments (Non current Invest /Permanent Invest)

\*Meaning of Short Term Investment: IF any Investment is Expected to be Sold within 12 Months from the date of Acquisition then it should be Considered as a short Term Investment

Meaning of Long Term Investments: If any Investment is Expected to be Sold after 12 Months from the date of its Acquisition then It should be classified under the heading of Long Term Investments.

\*One More Condition on STI : As per the Provision of AS-13, An Investment should be Readily Realisable in addition to Expected Disposal within 12 Months. If it is not Readily Realisable then It will be classified under long Term Investment even if there is an intention to sell it within 12 Months.

### Concept 3: Sub- Classification of Investments

After Classifying the Investments under Short Term & long Term , the Following Sub-Classification is required :-

- i. Investment in Equity share
- ii. Investment in Pref. Share
- iii. Investment in Debenture
- iv. Investment in Bond/Govt. Securities
- v. Investment in F.D. etc.

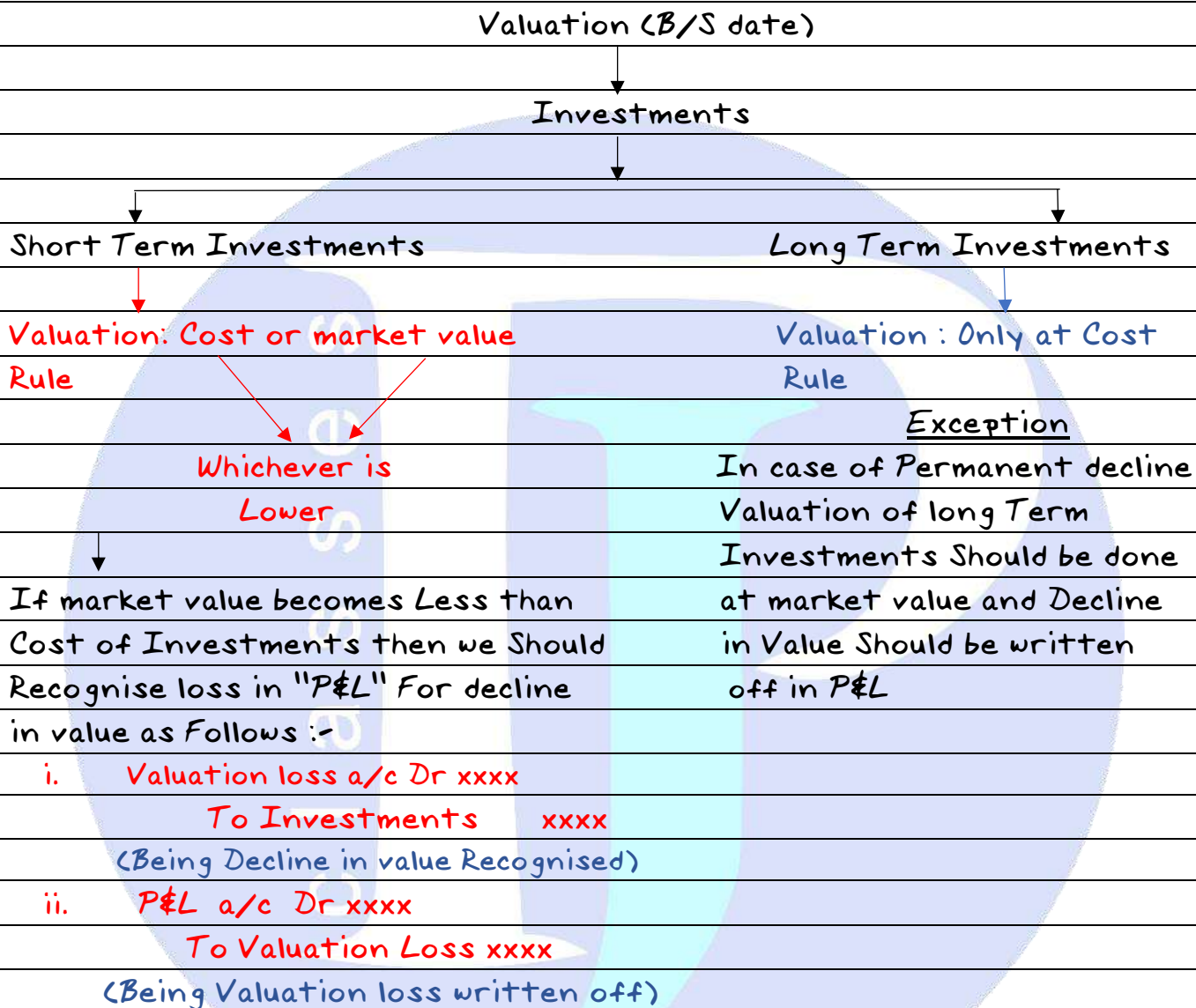
Note: On The basis of above Explanation It Can be said that Each Investment A/C should be prepared Separately.





### Concept 4: Valuation of Investments

(Valuation is done at B/S date as a matter of Prudence)



Note : In the absence of any information, we will always Assume that the given Investments are "Short Term" in nature and we will prepare a separate working on its Valuation.



\*Part 2\*Concept 5: Calculation of Cost of Investments

As per the Provisions of AS-13, Cost of Investments should include its Purchase Price as well as all related Expenses which are incurred for Acquisition of Investments. **The following Statement should be prepared for computing COI :-**

Statement Showing "COI"

|                                                                               |                    |
|-------------------------------------------------------------------------------|--------------------|
| Purchase Price                                                                | xxxx               |
| Brokerage                                                                     | xxxx               |
| Stamp duty                                                                    | xxxx               |
| S.T Tax (if any)                                                              | xxxx               |
| Any other Expense which is directly<br>Related with Acquisition of Investment | <u>xxxx</u>        |
| <b>COI</b>                                                                    | <u><b>xxxx</b></u> |

Journal :

|                             |    |      |
|-----------------------------|----|------|
| Investment a/c              | Dr | xxxx |
| To Bank                     |    | xxxx |
| (Being Investment Acquired) |    |      |

→ **Sale**

Concept 6: Disposal of Investments **\*V.V.Imp**

As per the Provisions of AS-13, It may be Possible that the acquired Investments are sold by Investor then Profit or Loss on Sale of Investment will be computed and such Profit or loss on sale of Investments will be transferred to P&L A/c. **The following Journal Entries may be recorded at the time of Sale of Investments :-**



\*NSP = Net Selling Price

| <u>Profit on sale</u>                                                                                | <u>Loss on Sale</u>                                                                                  |
|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| i. Bank A/c Dr xxxx (NSP)<br>To Investment xxxx (NSP)<br>(Being Amt Received on sale of Investments) | i. Bank A/c Dr xxxx (NSP)<br>To Investment xxxx (NSP)<br>(Being Amt Received on sale of Investments) |
| ii. Investments a/c Dr xxxx<br>To Profit on SOI A/c xxxx<br>(Being Profit recorded on SOI)           | ii. Loss on SOI Dr xxxx<br>To Investments xxxx<br>(Being Loss on SOI recorded)                       |

### Special Case in Sale of Investments \*Imp

In case A Portion of Investments is Sold instead of Full Disposal of Investments then Cost for Sold Portion will be Computed by "Weighted Average Cost Basis" as follows :-

$$\text{Cost for Sold Portion} = \frac{\text{Total Cost}}{\text{Total Units}} \times \text{Sold Units}$$

↓  
"Mandatory for Investors"

Note : As per the Rules, Selection of FIFO, LIFO or any other method is Not allowed to an Investor

Q.14 (Basic Question)

### In the Books of A Limited

#### Investment in Shares of X Ltd. A/c

| <u>Particular</u>                      | <u>No.</u>   | <u>Amt</u>     | <u>Particular</u>           | <u>No.</u>   | <u>Amt</u>     |
|----------------------------------------|--------------|----------------|-----------------------------|--------------|----------------|
| 15.12.99 To Bank<br>(WN #1)            | 10000        | 820000         | 15.2.00 By Bank<br>(W.N #2) | 12000        | 1241100        |
| 25.12.99 To Bank<br>(WN #1)            | 15000        | 1476000        | 31.3.00 By Bal              |              |                |
| 15.2.00 To Profit<br>On SOI<br>(WN #2) | -            | 139020         | c/d<br>(Bal. Fig)*          | 13000        | 1193920        |
|                                        | <u>25000</u> | <u>2435020</u> |                             | <u>25000</u> | <u>2435020</u> |



### WN .#1 Calculation of Cost of Investments

|                 | <u>15.12.99</u> | <u>25.12.99</u>  |
|-----------------|-----------------|------------------|
| Purchase Price  | 800,000         | 14,40,000        |
|                 | (10,000 x 80)   | (15,000 x 96)    |
| Brokerage @ 15% | 12,000          | 21,600           |
| Stamp Duty      | <u>8000</u>     | <u>14,400</u>    |
| COI             | <u>820,000</u>  | <u>14,76,000</u> |

### WN #2 Calculation of Profit or Loss on Sale of Invest.

|                                                                           |                    |
|---------------------------------------------------------------------------|--------------------|
| Selling Price (12000 x 105)                                               | 12,60,000          |
| Brokerage @ 15%                                                           | <u>(18,900)</u>    |
| NSP                                                                       | 12,41,100          |
| Cost for Sold Portion                                                     |                    |
| $\frac{820,000 + 14,76,000}{10,000 + 15,000} \times 12000 \text{ Shares}$ | <u>(11,02,080)</u> |
| Profit                                                                    | <u>139,020</u>     |

\*Note : In the Given question, We cannot Show the valuation of Investments on B/s date because market value per share is not Given.

### Q.18 (Valuation) (2 Marks)

As per the Rules in AS-13, Valuation of short term Investment at B/s Date should be made at Cost or Market value whichever is Lower. In The Given case, we can consider the following calculations:-

|                                                 |               |
|-------------------------------------------------|---------------|
| Cost of Investments: Purchase Price (200 x 105) | 21000         |
| Expenses                                        | <u>200</u>    |
|                                                 | 21200         |
| OR                                              |               |
| Market Value as at 31.3.2009 (200 x 110)        | 22,000        |
| Whichever is Lower                              | <u>21,200</u> |

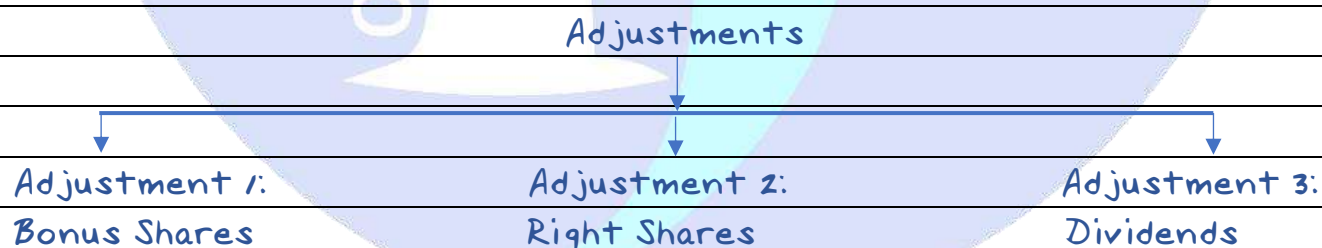


Q.19 (Valuation) (2 marks)

|                       |    |         |
|-----------------------|----|---------|
| I. Valuation Loss A/c | DR | 3 Crore |
| To Investment A/c     |    | 3 crore |

|                                       |    |         |
|---------------------------------------|----|---------|
| II. P&L a/c                           | Dr | 3 Crore |
| To Valuation Loss                     |    | 3 crore |
| (Being Loss on valuation written off) |    |         |

## Concept 7: Important Adjustments for Investment in Shares



As per the Provisions of AS-13, there will be no Accounting in the books of Investor in relation to receipt of Bonus Shares from Company because Bonus shares are always issued by the companies to its





Investors (Equity holders) for free. It means that there will be no further investment by the investor for Bonus Shares.

Note : After Receiving Bonus Shares, Average Cost Per share will get declined and Its Benefits will be taken by Investor at the time Of sale of Investments.

Q.11 (Basic Question on Bonus Shares)

In the books of Mr.X

Investment in Shares of Omega Ltd A/c

| <u>Particulars</u> | <u>No.</u>  | <u>Amt</u>   | <u>Particular</u> | <u>No.</u>  | <u>Amt</u>   |
|--------------------|-------------|--------------|-------------------|-------------|--------------|
| To Bank            | 500         | 62500        | By Bank           | 500         | 45000        |
| To Bonus Share     | 500         | -            |                   |             |              |
| (500 x 1/1)        |             |              | By Bal c/d        | 500         | 31250        |
| To Profit on       | -           | 13750        | (Bal. Fig)*       |             |              |
| SOI (WN #1)        |             |              |                   |             |              |
|                    | <u>1000</u> | <u>76250</u> |                   | <u>1000</u> | <u>76250</u> |

WN #1 Calculation of Profit or Loss on Sale of Invest.

|                                                                              |              |
|------------------------------------------------------------------------------|--------------|
| Selling Price (500 x 90)                                                     | 45,000       |
| Cost of Sold Portion $\left( \frac{62500 + 0}{500 + 500} \right) \times 500$ | (31250)      |
| Profit                                                                       | <u>13750</u> |

\*We cannot Show Valuation of Investments because Market Price Per Share is not Given in the question on B/s date.



## Q.15 (Basic Question)

In the books of A Ltd

Investment in Shares of X Ltd A/c (Amount in '000)

| <u>Particulars</u> | <u>No.</u>  | <u>Amt</u>     | <u>Particulars</u> | <u>No.</u>  | <u>Amt</u>     |
|--------------------|-------------|----------------|--------------------|-------------|----------------|
| 15.12.99           |             |                | 15.2.00            |             |                |
| To Bank            | 10          | 820            | By Bank            | 12          | 1241.1         |
| 25.12.99           |             |                | (WN #)             |             |                |
| To Bank            | 15          | 1476           | 31.3.00            |             |                |
| 2.1.00             |             |                | By Bal c/d         | 25          | 1561.28        |
| To Bonus Shares    |             |                | (Bal. fig)         |             |                |
| (25000 x 1/2       | 12.5        | -              |                    |             |                |
| 15.2.00            |             |                |                    |             |                |
| To Profit On SOI   | -           | 506.38         |                    |             |                |
| (WN #)             |             |                |                    |             |                |
|                    | <u>37.5</u> | <u>2802.38</u> |                    | <u>37.5</u> | <u>2802.38</u> |

WN# Calculation of Profit/Loss on Sale of Investments

|                                                                     |                       |
|---------------------------------------------------------------------|-----------------------|
| Selling Price (12000 x 105)                                         | 12,60,000             |
| Brokerage @ 1.5%                                                    | <u>(18,900)</u>       |
|                                                                     | NSP 12,41,100         |
| Cost for Sold Portion                                               | <u>(734,720)</u>      |
| $\frac{820000 + 1476000 + Nil}{10000 + 15000 + 12500} \times 12000$ |                       |
|                                                                     | Profit <u>506,380</u> |

T.C  
↓  
T. Units

\*In the Given question, Market Price Per Share on B/s date is not Given due to which Valuation of Investments cannot be Shown.



Q.10 \*Imp

In the books of Krishna Murthy

Investment in Shares of Telco Limited A/c

| Particulars       | No.         | Amt           | Particular      | No.         | Amt           |
|-------------------|-------------|---------------|-----------------|-------------|---------------|
| 1.4.14 To Bank    | 1000        | 123000        | 31.3.15 By Bank | 500         | 44100         |
| (WN #1)           |             |               | (WN#2)          |             |               |
| 31.3.15 To Bonus  |             |               |                 |             |               |
| Shares            | 500         | -             | 31.3.15 By Bal  |             |               |
| 31.3.15 To Profit |             |               | c/d             | 1000        | 82000         |
| On SOI            | -           | 3100          | (WN#3)          |             |               |
| (WN #2)           |             |               |                 |             |               |
|                   | <u>1500</u> | <u>126100</u> |                 | <u>1500</u> | <u>126100</u> |

WN #1 Calculation of COI

|                                                           |               |
|-----------------------------------------------------------|---------------|
| Purchase Price (1000 Shares x 120)                        | 120000        |
| Brokerage @2%                                             | 2400          |
| Stamp Duty $\left( \frac{.50 \times 120000}{100} \right)$ | <u>600</u>    |
|                                                           |               |
| COI                                                       | <u>123000</u> |

WN #2 Calculation of Profit/Loss on SOI

|                                                             |                |
|-------------------------------------------------------------|----------------|
| Selling Price (500 x 90)                                    | 45000          |
| Brokerage @ 2%                                              | <u>(900)</u>   |
|                                                             |                |
| NSP                                                         | 44100          |
| Cost for Sold Portion                                       |                |
| $\left( \frac{123000 + Nil}{1000 + 500} \right) \times 500$ | <u>(41000)</u> |
|                                                             |                |
| Profit                                                      | <u>3100</u>    |

WN# 3 Valuation of Investments on 31.3.2015

Closing Balance in Investment A/c as a Balancing Fig (No. 1000) 82,000

OR



|                                         |        |
|-----------------------------------------|--------|
| Market Value as on B/S date (1000 x 90) | 90,000 |
| Whichever is Lower                      | 82,000 |

Q.20 H.W

\*Part 4\*Adjustment 2: Right Shares \*Imp

If Right Shares are offered by a company to its Existing Shareholders then there shall be two options with the Existing Shareholders to deal with such an offer of right Shares as follows :-

Option I: Acquisition of Right Shares

If Right Shares are Purchased by Existing Shareholder then the following Entry shall be Passed in the books of Investor :-

|                |    |                                        |
|----------------|----|----------------------------------------|
| Investment A/c | Dr | xxxx (Exercised Share x Offered Price) |
| To Bank        |    | xxxx                                   |

(Being Investments made by Accepting Offer of right Shares)

\*Imp

Note: The Right Shares are acquired by Investors directly from Company (Primary Market) due to which there will be no additional Expense such as Brokerage, Stamp duty, STT etc. It means that Existing Members shall have to pay Purchase Price of Right Shares only.

Option II: Re-Announcement of Right Shares

It may be Possible that Existing members transfer their Benefit Of Right in the favour of any other Person (i.e, Friend, Relative etc.) in consideration of some Nominal Fees. As per the Provisions of AS-13, such Recovery of Nominal Fees should be recognised as "Sale of Rights" and It will be transferred to P&L A/c as an income. The following Entries shall be recorded:-



i. Bank A/c Dr xxxx  
     To Sale of Rights      xxxx  
 (Being Rights are sold)

ii. Sale of Rights Dr xxxx  
     To P&L A/c              xxxx  
 (Being income Recognised)

**Note: In Practical questions, We will always Give a Note on SOR.**

### Exception to Option II \*V.V.Imp (Sale of Right)

In case Market Price Per Share Post Right becomes Less than Market Price Per share Pre Right then Decline in original Wealth of the investor due to Right Issue as follows:-

|                                     |               |
|-------------------------------------|---------------|
| Value of Original Shares Pre Right  | xxxx          |
| Value of Original Shares Post Right | <u>(xxxx)</u> |
| Decline in Value                    | <u>xxxx</u>   |

After computing Decline in value of Original Shares, we will Compare the Amount of SOR with decline in value of Shares. The Amount which is recovered from SOR, will be transferred to "Investment A/c assuming recovery of cost upto decline in Value", but the Excess Amount can be taken to P&L assuming Income as in Normal discussion.

i. Bank A/c Dr xxxx  
     To Sale of Rights      xxxx  
 (Being Amount Recovered from SOR)

ii. Sale of Rights a/c Dr xxxx  
     To Investment              xxxx (upto decline in value)  
     To P&L A/c                  xxxx (Bal. fig) (Excess)  
 (Being SOR transferred to Invest. A/c & P&L A/c)





### Special Notes For Practical Questions:-

- i. If SOR is Less than Decline in value of Original Shares then we will transfer the Whole Amount of SOR to Investment A/c.
- ii. If there is no Information regarding MP Pre Right & Post Right then we will not Apply Exception. In the Given Case, SOR will be credited in P&L A/c.

Q.16 \*Imp (Right Issue)

In the books of Mr. Lal

Investment Account in Shares of Omega Limited

| <u>Part</u>       | <u>No.</u> | <u>Amt</u> | <u>Part</u> | <u>No.</u> | <u>Amt</u> |
|-------------------|------------|------------|-------------|------------|------------|
| To Bank           | 500        | 62500      | By Sale     | -          | 2500       |
| To Bank           | 250        | 20000      | of Rights   |            |            |
| (500x1/1 x50%)@80 |            |            | (WN #1)     |            |            |
|                   |            |            | By Bal c/d  | 750        | 80000      |
|                   |            |            | (Bal. Fig)  |            |            |
|                   | 750        | 82500      |             | 750        | 82500      |

(Ignore Cum Right Wording)

(Focus on MP, Pre Right & Post Right)

WN #1 Calculation of Decline in Value of Shares

|                                                |                |
|------------------------------------------------|----------------|
| Original Value of Shares Pre Right (500 x 110) | 55000          |
| Value of Shares Post Right (500 x 92.5)        | <u>(46250)</u> |
| Decline in Value                               | <u>8750</u>    |

In the Given Case, Recovery from SOR is of Rs.2500, but decline in value Of Investments is Rs.8750, So the entire Amount of SOR will be taken to Investment A/c.



Q.6 \*ImpIn the Books of RajatInvestment A/c in the Shares of P Limited (Amount in '000)

| <u>Particular</u> | <u>No.</u> | <u>Amt</u>  | <u>Particular</u> | <u>No.</u> | <u>Amt</u>  |
|-------------------|------------|-------------|-------------------|------------|-------------|
| 1.4.11 To Bal b/d | 50         | 750         | 31.3.12 By Bal    |            |             |
| 20.6.11 To Bank   | 10         | 160         | c/d               | 90         | 1210        |
| 1.8.11 To Bonus   |            |             | (Bal. fig)*       |            |             |
| Shares            | 10         | -           |                   |            |             |
| (60000 x 1/6)     |            |             |                   |            |             |
| 5.11.11 To Bank   | 20         | 300         |                   |            |             |
| (70000 x 3/7)     |            |             |                   |            |             |
| x 2/3 x 15        |            |             |                   |            |             |
|                   | <u>90</u>  | <u>1210</u> |                   | <u>90</u>  | <u>1210</u> |

Note 1: In the Given Question, we cannot show the valuation of Investments because market Price Per Share on B/S date is not Given.

Note 2: The amount of Rs.20,000 (70000 x 3/7 x 1/3 @ 2) Which has been recovered as sale of Right from Umang, will be transferred to P&L A/c as an Income because there is no information regarding Pre Right and Post Right MP Per Share.

\*Part 5\*Adjustment 3: Accounting for Dividends \*V.V.Imp

As per the Provisions of AS-13, the amount of Dividends, which has been received the Investor, should be considered as an income for the investors and It should be transferred to P&L A/c. The following Entries should be Recorded:-

i. Bank a/c Dr xxxx  
 To Dividends                      xxxx  
 (Being Dividend Received)





Bank a/c Dr xxxx

To Investments xxxx

(Being Pre-acq Dividend Adjusted)

\*It is a Practice in market that Transactions take place on cum Dividend Basis after B/s date till Payment of Dividend.

Example:-

Mr. X has Provided the following information regarding his Investments in Y Ltd.:-

1.4.23 Opening Balance : 2000 Shares

1.7.23 Acquired further : 2500 Shares

1.10.23 Received Dividend @ 5 Per Share from Y Ltd.

Pass Journal Entries for Dividends in the books of Mr. X

Solution :

Journal Entries

(In the Books of Mr.X)

i. Bank a/c Dr 22500 (4500 x 5)

(1.10.23) To Dividends 22500

(Being Dividend Received on 4500 Shares @ 5 Per Share)

ii. Dividends a/c Dr 22500

To P&L (Income) 10000 (2000x 5)

To Invest. (Recovery) 12500 (2500 x 5)

(Being Dividend Adjusted)

Example :-

With the help of Given Information in above Example, Show the impact on Your Answer if Company has issued Bonus Shares in Aug 23 and Right Shares In Sep 23.

Solution

There will be no Impact on Accounting for Dividends in the books of Mr. X Because Dividend has been paid by company for "Previous year" and these Issues have been made by company in Current year. So, No



Dividend will be computed on Bonus Shares and Right Shares in Current year.

Q.17 \*Imp (Basic Question on Dividends)

In the books of Sharma

Investment Account in the Shares of X Ltd.

| Particular | No.         | Amt          | D        | Particular | No.         | Amt          | D        |
|------------|-------------|--------------|----------|------------|-------------|--------------|----------|
| 1.4.2003   |             |              |          | 30.9.2003  |             |              |          |
| To Bank    | 1000        | 35000        | -        | By Bank    | -           | 2600         | -        |
| 1.7.2003   |             |              |          | (1300 x 2) |             |              |          |
| To Bank    | 300         | 9600         |          | (Pre-acq   |             |              |          |
| 1.11.2003  |             |              |          | Dividend)  |             |              |          |
| To Profit  |             |              |          | 1.11.2003  |             |              |          |
| On SOI     | -           | 2846         |          | By Bank    | 500         | 19000        | -        |
| (WN #1)    |             |              |          | @38        |             |              |          |
|            |             |              |          | 31.3.2004  |             |              |          |
|            |             |              |          | By Bal     | 800         | 25846        | -        |
|            |             |              |          | c/d        |             |              |          |
|            |             |              |          | (Bal. fig) |             |              |          |
|            | <u>1300</u> | <u>47446</u> | <u>-</u> |            | <u>1300</u> | <u>47446</u> | <u>-</u> |

WN #1 Calculation of Profit or Loss on SOI

|                                                     |             |
|-----------------------------------------------------|-------------|
| Selling Price (500 x 38)                            | 19000       |
| Cost for Sold Portion                               | (16154)     |
| $\frac{35000 + 9600 - 2600}{1000 + 300} \times 500$ |             |
| Profit                                              | <u>2846</u> |

Note: In the Given Case, Market Value Per Share is Given on B/s date, but We have ignored the valuation of Investments because Nature of Investment is Long Term.





\*Part 6\*

Q.9 \*V.V.imp (10-12 Marks)

In the Books of Sundar

Investment A/c in the Shares of X Ltd. (Amount in '000)

| <u>Particular</u> | <u>No.</u> | <u>Amt</u>   | <u>Div</u> | <u>Particular</u> | <u>No.</u> | <u>Amt</u>   | <u>Div</u> |
|-------------------|------------|--------------|------------|-------------------|------------|--------------|------------|
| 1.4.14            |            |              |            | 31.10.14          |            |              |            |
| To Bal b/d        | 25         | 375          | -          | By Bank           | -          | 10           | 50         |
| 20.6.14           |            |              |            | (Dividend         |            |              |            |
| To Bank           | 5          | 80           |            | @ 2 Per           |            |              |            |
| 16.8.14           |            |              |            | Share)            |            |              |            |
| To Bonus          |            |              |            | (Note 2)          |            |              |            |
| Shares            |            |              |            | 15.11.14          |            |              |            |
| (30000            | 5          | -            | -          | By Bank           | 25         | 375          |            |
| x1/6)             |            |              |            |                   |            |              |            |
| 30.9.14           |            |              |            | 31.3.15           |            |              |            |
| To Bank           | 10         | 150          | -          | By Bal            | 20         | 264.4        | -          |
| (35000x3/7        |            |              |            | c/d               |            |              |            |
| x 2/3) @15        |            |              |            | (Bal Fig.)        |            |              |            |
| 15.11.14          |            |              |            | Note 30           |            |              |            |
| To Profit         |            |              |            |                   |            |              |            |
| On SOI            | -          | 44.4         | -          |                   |            |              |            |
| (WN #1)           |            |              |            |                   |            |              |            |
| 31.3.15           |            |              |            |                   |            |              |            |
| To P&L            |            |              |            |                   |            |              |            |
| (Bal)             | -          |              | 50         |                   |            |              |            |
|                   | <u>45</u>  | <u>649.4</u> | <u>50</u>  |                   | <u>45</u>  | <u>649.4</u> | <u>50</u>  |

Profit &amp; Loss A/c (Extracts) (Amount in '000)

| <u>Particulars</u> | <u>Rs.</u> | <u>Particulars</u> | <u>Rs.</u> |
|--------------------|------------|--------------------|------------|
|                    |            | By Sale of Right   | 10         |
|                    |            | (5000x2)           |            |
|                    |            | By Profit on SOI   | 44.444     |
|                    |            | (W.N #1)           |            |
|                    |            | By Dividends       | 50         |



**Notes:**

- 1. Sale of Right:** In the Given question, Sunder has transferred Rights of 5000 Shares in the favour of Sekhar @2 Per Share  
 $(5000 \times 2)$  We will transfer the amount of SOR to P&L A/c because There is no Information regarding market Price Pre Right Issue & post Right Issue.
- 2. Dividends:** In the Given question, Sunder has received a dividend of 2 Per Share  $(10 \times 20\%)$  for Previous year. So, Sunder will recognise dividend of 50000 on 25000 Shares as an Income, but dividend of 10000 on 5000 Share shall be recognised as Pre-acq Dividend and It will be transferred to Investment A/c.
- 3. Valuation:** We Cannot Show Valuation of 20000 Shares on B/s date because Market Price on B/s date is not Specified in the question.

**WN #1 Calculation of P/L on sale of Investments**

|                                           |                   |
|-------------------------------------------|-------------------|
| Selling Price $(25000 \times 15)$         | 375000            |
| Cost for Sold Portion                     | Pre acq. dividend |
| $(375000 + 80000 + Nil + 150000 - 10000)$ | $\times 25000$    |
| $(25000 + 5000 + 5000 + 10000)$           | $(330556)$        |
| Profit                                    | <u>44,444</u>     |



Q.12 \*Imp

In the books of Mr. Singh

Investment Account in the Shares of X Ltd.

(Amount in '000)

| <u>Particular</u> | <u>No.</u> | <u>Amt</u> | <u>D</u>  | <u>Particulars</u> | <u>No.</u> | <u>Amt</u> | <u>D</u>  |
|-------------------|------------|------------|-----------|--------------------|------------|------------|-----------|
| 1.4.14            |            |            |           | 20.10.14           |            |            |           |
| To Bal b/d        | 20         | 320        | -         | By Bank            |            |            |           |
| 1.6.14            |            |            |           | (Dividend          |            |            |           |
| To Bank           | 5          | 70         | -         | @1.5               |            | 7.5        | 30        |
|                   |            |            |           | Per Share)         |            |            |           |
| 2.8.14            |            |            |           | 1.11.14            |            |            |           |
| To Bonus          |            |            |           | By Bank            | 20         | 260        | -         |
| Shares            | 5          | -          | -         | BY Loss            |            |            |           |
| (25000x 1)        |            |            |           | on SOI             | -          | 10         | -         |
| 5                 |            |            |           | (W.N #1)           |            |            |           |
| 30.9.14           |            |            |           |                    |            |            |           |
| To Bank           | 15         | 225        |           | 31.12.14           |            |            |           |
| (30000x1/1        |            |            |           | By Balance         | 25         | 337.5      |           |
| x 50%)            |            |            |           | c/d                |            |            |           |
| 31.12.14          |            |            |           | (WN#2)             |            |            |           |
| To P&L            |            |            |           |                    |            |            |           |
| (Bal. Fig)        | -          | -          | 30        |                    |            |            |           |
|                   | <u>45</u>  | <u>615</u> | <u>30</u> |                    | <u>45</u>  | <u>615</u> | <u>30</u> |

Profit & loss A/c (Extracts) (Amount in '000)

|                |    |                   |      |
|----------------|----|-------------------|------|
| To Loss on SOI | 10 | By Sale of Rights | 22.5 |
|                |    | By Dividends      | 30   |

Note 1: Sale of Right

In the Given Question, Mr. Lingh has realised Rs.22500 (15000 x 1.50) from Sale of Right and such an amount shall be transferred to P&L as an Income because we cannot Calculate decline in wealth due to Pre Right MP and Post Right MP information.



WN#1 Calculation of P/L on SOI

|                                                                                                                              |                 |
|------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Selling Price (20000 x 13)                                                                                                   | 260000          |
| Cost for Sold Portion                                                                                                        | <u>(270000)</u> |
| $\left( \frac{320000 + 70000 + \text{Nil} + 225000 - 7500}{20000 + 5000 + 5000 + 15000} \right) \times 20000 \text{ Shares}$ |                 |
| Loss                                                                                                                         | <u>10000</u>    |

WN #2 Valuation of Investments

|                                           |               |
|-------------------------------------------|---------------|
| Cost of Investments (25000 Shares)        | Rs.337500     |
| (As a Balancing figure in Investment A/c) |               |
| Or                                        |               |
| Market Value as on 31.12.14 (25000 x 14)  | Rs.350000     |
| Whichever is Lower                        | <u>337500</u> |
| *There is no Valuation Loss               |               |

## Q.13 \*Imp In the books of Y Ltd.

Investment A/c in Shares of X Ltd. (Amount in '000)

| Particulars | No.       | Amt          | D        | Particulars | No.       | Amt          | D |
|-------------|-----------|--------------|----------|-------------|-----------|--------------|---|
| 15.4.99     |           |              |          | By Bank     |           |              |   |
| To Bank     | 25        | 3075         | -        | (Dividend   |           | 220          | - |
| (WN #1)     |           |              |          | @ 4         |           |              |   |
| 25.5.99     |           |              |          | Per Share)  |           |              |   |
|             |           |              |          | (25000 +    |           |              |   |
| To Bank     | 30        | 4305         | -        | 30000) x 4  |           |              |   |
| (WN #1)     |           |              |          | 15.11.99    |           |              |   |
| 30.5.99     |           |              | -        | By Bank     | 15        | 1625.25      |   |
| To Bank     | 35        | 2800         |          | (WN #2)     |           |              |   |
| (WN#1)      |           |              |          | By Loss on  |           |              |   |
|             |           |              |          | SOI WN#2    | -         | 34.75        |   |
|             |           |              |          | 31.3.00     |           |              |   |
|             |           |              |          | By Bal c/d  | 75        | 8300         | - |
|             |           |              |          | (Bal fig)   |           |              |   |
|             | <u>90</u> | <u>10180</u> | <u>-</u> |             | <u>90</u> | <u>10180</u> |   |



WN #1 Calculation of Cost of Investments

|                  | <u>15.4.99</u>   | <u>25.5.99</u>   | <u>30.5.99 (R.I)</u> |
|------------------|------------------|------------------|----------------------|
| Purchase Price   | 30,00,000        | 42,00,000        | 28,00,000            |
|                  | (25000 x 120)    | (30000 x 140)    | (35000 x 80)         |
| Brokerage @ 1.5% | 45,000           | 63,000           | -                    |
| Stamp Duty @ 1%  | <u>30,000</u>    | <u>42,000</u>    | <u>-</u>             |
| Total Cost       | <u>30,75,000</u> | <u>43,05,000</u> | <u>28,00,000</u>     |

WN #2 Calculation of P/L on SOI

|                                                                                                                       |                    |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|
| Selling Price (15000 x 110)                                                                                           | 16,50,000          |
| Brokerage @ 1.5%                                                                                                      | <u>(24,750)</u>    |
| Net Selling Price                                                                                                     | 16,25,250          |
| Cost for Sold Portion                                                                                                 | <u>(16,60,000)</u> |
| $\left[ \frac{30,75,000 + 43,05,000 + 28,00,000 - 220,000}{90000 \text{ Shares}} \right] \times 15000 \text{ Shares}$ |                    |
| Loss                                                                                                                  | <u>34,750</u>      |

Note 1: SOR

In the Given case, Y Ltd has recovered Rs.600,000 (20000 x 30) as Sale of Right and It will be transferred to P/L as an Income

Note 2: Valuation on 31.3.00

In the Given Case, MV Per Share on B/s date is not Given due to Which Valuation cannot be done.

Q.5, Q.20, Q.35, Q.37 (H.w)





\*Part 7\*Concept 8: Accounting for "Interim Dividends" \*Imp

As per the Provisions of AS-13, the following Points should be considered while making Accounting Entries for interim Dividend :-

i. First of all, the question should specify clearly that company is paying "Interim Dividend"

Note : A company can pay interim Dividends if it has earned Good profits in Quaterly Reports. It means that interim dividend is paid by company in current year for current year.

ii. The Investor will always transfer the receipt of interim dividend to P&L A/c assuming as an Income and there is no concept of Pre-acq Dividend Under interim dividends.

iii. The investor will receive this dividend on all shares including Bonus Shares And Right Shares if payment of dividend is made by company after Bonus And Right Issue.

Journal Entries

Because I. dividend is Received in Current year for current year

i. Bank a/c Dr xxxx  
To Dividends xxxx  
(Being Interim dividend Received)

ii. Dividends a/c Dr xxxx  
To P&L a/c xxxx  
(Being Income Recognised)



Q.8 (Final Dividend for PY &amp; Interim Dividend for CY)

In the books of A Ltd

Investment Account in the Shares of Alliance Ltd. (Amount in '000)

| Particular                  | No  | Amt   | Div | Particular | No  | Amt   | Div |
|-----------------------------|-----|-------|-----|------------|-----|-------|-----|
| 1.4.14                      |     |       |     | 15.5.14    |     |       |     |
| To Bank                     | 5   | 535.5 | -   | By Bank    | -   | 10    | -   |
| (WN #1)                     |     |       |     | (Dividend  |     | (Pre  |     |
| 30.6.14                     |     |       |     | @ 2 Per    |     | Acq)  |     |
| To Bonus                    |     |       |     | share)     |     |       |     |
| Shares                      | 1   | -     | -   | (Pre-Acq)  |     |       |     |
| $(5000 \times \frac{1}{5})$ |     |       |     | 30.11.14   |     |       |     |
|                             |     |       |     | By Bank    | -   | -     | 6   |
| 1.10.14                     |     |       |     | (Interim   |     |       |     |
| To Bank                     | 1.5 | 67.5  | -   | Dividend)  |     |       |     |
| (6000 x 1/2)                |     |       |     | (5000 +    |     |       |     |
| x 50% @45                   |     |       |     | 1000)x     |     |       |     |
| 31.12.14                    |     |       |     | 100 x 1%   |     |       |     |
| To Profit                   |     |       |     | 31.12.14   |     |       |     |
| On SOI                      | -   | 42.1  | -   | By Bank    | 3   | 279.3 | -   |
| (WN #2)                     |     |       |     | (WN #2)    |     |       |     |
| 31.3.15                     |     |       |     | 31.3.15    |     |       |     |
| To P&L                      | -   | -     | 6   | By Bal c/d | 4.5 | 355.8 | -   |
|                             |     |       |     | (Bal. fig) |     |       |     |
|                             |     |       |     | (Note 2)   |     |       |     |
|                             | 7.5 | 645.1 | 6   |            | 7.5 | 645.1 | 6   |

WN #1 Calculation of COI (1.4.14)

|                             |                |
|-----------------------------|----------------|
| Purchase Price (5000 x 105) | 525000         |
| Brokerage @ 2%              | <u>10500</u>   |
| COI                         | <u>535,500</u> |



WN #2 Calculation of P/L on SOI

|                                                                                       |                 |
|---------------------------------------------------------------------------------------|-----------------|
| Selling Price (3000 x 95)                                                             | 285000          |
| Brokerage @ 2%                                                                        | <u>(5700)</u>   |
| NSP                                                                                   | 279300          |
| Cost for Sold Portion                                                                 |                 |
| $\frac{535500 + Nil + 67500 - 10000}{7500 \text{ Shares}} \times 3000 \text{ Shares}$ | <u>(237200)</u> |
| Profit                                                                                | <u>42100</u>    |

Note 1 : The recovery of Rs.7500 ( $6000 \times \frac{1}{2} \times 50\% \times 5$ ) from sale of Right shall be transferred to P&L A/c as an Income.

Note 2 : We have assumed that Accounting year is financial year for A ltd. So, we have closed Books of A ltd as at 31.3.2015. In addition, we have not shown the valuation of Investments due to absence of MP on B/s date.

Concept 9: Investment in De bentures/ Bonds \*V.V.Imp

Example:

Mr. A acquires 100 Debentures of 100 each in Y ltd. @ 98 Ex-Interest on 1.5.22 Mr. A also Paid Brokerage @2% on purchase Price on Debentures. Y ltd pays interest on 30.6 and 31.12 (half yearly) Mr. A follows calendar year.

Solution

Calculation of Cost of Investments (1.5.22)

|                                                                           |             |
|---------------------------------------------------------------------------|-------------|
| Purchase Price (100 x 98)                                                 | 9800        |
| Brokerage @2% on P.P                                                      | <u>196</u>  |
|                                                                           | <u>9996</u> |
| Ex- Interest = $100 \text{ Deb} \times 100 \times 10\% \times 4/12 = 333$ |             |
| (1.1 - 1.5)                                                               | (FV)        |



Journal

(In the books of Mr. A)

i. 1.5.22 Investment in Debentures a/c Dr 9996  
 Interest on Debentures a/c Dr 333  
 To Bank 10329  
 (Being Payment made for Investment & Interest)

ii. 30.6.22 Bank A/c Dr 500  
 To Interest 500  
 (100 Deb x 100 FV x 10% x 6/12)  
 (Being Interest Received from Y Ltd on Invest)

iii. 31.12.22 Bank a/c Dr 500  
 To Interest 500  
 (Being Interest Received)

iv. 31.12.22 Interest a/c Dr 667  
 To P&L a/c 667  
 (500 + 500 - 333)  
 (Being income Recognised)

In the books of Mr. A

Investment Account in 10% Debentures of y ltd.

| <u>Particular</u> | <u>No</u>  | <u>Amt</u>  | <u>Int</u>  | <u>Particular</u> | <u>No</u> | <u>Amt</u>  | <u>Int</u>  |
|-------------------|------------|-------------|-------------|-------------------|-----------|-------------|-------------|
| 1.5.22            |            |             |             | 30.6.22           |           |             |             |
| To Bank           | 100        | 9996        | 333         | By Bank           | -         | -           | 500         |
| (WN #1)           |            |             |             | 31.12.22          |           |             |             |
| 31.12.22          |            |             |             | By Bank           | -         | -           | 500         |
| To P&L            | -          | -           | 667         | 31.12.22          |           |             |             |
| (Bal fig)         |            |             |             | By Bal c/d        | 100       | 9996        | -           |
|                   |            |             |             | (Bal. fig)        |           |             |             |
|                   | <u>100</u> | <u>9996</u> | <u>1000</u> | <u>100</u>        |           | <u>9996</u> | <u>1000</u> |



Example :

With the help of Given information in Last Example, Show impact on all Transactions if Purchase Price is Cum Interest instead of Ex-Interest.

Solution

Calculation of COI (1.5.22)

|                                        |              |
|----------------------------------------|--------------|
| Purchase Price (100 Deb x 98)          | 9800         |
| Interest (100 x 100 x 10% x 4/12)      | <u>(333)</u> |
| P.P (Net of Interest)                  | 9467         |
| Add : Brokerage @2% on P.P (9800 x 2%) | <u>196</u>   |
| COI                                    | <u>9663</u>  |

Journal

|       |                |    |      |      |
|-------|----------------|----|------|------|
| 1.5   | Investment a/c | Dr | 9663 |      |
|       | Interest a/c   | Dr | 333  |      |
|       | To Bank        |    |      | 9996 |
| 30.6  | Bank a/c       | Dr | 500  |      |
|       | To Interest    |    | 500  |      |
| 31.12 | Bank a/c       | Dr | 500  |      |
|       | To Interest    |    | 500  |      |
| 31.12 | Interest a/c   | Dr | 667  |      |
|       | To PL          |    | 667  |      |





Investment Account in 10% Deb of Y Ltd.

| <u>Particular</u> | <u>No</u>  | <u>Amt</u>  | <u>Int</u>  | <u>Particular</u> | <u>No</u>  | <u>Amt</u>  | <u>Int</u>  |
|-------------------|------------|-------------|-------------|-------------------|------------|-------------|-------------|
| 1.5.22            |            |             |             | 30.6              |            |             |             |
| To Bank           | 100        | 9663        | 333         | By Bank           | -          | -           | 500         |
| 31.12             |            |             |             | 31.12             |            |             |             |
| To PL (Bal)       | -          | -           | 667         | By Bank           | -          | -           | 500         |
|                   |            |             |             | By Bal c/d        | 100        | 9663        | -           |
|                   |            |             |             | (Bal. fig)        |            |             |             |
|                   | <u>100</u> | <u>9663</u> | <u>1000</u> |                   | <u>100</u> | <u>9663</u> | <u>1000</u> |

Assumption

In the absence of any Specific information, we will always assume that the Given Purchase Price is an Ex-Interest Price.

\*Part 8\*Example:

Mr. X has provided the following information regarding his investments in 15% Debentures of Tata Ltd :-

- Purchased 200 Debentures @99 Ex-Int on 1.3.22
- Acquired 150 Debentures @98 Cum Int on 1.5.22
- Sold 175 Debentures @105 Cum Interest on 1.8.22
- Tata Ltd Pays Interest on 30.6 and 31.12 on half yearly Basis

Prepare Investment A/c in the books of Mr. X for the year Ending 31.12.22 assuming 2% Brokerage on all Transactions.



Solution

In the books of Mr. X

Investment A/c in the Debentures of Tata Ltd.

| Particular | No  | Amt   | Int  | Particular   | No  | Amt   | Int  |
|------------|-----|-------|------|--------------|-----|-------|------|
| 1.3.22     |     |       |      | 30.6.22      |     |       |      |
| To Bank    | 200 | 20196 | 500  | By Bank      | -   |       | 2625 |
| (WN #1)    |     |       |      | (350x100 x   |     |       |      |
| 1.5.22     |     |       |      | 15% x 6/12)  |     |       |      |
| To Bank    | 150 | 14244 | 750  | 1.8.22       |     |       |      |
| (WN #2)    |     |       |      | By Bank      |     |       |      |
| 1.8.22     |     |       |      | (WN#3)       | 175 | 17788 | 219  |
| To Profit  |     |       |      | 31.12.22     |     |       |      |
| On SOI     | -   | 568   | -    | By Bank      | -   | -     | 1313 |
| (WN #3)    |     |       |      | (175 x 100 x |     |       |      |
| 31.12.22   |     |       |      | 15% x 6/12)  |     |       |      |
| To P&L     | -   | -     | 2907 | By Bal c/d   | 175 | 17220 | -    |
| (Bal. fig) |     |       |      | (Bal. fig)   |     |       |      |
|            | 350 | 35008 | 4157 |              | 350 | 35008 | 4157 |

WN #1 Calculation of COI (1.3.22)

|                                                          |              |
|----------------------------------------------------------|--------------|
| Purchase Price (200 x 99)                                | 19800        |
| Brokerage @2% on P.P                                     | <u>396</u>   |
| COI                                                      | <u>20196</u> |
| Ex-Interest : $200 \times 100 \times 15\% \times 2/12 =$ | 500          |

WN #2 Calculation of COI (1.5.22)

|                                   |              |
|-----------------------------------|--------------|
| Purchase Price (150 x 98)         | 14700        |
| Interest (150 x 100 x 15% x 4/12) | <u>(750)</u> |
| Amount Paid for Debentures        | 13950        |
| Brokerage @2% on PP (14700 x 2%)  | <u>294</u>   |
| COI                               | <u>14244</u> |



## WN#3 Calculation of P/L on SOI (1.8.22)

|                                                       |                |
|-------------------------------------------------------|----------------|
| Selling Price (175 Deb x 105)                         | 18375          |
| Interest (175 x 100 x 15% x 1/12)                     | <u>(219)</u>   |
| Selling Price for Debentures                          | 18156          |
| Brokerage @2% (18375 x 2%)                            | <u>(368)</u>   |
| NSP                                                   | 17788          |
| Cost for Sold Portion                                 | <u>(17220)</u> |
| $\left( \frac{20196 + 14244}{350} \right) \times 175$ |                |
| Profit                                                | <u>568</u>     |

Note: We do not have market Price Per share on 31.12.22 due to which we have not shown valuation of Investments on B/s date.

## Example :-

Mr. X has Provided the following information regarding investments in 10% Debentures of Tee Ltd. :-

- Purchased 100 Debentures @99 on 1.2.22
- Sold 50 Debenture @102 Cum Int on 1.4.22
- Purchased 100 Debentures @98 Cum Interest on 1.8.22
- Sold 50 Debentures @99 on 1.10.22
- Tee Limited Pays Interest on 30.6/31.12 half yearly

Prepare Investment A/c as on 31.12.22 in the books of Mr.X

## Solution

In the books of Mr.X

Investment Account in Debentures of Tee Limited



| Particular               | No         | Amt          | Int         | Particular               | No         | Amt          | Int         |
|--------------------------|------------|--------------|-------------|--------------------------|------------|--------------|-------------|
| 1.2.22                   |            |              |             | 1.4.22                   |            |              |             |
| To Bank                  | 100        | 9900         | 83          | By Bank                  | 50         | 4975         | 125         |
| (100 x 100 x 10% x 1/12) |            |              |             | (WN #1)                  |            |              |             |
| 1.4.22                   |            |              |             | 30.6.22                  |            |              |             |
| To profit on SOI         | -          | 25           | -           | By Bank                  | -          | -            | 250         |
| (WN #1)                  |            |              |             | (50 x 100 x 10% x 6/12)  |            |              |             |
| 1.8.22                   |            |              |             | 1.10.22                  |            |              |             |
| To Bank                  | 100        | 9717         | 83          | By Bank                  | 50         | 4950         | 125         |
| (WN #2)                  |            |              |             | (50 x 100 x 10% x 3/12)  |            |              |             |
| 1.10.22                  |            |              |             | 31.12.22                 |            |              |             |
| To Profit on SOI         | -          | 61           | -           | By Bank                  | -          | -            | 500         |
| (WN #3)                  |            |              |             | (100 x 100 x 10% x 6/12) |            |              |             |
| 31.12.22                 |            |              |             | By Bal c/d               | 100        | 9778         | -           |
| To P&L                   | -          | -            | 834         | (Bal. fig)               |            |              |             |
| (Bal fig)                |            |              |             |                          |            |              |             |
|                          | <u>200</u> | <u>19703</u> | <u>1000</u> |                          | <u>200</u> | <u>19703</u> | <u>1000</u> |

WN#1 Calculation of Profit/Loss on SOI (1.4.22)

➔ Cum Int.

|                                       |               |
|---------------------------------------|---------------|
| Selling Price (50 x 102)              | 5100          |
| Interest (50 x 100 x 10% x 3/12)      | <u>(125)</u>  |
| Amount Received for debentures        | 4975          |
| Cost for Sold Portion (9900/100 x 50) | <u>(4950)</u> |
| Profit                                | <u>25</u>     |

WN #2 Calculation of COI (1.8.22)

➔ Cum Int.

|                                   |             |
|-----------------------------------|-------------|
| Purchase Price (100 x 98)         | 9800        |
| Interest (100 x 100 x 10% x 1/12) | <u>(83)</u> |
| Amount Paid for Investments       | <u>9717</u> |



WN #3 Calculation of P&L on SOI (1.10.22)

Selling Price (50 x 99) 4950

Cost for Sold Portion (4889)

$$\left( \frac{9900 + 25 + 9717 - 4975}{100 + 100 - 50} \right) \times 50$$

Profit 61

Example

Mr. X has Provided the following information in relation with Investment in 12% Debentures of Jindal Limited:-

i. Purchased 200 Debentures @98 Ex-Int on 1.5.22

ii. Company Pays Interest on 30.6/ 31.12 (Half yearly)

Prepare Investment A/c in the books of Mr.X assuming Mr.X closes his books On 31.3.23

Solution

In the books of Mr. X

Investment Account in 12% Debentures of Jindal Ltd.

| Particular | No         | Amt          | Int         | Particular  | No         | Amt          | Int         |
|------------|------------|--------------|-------------|-------------|------------|--------------|-------------|
| 1.5.22     |            |              |             | 30.6.22     |            |              |             |
| To Bank    | 200        | 19600        | 800         | By Bank     | -          | -            | 1200        |
| (200x100x1 |            |              |             | (200x100x   |            |              |             |
| 2% x 4/12) |            |              |             | 12% x 6/12) |            |              |             |
| 31.3.23    |            |              |             | 31.12.22    |            |              |             |
| To P&L     |            |              |             | By Bank     | -          | -            | 1200        |
| (Bal fig)  | -          | -            | 2200        | (200x100x   |            |              |             |
|            |            |              |             | 12% x6/12)  |            |              |             |
|            |            |              |             | 31.3.23     |            |              |             |
|            |            |              |             | By Accured  |            |              |             |
|            |            |              |             | Int         | -          | -            | 600         |
|            |            |              |             | (200x100x   |            |              |             |
|            |            |              |             | 12%x3/12)   |            |              |             |
|            |            |              |             | By Bal c/d  | 200        | 19600        | -           |
|            | <u>200</u> | <u>19600</u> | <u>3000</u> |             | <u>200</u> | <u>19600</u> | <u>3000</u> |
| 1.4.23     |            |              |             |             |            |              |             |
| To Bal b/d | 200        | 19600        | 600         |             |            |              |             |





\*Part 9\*Q.28 \*V.V.Imp

In the books of Mr. A

Investment Account in 5% Debentures of Bharat Debentures

| <u>Particular</u> | <u>No</u>  | <u>Amt</u>   | <u>Int</u>  | <u>Particular</u> | <u>No</u>  | <u>Amt</u>   | <u>Int</u>  |
|-------------------|------------|--------------|-------------|-------------------|------------|--------------|-------------|
| 1.3               |            |              |             | 31.3              |            |              |             |
| To Bank           | 240        | 21542        | 500         | By Bank           | -          | -            | 600         |
| (W.N #1)          |            |              |             | (Int)             |            |              |             |
| 1.9               |            |              |             | (240 x 100        |            |              |             |
| To Profit         |            |              |             | x 5% x 6/12)      |            |              |             |
| on SOI            | -          | 40           | -           | 1.9               |            |              |             |
| (W.N #2)          |            |              |             | By Bank           | 100        | 9016         | 208         |
| 30.9              |            |              |             | (W.N #2)          |            |              |             |
| To Bank           | 80         | 7436         | 200         | 30.9              |            |              |             |
| (W.N #3)          |            |              |             | By Bank           | -          | -            | 550         |
| 1.12              |            |              |             | (Int)             |            |              |             |
| To Profit         |            |              |             | (220 x 100        |            |              |             |
| on SOI            | -          | 22           | -           | x 5% x 6/12)      |            |              |             |
| (W.N #4)          |            |              |             | 1.12              |            |              |             |
| 31.12             |            |              |             | By Bank           | 60         | 5477         | 50          |
| To P&L            |            |              |             | (W.N #4)          |            |              |             |
| (Bal fig)         | -          | -            | 908         | 31.12             |            |              |             |
|                   |            |              |             | By Accrued        |            |              |             |
|                   |            |              |             | Interest          | -          | -            | 200         |
|                   |            |              |             | (160 x 100        |            |              |             |
|                   |            |              |             | x 5% x 3/12)      |            |              |             |
|                   |            |              |             | By Bal c/d        |            |              |             |
|                   |            |              |             | (W.N #5)          | 160        | 14547        |             |
|                   | <u>320</u> | <u>29040</u> | <u>1608</u> |                   | <u>320</u> | <u>29040</u> | <u>1608</u> |



WN #1 Calculation of COI (1.3)

|                                                |              |
|------------------------------------------------|--------------|
| Purchase Price ( $24000/100 = 240 \times 90$ ) | 21600        |
| Interest ( $24000 \times 5\% \times 5/12$ )    | <u>(500)</u> |
| Amount Paid for Investments                    | 21200        |
| Brokerage @2% on cost ( $21100 \times 2\%$ )   | 422          |
| Stamp Duty                                     | <u>20</u>    |
| COI                                            | <u>21542</u> |

WN#2 Calculation of P/L on SOI (1.9)

|                                               |               |
|-----------------------------------------------|---------------|
| Selling Price ( $10000/100 = 100 \times 92$ ) | 9200          |
| Brokerage @2% ( $9200 \times 2\%$ )           | <u>(184)</u>  |
| NSP                                           | 9016          |
| Cost for Sold Portion                         | <u>(8976)</u> |
| $\left( \frac{21542}{240} \times 100 \right)$ |               |
| Profit                                        | <u>40</u>     |

Ex- Interest =  $10000 \times 5\% \times 5/12 = 208$

WN #3 Calculation of COI (30.9)

|                                              |             |
|----------------------------------------------|-------------|
| Purchase Price ( $8000/100 = 80 \times 91$ ) | 7280        |
| Brokerage @2% ( $7280 \times 2\%$ )          | 146         |
| Stamp Duty                                   | <u>10</u>   |
| COI                                          | <u>7436</u> |

Ex-Interest =  $8000 \times 5\% \times 6/12 = 200$

WN#4 Calculation of Profit/Loss on SOI (1.12)

|                                             |               |
|---------------------------------------------|---------------|
| Selling Price ( $6000/100 = 60 \times 94$ ) | 5640          |
| Interest ( $6000 \times 5\% \times 2/12$ )  | <u>(50)</u>   |
| Amount for Sold Debentures                  | 5590          |
| Brokerage @2% ( $5640 \times 2\%$ )         | <u>(113)</u>  |
| Net Price                                   | 5477          |
| Cost for Sold Debentures                    | <u>(5455)</u> |



$$\left( \frac{21542 + 40 + 7436 - 9016}{240 + 80 - 100} \right) \times 60$$

Profit

22WN #5 Valuation of Investments on 31.12

|                                                           |       |
|-----------------------------------------------------------|-------|
| Cost of Investments (As a balancing figure in Invest A/c) | 14547 |
|-----------------------------------------------------------|-------|

Or

|                                    |       |
|------------------------------------|-------|
| Market Value of 160 Debentures @91 | 14560 |
|------------------------------------|-------|

|                    |       |
|--------------------|-------|
| Whichever is Lower | 14547 |
|--------------------|-------|

Note on Brokerage

If Brokerage on Cost is specifically mentioned then we will compute Brokerage on Net of Interest Transaction Price. So, we have calculated Brokerage on 21100 in above working Note instead of 21600.

Important Note

If transaction Date and Interest Date are same in any question then we will record Transaction of Sale or Purchase first, before recording the Interest.



## Q.29 \*Imp (Conversion of Debenture into Shares)

In the books of Tee Limited

Investment Account in 13.5% Debentures of Dee Ltd.

| Particular | No          | Amt           | Int          | Particular  | No          | Amt           | Int          |
|------------|-------------|---------------|--------------|-------------|-------------|---------------|--------------|
| 1.5.97     |             |               |              | 30.9        |             |               |              |
| To Bank    | 5000        | 525000        | 5625         | By Bank     | -           | -             | 50625        |
| (5000000x  |             |               |              | (7500 x 100 |             |               |              |
| 13.5%      |             |               |              | x 13.5%     |             |               |              |
| x 1/12)    |             |               |              | x 6/12)     |             |               |              |
| 1.8.97     |             |               |              | 1.10        |             |               |              |
| To Bank    | 2500        | 256250        | 11250        | By Bank     | 2000        | 206000        | -            |
| (WN #1)    |             |               |              | (WN #2)     |             |               |              |
| 31.12      |             |               |              | By Loss     |             |               |              |
| To P&L     | -           | -             | 52313        | on SOI      | -           | 2333          | -            |
| (Bal. fig) |             |               |              | (WN #2)     |             |               |              |
|            |             |               |              | 31.12       |             |               |              |
|            |             |               |              | By Accrued  |             |               |              |
|            |             |               |              | Int         | -           |               | 18563        |
|            |             |               |              | (5500 x 100 |             |               |              |
|            |             |               |              | x 13.5%     |             |               |              |
|            |             |               |              | x 3/12)     |             |               |              |
|            |             |               |              | By Invest   |             |               |              |
|            |             |               |              | in Shares   | 1100        | 114583        | -            |
|            |             |               |              | By Balance  |             |               |              |
|            |             |               |              | c/d         | 4400        | 458334        | -            |
|            |             |               |              | (WN #4)     |             |               |              |
|            | <u>7500</u> | <u>781250</u> | <u>69188</u> |             | <u>7500</u> | <u>781250</u> | <u>69188</u> |

WN #1 Calculation of COI (1.8)

|                                          |                      |
|------------------------------------------|----------------------|
| Purchase Price (250000/100 = 2500 x 107) | 267500               |
| Interest (250000 x 13.5% x 4/12)         | <u>(11250)</u>       |
| <b>COI</b>                               | <b><u>256250</u></b> |



WN#2 Calculation of P/L on SOI (1.10)

|                                                           |                 |
|-----------------------------------------------------------|-----------------|
| Selling Price (2000x 103 )                                | 206000          |
| Cost for Sold Portion                                     | <u>(208333)</u> |
| $\left( \frac{525000 + 256250}{7500} \right) \times 2000$ |                 |
| Loss                                                      | <u>2333</u>     |

WN #3 Calculation of Cost of Shares (Conversion of 20% Deb)

|                 | <u>No.</u>    | <u>Cost</u>     |
|-----------------|---------------|-----------------|
| Purchases (1.5) | 5000          | 525000          |
| Purchases (1.8) | 2500          | 256250          |
| Sale (1.10)     | <u>(2000)</u> | <u>(208333)</u> |
| Balance         | 5500          | 572917          |
| Conversion @20% | <u>1100</u>   | <u>114583</u>   |
| Net Balance     | <u>4400</u>   | <u>458334</u>   |

## Journal

|                             |        |
|-----------------------------|--------|
| Investment in Shares a/c Dr | 114583 |
| To Invest in Deb            | 114583 |

(Being Invest in Deb Converted into Invest in Shares)

WN #4 Valuation of Debentures

|                                         |        |
|-----------------------------------------|--------|
| Cost of Debentures (As a Balancing Fig) | 458334 |
| Or                                      |        |
| MV (4400 x 106)                         | 466400 |
| Whichever is Lower                      | 458334 |

## Investment in Shares of Dee Ltd. A/c

| <u>Particular</u> | <u>No</u>    | <u>Amount</u> | <u>Particular</u> | <u>NO</u>    | <u>Amt</u>    |
|-------------------|--------------|---------------|-------------------|--------------|---------------|
| To Investment     |              |               | By Bal c/d        | 10000        | 114583        |
| in Deb A/c        | 10000        | 114583        | (WN #5)           |              |               |
|                   |              |               |                   |              |               |
|                   | <u>10000</u> | <u>114583</u> |                   | <u>10000</u> | <u>114583</u> |





WN #5 Valuation of Shares

Cost of Shares                      114583

Or

MV (10000 x 15)                      150000

Whichever is Lower                      114583

Q.33 H.w

\*Part 10\*Concept 10: Application of "FIFO" \*Imp

As per the Provisions of AS-13, Application of FIFO is not allowed for computing cost for sold Portion because **AS-13 allows weighted Average Cost Method only**. In Case, Practical question specifically requires Application of "FIFO" then we can consider it only to fulfil the requirement of question.

Explanation

Shares/ Debentures

If held by an Investor

(AS-13)

Cost: Weight Avg. Cost  
Method only

If held by a Stock Broker

(AS-2)

Cost: FIFO, W.A Method



Q.30 (12 Marks – 2010)

In the Books of Gamma Ltd.

Investment Account in 15% Debentures of Beta Ltd. (Amount in '000)

| Particular   | No  | Amt   | Int    | Part        | No  | Amt   | Int   |
|--------------|-----|-------|--------|-------------|-----|-------|-------|
| 1.4.2009     |     |       |        | 30.6.2009   |     |       |       |
| To Bal b/d   | 1   | 105   | 3.75   | By Bank     | -   | -     | 11.25 |
| (1000 x 100  |     |       |        | (1500 x 100 |     |       |       |
| x 15%        |     |       |        | x 15% x     |     |       |       |
| x 3/12)      |     |       |        | 6/12)       |     |       |       |
| 1.5.2009     |     |       |        | 1.11.2009   |     |       |       |
| To Bank      | 0.5 | 51    | 2.5    | By Bank     | 0.6 | 57.3  | 3     |
| (W.N 1)      |     |       |        | (600 x 100  |     |       |       |
| 30.11.2009   |     |       |        | x 15% x     |     |       |       |
| To Bank      | 0.4 | 38.4  | 2.5    | 4/12)       |     |       |       |
| (400 x 100 x |     |       |        | By Loss     | -   | 5.7   |       |
| 15% x 5/12)  |     |       |        | on SOI      |     |       |       |
| 31.12.2009   |     |       |        | (WN#2)      |     |       |       |
| To Profit    |     |       |        | 31.12.2009  |     |       |       |
| On SOI       | -   | 10    | -      | By Bank     | 0.4 | 52    | 3     |
| (WN #3)      |     |       |        | (WN#3)      |     |       |       |
| 31.3.2010    |     |       |        | By Bank     | -   | -     | 6.75  |
| To P&L       | -   | -     | 18.625 | (Int)       |     |       |       |
| (Bal)        |     |       |        | (900 x 100  |     |       |       |
|              |     |       |        | x 15%       |     |       |       |
|              |     |       |        | x 6/12)     |     |       |       |
|              |     |       |        | 31.3.2010   |     |       |       |
|              |     |       |        | By Accrued  |     |       |       |
|              |     |       |        | Int         | -   |       | 3.375 |
|              |     |       |        | (900 x 100  |     |       |       |
|              |     |       |        | x 15% x     |     |       |       |
|              |     |       |        | 3/12)       |     |       |       |
|              |     |       |        | By Bal c/d  | 0.9 | 89.4  |       |
|              |     |       |        | (Bal fig.)* |     |       |       |
|              | 1.9 | 204.4 | 27.38  |             | 1.9 | 204.4 | 27.38 |



W.N #1

|                                                     |               |
|-----------------------------------------------------|---------------|
| Purchase Price (No. 500)                            | 53500         |
| Interest $(500 \times 100 \times 15\% \times 4/12)$ | <u>(2500)</u> |
| COI                                                 | <u>51000</u>  |

WN #2

Calculation of P/L on SOI (1.9.2009)

|                              |                |
|------------------------------|----------------|
| Selling Price                | 57300          |
| Cost for Sold Portion (FIFO) | <u>(63000)</u> |
| $(105000/1000 \times 600)$   |                |
| Loss on SOI                  | <u>5700</u>    |

WN #3

Calculation of P/L on SOI (31.12.2009)

|                                                     |                 |
|-----------------------------------------------------|-----------------|
| Selling Price (No. 400)                             | 55,000          |
| Interest $(400 \times 100 \times 15\% \times 6/12)$ | <u>(3000)</u>   |
| NSP                                                 | 52,000          |
| Cost for Sold Portion                               | <u>(42,000)</u> |
| $(105000/1000 \times 400)$                          |                 |
| Profit                                              | <u>10,000</u>   |

\*Note: In the absence of Market Value Per Share on B/s date, we cannot show valuation of Investments.

Q.27 \*Imp (15 Marks)

In the books of Bononzaa Ltd

Investment Account in 9% Govt Loan

(Amount in '000)



| <u>Particular</u> | <u>No</u>  | <u>Amt</u> | <u>Int</u>  | <u>Particular</u> | <u>No</u>  | <u>Amt</u> | <u>Int</u>  |
|-------------------|------------|------------|-------------|-------------------|------------|------------|-------------|
| 1.4.1993          |            |            |             | 1.6.93            |            |            |             |
| To Bal b/d        | 2          | 190        | 4.5         | By Bank           | 0.6        | 56.4       | 2.25        |
| (200000 x         |            |            |             | (60000 x          |            |            |             |
| 9% x 3/12)        |            |            |             | 9% x 5/12)        |            |            |             |
| 31.5.93           |            |            |             | By Loss           | -          | 0.6        | -           |
| To Bank           | 0.8        | 73         | 3           | on SOI            |            |            |             |
| (WN#1)            |            |            |             | (WN#2)            |            |            |             |
| 1.12.93           |            |            |             | 30.6.93           |            |            |             |
| To Bank           | 0.1        | 10         | 0.375       | By Bank           |            |            |             |
| (10000 x 9%       |            |            |             | (Int)             | -          | -          | 9.9         |
| x 5/12)           |            |            |             | (2200 x 100       |            |            |             |
| 31.3.94           |            |            |             | x 9% x            |            |            |             |
| To P/L            | -          | -          | 18.525      | 6/12)             |            |            |             |
| (Bal fig.)        |            |            |             | 30.11.93          |            |            |             |
|                   |            |            |             | By Bank           | 0.4        | 37.3       | 1.5         |
|                   |            |            |             | By Loss           |            |            |             |
|                   |            |            |             | on SOI            | -          | 0.7        | -           |
|                   |            |            |             | (WN#3)            |            |            |             |
|                   |            |            |             | 31.12.93          |            |            |             |
|                   |            |            |             | By Bank           | -          | -          | 8.55        |
|                   |            |            |             | (1900 x 100       |            |            |             |
|                   |            |            |             | x 9% x 6/12)      |            |            |             |
|                   |            |            |             | 1.3.94            |            |            |             |
|                   |            |            |             | By Bank           | 0.1        | 9.5        | 0.15        |
|                   |            |            |             | (10000 x          |            |            |             |
|                   |            |            |             | 9% x 2/12)        |            |            |             |
|                   |            |            |             | 31.3.94           |            |            |             |
|                   |            |            |             | By                |            |            |             |
|                   |            |            |             | Accrued           |            |            |             |
|                   |            |            |             | Int               | -          | -          | 4.05        |
|                   |            |            |             | (1800 x 100       |            |            |             |
|                   |            |            |             | x 9% x 3/12)      |            |            |             |
|                   |            |            |             | By Bal c/d        |            |            |             |
|                   |            |            |             | (W.N #5)          | 1.8        | 168.5      | -           |
|                   | <u>2.9</u> | <u>273</u> | <u>26.4</u> |                   | <u>2.9</u> | <u>273</u> | <u>26.4</u> |



**WN #1 Calculation of COI (31.5.93)**

|                                                |               |
|------------------------------------------------|---------------|
| Purchase Price ( $80000/100 = 800 \times 95$ ) | 76000         |
| Interest ( $80000 \times 9\% \times 5/12$ )    | <u>(3000)</u> |
| COI                                            | <u>73000</u>  |

**WN #2**
**Calculation of P/L on SOI (1.6.93)**

|                                                       |                |
|-------------------------------------------------------|----------------|
| Selling Price ( $600 \times 94$ )                     | 56400          |
| Cost for Sold Portion<br>( $190000/2000 \times 600$ ) | <u>(57000)</u> |
| Loss on SOI                                           | <u>600</u>     |

**WN #3**
**Calculation of P/L on SOI (30.11.93)**

|                                                       |                 |
|-------------------------------------------------------|-----------------|
| Selling Price ( $40000/100 = 400 \times 97$ )         | 38,800          |
| Interest ( $40000 \times 9\% \times 5/12$ )           | <u>(1500)</u>   |
| NSP                                                   | 37,300          |
| Cost for Sold Portion<br>( $190000/2000 \times 400$ ) | <u>(38,000)</u> |
| Loss                                                  | <u>700</u>      |

**WN #4**
**Calculation of P/L on SOI (1.3.94)**

|                                                       |               |
|-------------------------------------------------------|---------------|
| Selling Price ( $10000/100 = 100 \times 95$ )         | 9500          |
| Cost for Sold Portion<br>( $190000/2000 \times 100$ ) | <u>(9500)</u> |
| Profit/Loss                                           | <u>Nil</u>    |

**WN #5 Valuation of Investment as on 31.3.94**

|                                           |        |
|-------------------------------------------|--------|
| Cost of Investments: (Bal. figure in A/c) | 168500 |
| OR                                        |        |



Market Value (1800 x 96) 172800

Whichever is Lower 168500

Q.25 \*Imp

In the books of Mr Chatur

Investment Account in 12% Debentures of Unnati Limited

(Amount in '000)

| Particular   | No | Amt   | Int  | Particular    | No | Amt   | Int |
|--------------|----|-------|------|---------------|----|-------|-----|
| 1.4.2014     |    |       |      | 30.6.2014     |    |       |     |
| To Bal b/d   | 4  | 392   | 12   | By Bank       | -  |       | 36  |
| (4000x100    |    |       | (A.  | (6000 x 100   |    |       |     |
| X12% x 3/12) |    |       | Int) | x12% x 6/12)  |    |       |     |
| 1.6.2014     |    |       |      | 1.9.14        |    |       |     |
| To Bank      | 2  | 234.8 | 10   | By Bank       | 3  | 317.4 | 6   |
| (WN #1)      |    |       |      | (WN #2)       |    |       |     |
| 1.9.14       |    |       |      | 1.12.14       |    |       |     |
| To Profit    |    |       |      | By Bank       | 2  | 205.8 | 10  |
| On SOI       | -  | 23.4  | -    | (WN #3)       |    |       |     |
| (WN #2)      |    |       |      | By Loss on    |    |       |     |
| 31.1.15      |    |       |      | SOI           | -  | 9.6   | -   |
| To Bank      | 3  | 306   | 3    | (WN #3)       |    |       |     |
| (WN #4)      |    |       |      | 31.12.14      |    |       |     |
| 31.3.15      |    |       |      | By Bank       | -  |       | 6   |
| To P&L       | -  | -     | 45   | (1000 x 100 x |    |       |     |
| (Bal)        |    |       |      | 12% x 6/12)   |    |       |     |
|              |    |       |      | 31.3.15       |    |       |     |
|              |    |       |      | By Accrued    |    |       |     |
|              |    |       |      | Int           | -  |       | 12  |
|              |    |       |      | (4000 x 100 x |    |       |     |
|              |    |       |      | 12% x 3/12)   |    |       |     |
|              |    |       |      | By Valuation  |    |       |     |
|              |    |       |      | Loss          | -  | 3.4   | -   |
|              |    |       |      | By Bal c/d    | 4  | 420   |     |
|              |    |       |      | (WN #5)       |    |       |     |
|              | 9  | 956.2 | 70   |               | 9  | 956.2 | 70  |





WN #1 Calculation of COI (1.6.14)

|                                    |                 |
|------------------------------------|-----------------|
| Purchase Price (2000 x 120)        | 240,000         |
| Interest (2000 x 100 x 12% x 5/12) | <u>(10,000)</u> |
|                                    | 230,000         |
| Brokerage @ 2% (240,000 x 2%)      | <u>4800</u>     |
|                                    | <u>234,800</u>  |

## WN #2

Calculation of P/L on SOI (1.9.14)

|                                               |                  |
|-----------------------------------------------|------------------|
| Selling Price (3000 x 110)                    | 330,000          |
| Interest (3000 x 100 x 12% x 2/12)            | <u>(6000)</u>    |
| NSP                                           | 324,000          |
| Brokerage @ 2% (330,000 x 2%)                 | <u>(6600)</u>    |
| NSP                                           | 317,400          |
| Cost for Sold Portion<br>(392000/4000 x 3000) | <u>(294,000)</u> |
| Profit                                        | <u>23,400</u>    |

## WN #3

Calculation of P/L on SOI (1.12.14)

|                               |                 |
|-------------------------------|-----------------|
| Selling Price (2000 x 105)    | 210,000         |
| Brokerage @ 2% (210,000 x 2%) | <u>(4200)</u>   |
| NSP                           | 205,800         |
| <u>Cost for Sold Portion</u>  |                 |
| i. (392000/4000 x 1000)       | (98000)         |
| ii. (234800/2000 x 1000)      | <u>(117400)</u> |
| Loss                          | <u>9600</u>     |

$$\text{Ex Int} = 2000 \times 100 \times 12\% \times 5/12 = 10,000$$



WN #4

Calculation of COI (31.1.15)

|                             |               |
|-----------------------------|---------------|
| Purchase Price (3000 x 100) | 300,000       |
| Brokerage @ 2%              | <u>(6000)</u> |
|                             | 306000        |

Interest =  $300000 \times 12\% \times 1/12 = 3000$ WN #5 Valuation of Investment

|                                |        |
|--------------------------------|--------|
| Cost of Investments (No. 4000) | 423400 |
| (Bal fig in Invest A/c)        |        |
| OR                             |        |
| Market Value (4000 x 105)      | 420000 |
| Whichever is Lower             | 420000 |

Decline in Value =  $423400 - 420000 = 3400$ 

Q.23 H.w



\*Part II\*

Q.32 \*V.V.Imp (12-15 Marks)

In the books of Smart Investments

Investment Account in 12% Govt. Bonds  
(Amount in '000)

| <u>Particular</u> | <u>No</u>  | <u>Amt</u>     | <u>Int</u> | <u>Particular</u> | <u>No</u>  | <u>Amt</u>     | <u>Int</u> |
|-------------------|------------|----------------|------------|-------------------|------------|----------------|------------|
| 1.4.2013          |            |                |            | 30.6.2013         |            |                |            |
| To Bal b/d        | 1.2        | 126            | 3.6        | By Bank           | -          | -              | 19.2       |
| (120000 x         |            |                |            | (3200 x 100       |            |                |            |
| 12% x 3/12)       |            |                |            | X 12% x 6/12)     |            |                |            |
| 1.5.2013          |            |                |            | 30.9.2013         |            |                |            |
| To Bank           | 2          | 192            | 8          | By Bank           | 1.5        | 157.5          | 4.5        |
| (WN #1)           |            |                |            | (150000 x 12%     |            |                |            |
| 30.9.13           |            |                |            | x 3/12)           |            |                |            |
| To Profit         |            |                |            | 31.12.2013        |            |                |            |
| On SOI            | -          | 8.437          | -          | By Bank           | -          | -              | 10.2       |
| (WN #2)           |            |                |            | (1700 x 100       |            |                |            |
| 31.3.14           |            |                |            | X 12% x 6/12)     |            |                |            |
| To P&L            | -          | -              | 27.4       | 31.3.14           |            |                |            |
| (Bal. fig)        |            |                |            | By Accrued        |            |                |            |
|                   |            |                |            | Int               | -          | -              | 5.1        |
|                   |            |                |            | (1700 x 100       |            |                |            |
|                   |            |                |            | x 12% x 3/12)     |            |                |            |
|                   |            |                |            | By Bal c/d        | 1.7        | 168.937        | -          |
|                   |            |                |            | (bal fig)         |            |                |            |
|                   | <u>3.2</u> | <u>326.437</u> | <u>39</u>  |                   | <u>3.2</u> | <u>326.437</u> | <u>39</u>  |



## Investment Account in Shares of X Ltd.

(Amount in '000)

| Particular | No         | Amt           | D          | Particular      | No         | Amt           | D          |
|------------|------------|---------------|------------|-----------------|------------|---------------|------------|
| 15.4.13    |            |               |            | 16.9.2013       |            |               |            |
| To Bank    | 5          | 1010          | -          | By Dividends    | -          | 7.5           | -          |
| (WN #3)    |            |               |            | (Pre-acq) (P.Y) |            |               |            |
| 03.06.13   |            |               |            | (5000 x 10      |            |               |            |
| To Bonus   |            |               |            | x 15%)          |            |               |            |
| Shares     | 2          | -             | -          | 15.12.13        |            |               |            |
| 5000x2/5   |            |               |            | By Bank         | 3          | 891           | -          |
| 31.8.13    |            |               |            | (WN #4)         |            |               |            |
| To Bank    | 0.8        | 200           | -          | 15.01.14        |            |               |            |
| (70000x1/7 |            |               |            | By Bank         |            |               |            |
| x80%x 250) |            |               |            | (I.D)           | -          | -             | 4.8        |
| 15.12.13   |            |               |            | (4800 x 10      |            |               |            |
| To Profit  |            |               |            | x 10%)          |            |               |            |
| on SOI     | -          | 428.5         | -          | 31.3.14         |            |               |            |
| (WN #4)    |            |               |            | By Bal c/d      | 4.8        | 740           | -          |
| 31.3.14    |            |               |            | (WN #5)         |            |               |            |
| To P&L     | -          | -             | 4.8        |                 |            |               |            |
| (Bal fig)  |            |               |            |                 |            |               |            |
|            | <u>7.8</u> | <u>1638.5</u> | <u>4.8</u> |                 | <u>7.8</u> | <u>1638.5</u> | <u>4.8</u> |

## WN #1 Calculation of Cost of Bonds acquired On 2.5.13

|                                    |                |
|------------------------------------|----------------|
| Purchase Price (2000 x 100)        | 200,000        |
| Interest (2000 x 100 x 12% x 4/12) | <u>(8,000)</u> |
| COI                                | <u>192,000</u> |

## WN #2 Calculation of P/L on Sale of Bonds (30.9.13)

|                                              |                 |
|----------------------------------------------|-----------------|
| Selling Price (1500 x 105)                   | 157,500         |
| Cost for Sold Portion                        | <u>(149063)</u> |
| $\frac{(126000 + 192000)}{3200} \times 1500$ |                 |
| Profit                                       | <u>8437</u>     |



WN #3 Calculation of COI (15.4.13)

|                             |               |
|-----------------------------|---------------|
| Purchase Price (5000 x 200) | 10,00,000     |
| Brokerage @ 1%              | <u>10,000</u> |
| COI                         | 10,10,000     |

WN#4 Calculation of Profit/Loss on SOI (15.12.13)

|                                                                                             |                 |
|---------------------------------------------------------------------------------------------|-----------------|
| Selling Price (3000 x 300)                                                                  | 900000          |
| Brokerage @ 1%                                                                              | <u>(9000)</u>   |
| NSP                                                                                         | 891000          |
| Cost for Sold Portion                                                                       | <u>(462500)</u> |
| $\left( \frac{1010000 + \text{Nil} + 200000 - 7500}{5000 + 2000 + 800} \right) \times 3000$ |                 |
| Profit on Sale                                                                              | <u>428500</u>   |

WN #5 Valuation of Shares (31.3.14)

|                                  |         |
|----------------------------------|---------|
| Cost of Shares (Bal. fig in A/c) | 740000  |
| OR                               |         |
| Market Value (4800 x 220)        | 1056000 |
| Whichever is Lower               | 740000  |

Note: In the Given case, Smart Investments has realised Rs.12000 from Sale of Rights (1000 x 20% x 60) which should be transferred to P&L A/c as an income.



## Q.26 \*Imp (Multiple Investments)

In the books of Nidhi

Investment Account in 8% Bonds

Amount in ('000)

| <u>Particular</u> | <u>No</u> | <u>Amt</u>   | <u>Int</u> | <u>Particular</u> | <u>No</u> | <u>Amt</u>   | <u>Int</u> |
|-------------------|-----------|--------------|------------|-------------------|-----------|--------------|------------|
| 1.4.2013          |           |              |            | 1.5.13            |           |              |            |
| To Bank           | 12        | 926          | 40         | By Bank           | -         | -            | 48         |
| (WN #1)           |           |              |            | (1200000 x 8%     |           |              |            |
| 1.10.13           |           |              |            | x 6/12)           |           |              |            |
| To Profit         |           |              |            | 1.10.13           |           |              |            |
| On SOI            | -         | 11.5         | -          | By Bank           | 3         | 243          | 10         |
| (WN #2)           |           |              |            | (WN #2)           |           |              |            |
| 31.13.14          |           |              |            | 1.11.13           |           |              |            |
| To P&L            | -         | -            | 117        | By Bank           | -         | -            | 54         |
| (Bal fig)         |           |              |            | (9000 x 100 x     |           |              |            |
|                   |           |              |            | 12% x 6/12)       |           |              |            |
|                   |           |              |            | 31.3.14           |           |              |            |
|                   |           |              |            | By Accrued        |           |              |            |
|                   |           |              |            | Int               | -         | -            | 45         |
|                   |           |              |            | (9000 x 100 x     |           |              |            |
|                   |           |              |            | 12% x 5/12)       |           |              |            |
|                   |           |              |            | By Bal c/d        | 9         | 694.5        | -          |
|                   |           |              |            | (Bal fig)         |           |              |            |
|                   | <u>12</u> | <u>937.5</u> | <u>157</u> |                   | <u>12</u> | <u>937.5</u> | <u>157</u> |





| Investment in Shares of X Ltd<br>(Amount in '000)   |            |             |            |                   |            |                 |              |
|-----------------------------------------------------|------------|-------------|------------|-------------------|------------|-----------------|--------------|
| <u>Particular</u>                                   | <u>No</u>  | <u>Amt</u>  | <u>Div</u> | <u>Particular</u> | <u>No</u>  | <u>Amt</u>      | <u>Div</u>   |
| 12.4.13                                             |            |             |            | 15.5.13           |            |                 |              |
| To Bank                                             | 100        | 4000        | -          | By Bank           | 125        | 2500            | -            |
| 15.5.13                                             |            |             |            | (WN #3)           |            |                 |              |
| To Bonus                                            |            |             |            | 1.12.13           |            |                 |              |
| Shares                                              | 150        | -           | -          | By Bank           |            |                 |              |
| (1000000 x 3)                                       |            |             |            | (I.D)             | -          | -               | 225          |
| 2                                                   |            |             |            | (125000 x 10      |            |                 |              |
| 15.5.13                                             |            |             |            | x 18%)            |            |                 |              |
| To Profit                                           |            |             |            | 31.3.14           |            |                 |              |
| On SOI                                              | -          | 500         | -          | By Bal c/d        | 125        | 2000            | -            |
| (WN #3)                                             |            |             |            | (Bal fig)         |            |                 |              |
| 31.3.14                                             |            |             |            |                   |            |                 |              |
| To P&L                                              |            |             |            |                   |            |                 |              |
| (Bal)                                               | -          | -           | 225        |                   |            |                 |              |
|                                                     | <u>250</u> | <u>4500</u> | <u>225</u> |                   | <u>250</u> | <u>4500</u>     | <u>225</u>   |
| WN #1 Calculation of Cost of Bonds 1.4.13           |            |             |            |                   |            |                 |              |
| Purchase Price (1200000/100 = 12000 x 80.5)         |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            | 966,000         |              |
| Interest (1200000 x 8% x 5/12)                      |            |             |            |                   |            | (40,000)        |              |
| COI                                                 |            |             |            |                   |            | <u>926,000</u>  |              |
| WN #2 Calculation of P/L on Sale of Bonds (1.10.13) |            |             |            |                   |            |                 |              |
| Selling Price (3000000/100 = 3000 x 81)             |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            | 243,000         |              |
| Cost for Sold Portion                               |            |             |            |                   |            | <u>(231500)</u> |              |
| (926000 x 3000)                                     |            |             |            |                   |            |                 |              |
| (12000                                              |            |             |            |                   |            | Profit          | <u>11500</u> |
| Ex-Int = 300000 x 8% x 5/12 = 10000                 |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            |                 |              |
|                                                     |            |             |            |                   |            |                 |              |



WN #3 Calculation of P/L on Sale of Shares (15.5)

|                                                       |                   |
|-------------------------------------------------------|-------------------|
| Selling Price (125000 x 20)                           | 25,00,000         |
| Cost for Sold Portion                                 | <u>(20000000)</u> |
| $\left( \frac{4000000}{250000} \times 125000 \right)$ |                   |
| Profit                                                | <u>500000</u>     |

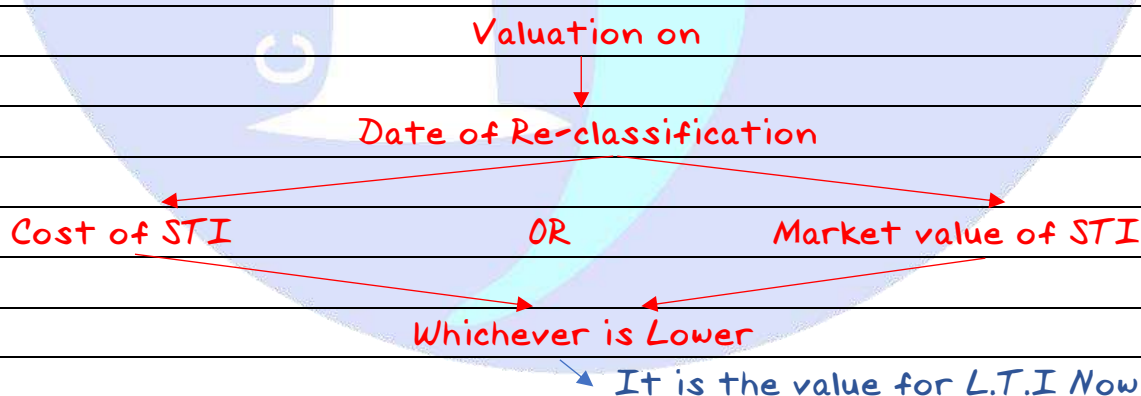
Q.31, Q.38 H.w

\*Part 12\*Concept 11: Re-classification of Investments (5 marks) \*Imp

If there is a change in classification of Investments then there may be 2 Cases as follows:-

I<sup>st</sup> Case: Short Term to Long Term

If an investor wants to Re-classify its Short Term Investment into Long Term Investment then Valuation Rule Should be Applied on the date of Re-classification date as follows :-



\*If market value becomes Less than Cost of STI on the date of Re-Classification then Decline in value shall be written off in P&L A/c.



## II<sup>nd</sup> Case: Long term to Short Term

If any Investment is re-classified from Long Term into Short Term then we will re-classify Long Term Investment into Short Term Investment directly "at Cost"

### Except

In case Long Term Investments were written off in Past due to Permanent Decline then such Re-classification will be made at "Carrying Amt/ Book Value"

(Refer Q.36 for better understanding: Discussed in class)

## Concept 12 : Investment in Gold/ Silver (if Given in question)

If Investments in Gold/ Silver are mentioned in questions then we will always consider these Investment as Long Term Investments in case Question remains silent on nature of these Investments. It means that Valuation will be done at cost only.

Note: Gold/Silver can be considered as Short Term Invest. only if Specifically Given.

Q.34 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-4 Accounting Standard 9

### Revenue Recognition

(Mandatory for all Entities **Corporate / Non-corporate** Except  
For those Entities Which are applying Ind AS- 115)

### \*Part I\*

#### Concept 1 : Meaning of Revenue

As per the Provisions of AS-9, Revenue means Gross Inflow whether It is received or Receivable. The prescribed Rules in AS-9 do not deal with Accounting Treatment of Revenues, but these Rules Explain the Appropriate time for Revenue Recognition. The following Incomes are covered under the scope of AS-9 :-

- i. Revenue from "Sale of Goods"
- ii. Revenue from "Sale of Service"
- iii. Revenue from Interest Income
- iv. Revenue from Dividend Income
- v. Revenue from Royalties

#### Concept 2 : Basic Condition for Revenue Recognition

(Common Conditions for all Revenues)

As per the provisions of AS-9, Revenues can be recognised only if Following conditions are satisfied :-

- i. The Entity Should have a reliable Estimate of Amount of Revenue.

+

- ii. It should also be certain that ultimate collection from Revenue will be completed.

Note : In case of failure of any condition as given in above, the Entity cannot record the Specified Revenue.



### Concept 3 : Explanation on "Revenue from Sales"

#### Unit I : Basic Rules

If the following conditions are satisfied then seller can recognise sale of goods:-

- i. The Ownership of goods should be transferred by seller to Buyer

Note: It means that Invoice should be raised by seller in the favour of Buyer.

+

- ii. The Effective Control on Goods should also be Transferred by Seller to Buyer.

Note: It means that seller should deliver the goods to Buyer for transferring Effective control over goods.

#### Exception to above Rule

If delivery of goods is pending at Buyer Request then It will be assumed that seller has satisfied all the conditions and Revenue from Sales can be Recognised.

#### Unit II : Specific Cases of Sales of Goods

There may be Specific type of sale in which some additional conditions may be required to be specified by the Seller before Revenue Recognition. The following Examples may be considered under Specific Sales :-

- I. Installation Sales : Revenue can be Recognised after completing Installation of Goods at customer Satisfaction.

- II. Inspection Sales: Sales can be Recognised only after Inspection Of goods gets completed before Accepting the Goods by Customer. No Sale will be recognised for goods Which are found defective at the time of Inspection.





III. Consignment Sales : Sales can be recognised only if goods are sold by consignee to 3<sup>rd</sup> Party

IV. Goods on Approval Basis : Sales can be recognised only if Customer has sent Approval on goods.

V. Warranty Sales : Sales can be recognised on the basis of Ordinary Four conditions, but An Appropriate Provision should be created for warranty Exp.

VI. Guarantee Sales : Sale can be recognised only if Guarantee Period is Expired because money can be Refunded during guarantee period.

VII. H.P Sales : HPP

```

graph TD
    HPP --> CashPrice[Cash Price]
    HPP --> InterestIncome[Interest Income]
    CashPrice --> ReferOrdinary[Refer Ordinary conditions]
    InterestIncome --> OnTimeBasis[On time Basis]
  
```

VIII. Sale of Publications, Journal : Sale can be recognised for Magazines etc Number of Publications delivered  
 \*If Amount received for Subscription is higher than Remaining amount will be shown as an advance from customer

IX. Cash on delivery Sales : Sale can be recognised after completion of Collection of cash from Customer  
 (Online Platform Sale)

#### Concept 4 : Explanation on Revenue from "Sale of Service"

As per the Provisions of AS-9, there are 2 methods for the recognition Of Revenue from Services. Any Method can be selected by the service Provider according to nature of service. If any Service provider wants to change the method of revenue Recognition after some Time of selection of Method then It will be considered as "Change in Accounting Policy". The following Explanation may be considered on methods :-





### Method I : Completed Service Method

Under this method, Revenue from Completed services during the year is only considered. If any Service is in Process at B/s date then It will be ignored completely.

### Method II : Completion Service Method

Under this method, Revenue from completed Services as well as 'Proportionate Revenue' from in complete services at B/s date According to stage of completion is recognised.

### Some Suggestions by ICAI in Following Services :-

- |                                                                     |                                                           |
|---------------------------------------------------------------------|-----------------------------------------------------------|
| I. Financial Services<br>(Income from commissions<br>Brokerage etc. | : When Services are completed by<br>underwriter or Broker |
| II. Tuition Fees                                                    | : Over the period of Instruction                          |
| III. Admission Fees<br>(Tickets for movies, shows etc)              | : When Programme or Movie is<br>completed or displayed    |
| IV. Advertising Agency Fees                                         | : When Advertisement is displayed<br>before public        |

### Concept 5 : Revenue from Interest, Dividend & Royalty

**Interest Income :** It Should be Recognised on Time Basis

(Note : Interest Income may be Received or Accrued)

**Dividend Income :** It Should be recognised only if it is Declared in AGM because It cannot be cancelled after its declaration in AGM.



Royalty : It should be recognised on the basis of Agreement between the Parties on Accrual Basis.

\*Part 2\*

Q.1

Provisions under AS-9 :

As per the rules, Sales can be recognised only if the following conditions Have been satisfied :-

- i. The Entity Should have a reliable Estimate of Revenue
- ii. There should be no Uncertainty in relation to collection of Revenue
- iii. The ownership of Goods should be transferred by seller to Buyer by raising an invoice.
- iv. The Effective control over the goods should also be transferred by Seller to Buyer by Completion of Physical delivery of Goods

Exception :-

If any delivery of goods remains pending at Buyer request then It will be assumed that Seller has transferred control over goods to Buyer.

Analysis of Given Situation :-

In the Given Case, delivery of goods has been Postponed at Buyer's Request which is an Exception for Revenue Recognition under AS-9. It can also be said that there is no default in any condition from Seller Point of View.

Conclusion :

On the basis of Given information in the above Paras, we can say that the Seller should recognise Sales of ₹59400 instead of taking it in Closing stock.



Q.2

Provisions in AS-9

As per the Provisions of AS-9, the following two basic conditions are required to be satisfied before making any type of Revenue Recognition:

- i. The Entity should have a reliable Estimate of the revenue
- ii. There Should be no Uncertainty in relation to collection of Revenue.
- iii. The Recognition of Dividend Income Should be made only after the company has made its declaration in AGM **because condition I and condition II can be situated only after declaration of Dividend in AGM.**

Analysis of Given Situation:

In the Given case, Bank has considered income from Dividends on Accrual Basis which is completely wrong **because Dividend Income cannot be Estimated until it is declared in AGM.**

Conclusion :

On the basis of above discussion, It can be said that Bank should Recognise income from Dividends on shares and mutual funds in next Financial Year instead of considering it in current year.

Q.3, Q.7, Q.8, Q.9, Q.10, Q.11, Q.13 , Q.14, Q.15, Q.16, Q.17 (Discussed in Class)

**\*Part 3\***

Q.5 , Q.6 \*Imp (Discussed in Class)

Extra Questions for Self Study

Q.10 \*Imp, Q.9, Q.8, Q.7, Q.1 \*Imp (Discussed in Class)

Homework- Q.5, Q.4, Q.3, Q.2



\*Part 4\*

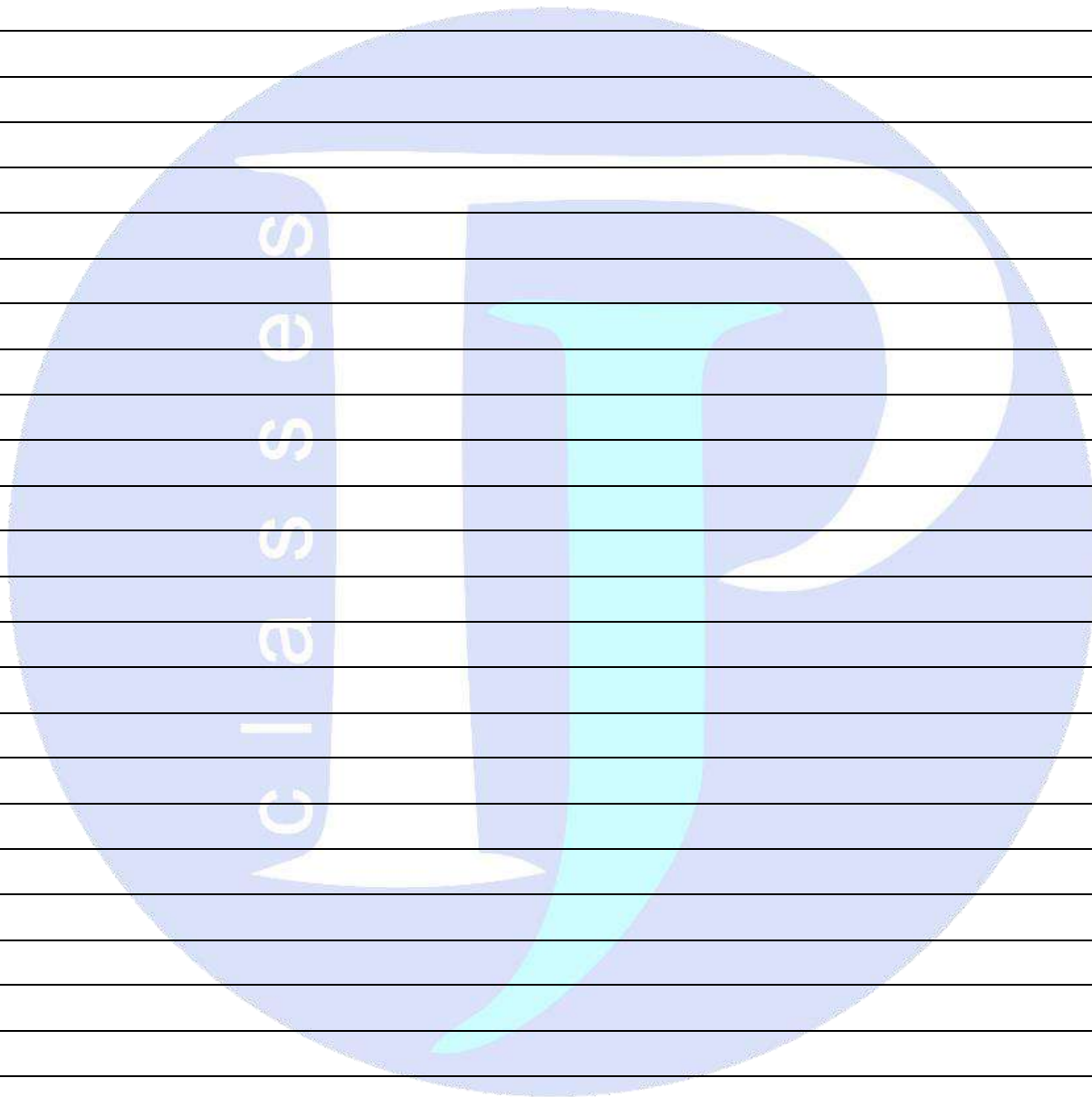
Study Material

Illustration 1, 3, 2,

Example 7

Q.8 (Test your knowledge)

Discussed in Class



Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter- 5 Accounting Standard // Foreign Exchange Transactions

### \*Part I\*

Coverage of AS-11  
(What to be studied)

|                  |                         |                   |            |
|------------------|-------------------------|-------------------|------------|
| ↓                | ↓                       | ↓                 | ↓          |
| Unit 1           | Unit 2 :                | Unit 3 :          | Unit 4 :   |
| Foreign currency | Foreign                 | Forward           | Foreign    |
| Transaction      | Currency Loans          | Contracts         | operations |
| (Import/Export)  | Short Term/Long<br>Term | (Hedge Contracts) |            |

### Unit I : Foreign currency Transactions (Import/Export)

#### \* Imp Concept 1 : Important Definitions

Meaning of Exchange Rate :- As per the Provisions of AS-11, An Exchange Rate is the rate at which one unit of foreign currency can be Converted into Indian currency. It means that we will check / USD, / Pound, / Euro etc. at the time of conversion from foreign currency into Indian Currency.

Further, we can classify An Exchange Rate under the following 4 headings:

- i. Opening Exchange Rate
- ii. Closing Exchange Rate
- iii. Actual Exchange Rate
- iv. Average Exchange Rate



**Opening Exchange Rate :** It Prevails in the beginning of year

[ Financial year : Rate on 1.4]

[ Calendar year : Rate on 1.1]

**Closing Exchange Rate :** It Prevails at the end of year

[ F.Y. : Rate on 31.3]

[ C.Y. : Rate on 31.12]

**Actual Exchange Rate/ :** It Prevails on the date of Transaction

**Spot Rate/** It means that we are Discussing about

**Transaction Rate** " Daily Rate" because Transaction can take Place on any date

**Average Exchange Rate :** It Prevails during the period on an average basis

$$\text{Yearly Avg.} \leftarrow \left( \begin{array}{l} \text{Avg.} = \frac{\text{Total of 365 Rate}}{\text{Rate} \quad 365 \text{ days}} \end{array} \right)$$

**2 Meaning of Monetary Item :** As per the Provisions of AS-11, Monetary Items are the Assets and Liabilities in Foreign currency which are Fixed From the Point of view of Collection & Payment. The Following Items may Be covered under this heading :-

- i. F.c. Debtors
- ii. F.c. Creditors
- iii. F.c. Loans ( Short Term/ Long Term)
- iv. F.c. Bank Balance
- v. Foreign Currency Notes
- vi. P.S. Capital in F.c. [ foreign operation ]
- vii. O/s expenses or Prepaid Exp. in Foreign currency etc.

**3 Meaning of Non-Monetary Items :-** As per the Provisions of AS-11, Non-Monetary Items are the Assets or Liabilities in foreign currency which are not Fixed from the Point of view of Receivable Or Payable (Collection or Payment).





The Following Items may be covered under this heading:-

i. PPE in Foreign countries

[ Price cannot be Fixed until these are Sold ]

ii. Investment in Shares of foreign Company

[ Price cannot be Fixed until investment are Sold ]

iii. Inventories in foreign country/ Imported Goods

[ Price can be Fixed only after Sale of Goods ]

iv. E.S. Capital [ Irredeemable nature] etc.

\*Part 2\*

\*V.V. Imp

Concept 2 : Accounting for Import/ Export of Goods/ Services

Cases

Case 1 : Settlement in  
Same year

Case 2 : Settlement in  
Next year

Explanation on Case 1

Settlement in Same year

E.g. i. Nature of Transaction : Export

ii. Date of Export : 27<sup>th</sup> July 2023

iii. Date of Collection : 27<sup>th</sup> Aug 2023

iv. Exchange Rates : 27.7.23 = 88

27.8.23 = 87.50

v. Transaction value : 10,000 USD

Pass Journal Entries assuming C.Y (2023-24 ).



## Solution

## Journal

27.7.2023 "Foreign currency" Debtors Dr 8,80,000  
 To "Foreign currency" Sales 8,80,000  
 (Being Goods Exported worth 10,000 USD @ 88 Per USD)

27.8.2023 Bank a/c Dr 8,75,000 (10,000 x 87.50)  
 Exchange Loss a/c Dr 5000 [(88-87.5) x 10000]  
 To "Foreign currency" Debtors 8,80,000  
 (Being Collection of 10,000 USD made @ 87.50 Per USD)

27.8.2023 Profit & Loss a/c Dr 5000  
 To Exchange Loss 5000  
 (Being Exchange Loss Written off)

## Example :

With the help of Given information in Previous Example, Pass Journal Entry for Settlement assuming 1 USD = 88.80 on 27<sup>th</sup> Aug 2023.

27.8.2023 Bank a/c Dr 8,88,000 (10,000 x 88.80)  
 To "Foreign currency" Debtors 8,80,000  
 To Exchange Gain 8000 [(88.8 - 88) x 10000]  
 (Being Collection of 10,000 USD made @ 88.80 Per USD)

27.8.2023 Exchange Gain a/c Dr 8000  
 To P&L a/c 8000  
 (Being Gain Credited to P&L)

## E.g. i. Nature of Transaction : Import

ii. Date of Import : 27.2.24

iii. Date of Payment : 22.3.24

iv. Exchange Rates : 27.2 = 82

22.3 = 83

v. Transaction value : 10,000 USD



Pass Journal Entries for Purchase of Goods & Payment to Supplier  
Assuming year Ending on 31.3.24.

Solution

Journal Entry

Trading A/c

27.2.2024 "Foreign currency" Purchase a/c Dr 82,000  
To "Foreign currency" Creditors 82,000  
(Being Goods imported worth 1000 USD @ 82 Per USD)

22.3.2024 "Foreign currency" Creditors a/c Dr 82,000  
Exchange Loss a/c Dr 1000 [(83-82) x 1000]  
To Bank 83000 (1000 x 83)  
(Being Payment of 1000 USD made @83 Per USD)

22.3.2024 Profit & Loss a/c Dr 1000  
To Exchange Loss 1000  
(Being Exchange Loss Written off)

Example :

With the help of Given information in Previous Example, Show the  
Journal Entry for Payment to creditors assuming 1 USD @ 81.50 on  
22.3.24.

Solution

22.3.24 "Foreign currency" Creditors a/c Dr 82,000  
To Bank 81500 (1000 x 81.5)  
To Exchange Gain (Bal. fig) 500  
(Being Payment made for 1000 USD @81.50)

22.3.24 Exchange Gain a/c Dr 500  
To P&L a/c 500  
(Being exchange Gain Credited to P&L)



Notes on Concept

Export      Import



Step I : Pass Journal Entries for Sale/ Purchase on "Actual Rate/ Spot Rate" Which Prevails on the date of Import/ Export.

Step II : Pass Journal Entries for Collection from F.C Debtors/ Payment to F.C Creditors on "Actual Rate/ Spot rate" which Prevails on the date of Collection from Debtors or Payment to Creditors.

Valuation of M. Items on B/s date

Note: The Difference in values, which are Specified in Step I and Step II as in above, shall be considered as Exchange fluctuations and It will be transferred to P&L A/c.

\*Part 3\*Explanation on II<sup>nd</sup> CaseSettlement in Next year

Step I : Initial Recognition (Import/ Export) should be made at Actual Rate which Prevails on the date of Import or Export.

Step II : At B/s date, monetary Items (F.C Debtors/ F.C Creditors) should be reported at Closing rate for True & Fair Presentation.

Valuation of  
All Items on  
B/s date

→ Always at closing Rate

[Note: Difference between Step I & Step II shall be considered as an Exchange Gain or Exchange Loss on B/s date and It will be transferred to P&L A/c on B/s date.]

\*Imp Step III: On Settlement date, We will consider the collection from Debtors or Payment to Supplier at Actual Rate which Prevails on the date Collection & Payment.



[Note: The Difference between Step II & Step III will be taken as Exchange fluctuations Pertaining to the Period in which settlement has taken place.]

### Special Note on Valuation of Non-Monetary Items on B/s date

(For knowledge Purpose only)

As per the Provisions of AS-11, Valuation of Non-monetary Items on B/s date is never made at closing rate, but the Items shall be disclosed at their Acquisition Rate which was Prevailing at the time of initial Recognition.

E.g. i. Nature of Transaction : Export

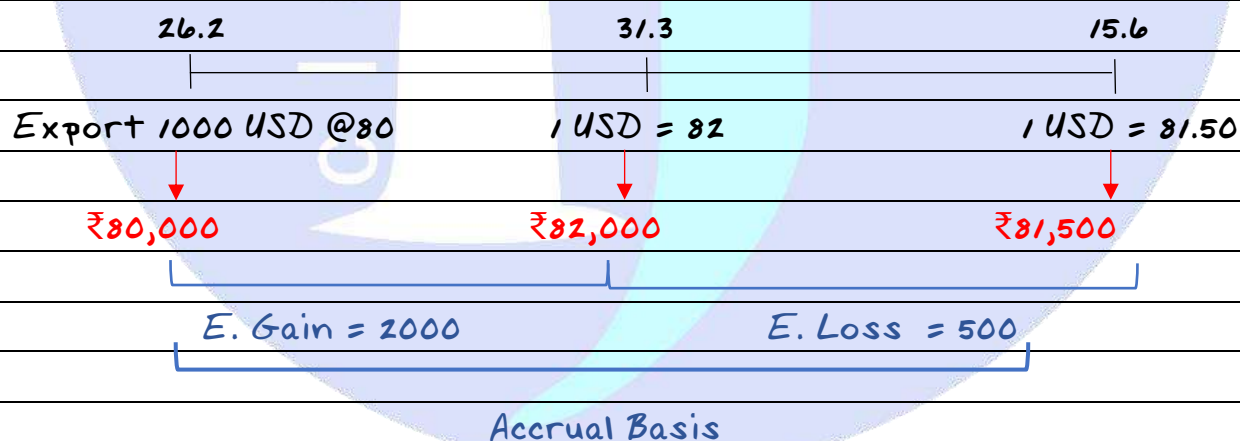
ii. Date of Export : 26.2.24 (1 \$ = 80)

iii. Date of Collection : 15.6.24 (1 \$ = 81.5)

iv. Transaction value : 1,000 USD

Pass Journal Entries relating to Given Transaction assuming B/s Date is 31.3.24 (1 \$ = 82).

Solution



Journal Entries

26.2.2024 " Foreign currency " Debtors Dr 80,000  
 To " Foreign currency " Sales 80,000  
 ( Being Goods Exported worth 1,000 USD @ 80 Per USD)





31.3.24 Foreign currency Debtors Dr 2,000 [  $(82-80) \times 1000$  ]  
 To E. Gain 2,000  
 ( Being monetary items valued at closing Rate on B/s date )

31.3.24 E. Gain a/c Dr 2,000  
 To P&L 2,000  
 ( Being E. Gain credited in P&L )

15.6.24 Bank a/c Dr 81,500 (  $1000 \times 81.5$  )  
 E. Gain a/c Dr 500 ( Bal. fig )  
 To F.c. Debtors 82,000  
 ( Being Settlement made )

15.6.24 P&L A/c Dr 500  
 To Exchange loss 500  
 ( Being E. Loss debited in P&L A/c )

E.g. With the help of given information in Previous Example, Pass Journal Entries assuming the Nature of Transaction is Import of Goods.

**Solution**

### Journal Entries

i. 26.2 Foreign currency Purchases Dr 80,000=  
 To foreign currency creditors 80,000=  
 ( Being Import of Goods made worth 1000 USD @ 80 Per USD )

ii. 31.3 Exchange loss a/c Dr 2000 [  $(82-80) \times 1000$  ]  
 To F.c creditors 2000  
 ( Being valuation of monetary items made at closing Rate on B/s date )

iii. 31.3 P&L a/c Dr 2,000  
 To E. Loss 2,000  
 ( Being E. Loss Debited in P&L A/c )





iv. 15.6 F.c Creditors Dr 82,000  
                     To Bank 81500 ( 1000x 81.5 )  
                     To E. Gain 500 ( Bal. fig )  
                     ( Being Settlement made )

v. 15.6 E. Gain a/c Dr 500  
                     To P&L A/c 500  
                     ( Being Gain credited in P&L A/c )

Q.1

As per the Provisions of AS-11, Exchange fluctuations in the Transaction of Import/ Export shall be transferred to P&L A/c at B/s that date and Settlement date. In the Given case, the Chief Accountant has adjusted the Exchange fluctuations to the cost of Raw materials which is completely wrong. So, the treatment is not Justifiable which has been done in Books of A/c's. The following calculations may be Preferred while Computing Gain/ Loss :-

Calculation of Exchange fluctuation at B/S date

Value of monetary Item at B/S date                      ₹. 5,40,000  
                     ( 10,000\$ x 54 )      ( 31.3.x/1 )

Initial Recognition of M .Item on 1.1.x/                      ₹. 5,50,000  
                     ( 10,000\$ x 55 )

Decrease in Creditors/                      ₹. 10,000  
                     E. Gain

Calculation of Exchange fluctuation at Settlement date

Payment to be made on 7.7.x/                      ₹. 5,30,000  
                     ( 10,000 USD x 53 )

Balance meet value on 31.3.x/                      ₹. 54,0000  
                     Decrease in Creditors/ E. Gain                      ₹. 10,000



Note : In the above Calculations, there is a gain of ₹ 10,000 in f .y ending on 31.3.x1 and a gain of ₹. 10,000 in f .y ending on 31.3.x2 these Gains shall be transferred in P&L in Respective Periods.

**Q.2, Q.3 H.W**

**\*Part 4\***

Solution

Calculation of Exchange fluctuations on Import of Goods

|                                                                                                               |                 |
|---------------------------------------------------------------------------------------------------------------|-----------------|
| Actual payment to F. c. creditors on<br>31.3.2010<br>( USD 6,00,000x 47.10 )                                  | 2,82,60,000     |
| Payable value of f. c. creditors at the time<br>time of Import of Goods ( 15.8.2009 )<br>( USD 6,00,000x 46 ) | ( 2,76,00,000 ) |
| Exchange Loss due to<br>Increase in creditors                                                                 | <u>6,60,000</u> |

Note : i. The Amount of Exchange Loss will be written off in P&L A/c as an Expense.

ii. In the Given question, It is mentioned that the Purchased Goods ( in USD ) are still lying in Stock at year End, but Stock is a non monetary Item and It cannot be Converted into Closing Rate on B/S date. It will be disclosed in B/S at its Acquisition Rate of ₹. 2,76,00,000.



Q.11 \*VV Imp (6-8 Marks)

In the books of AD SoftexForeign currency creditors A/c(ACS INC.)

| Particulars        | ₹.                 | Particulars           | ₹.                 |
|--------------------|--------------------|-----------------------|--------------------|
| 12.9.2009          |                    | 12.8.2009             |                    |
| To Bank            | 54,75,000          | By F.c. Purchases A/c | 2,19,50,000        |
| (125000 USDx43.80) |                    | (5,00,000 USDx43.90)  |                    |
|                    |                    |                       |                    |
| To E. Gain A/c     | 12,500             | 12.10.2009            |                    |
| (12,50,00 USDx.10) |                    | By Exchange Loss      | 87,500             |
|                    |                    | (125000 USDx.70)      |                    |
| 12.10.2009         |                    |                       |                    |
| To Bank            | 55,75,000          | 12.11.2009            |                    |
| (125000 USDx44.60) |                    | By Exchange loss      | 12,50,000          |
|                    |                    | (125000 USDx1)        |                    |
| 12.11.2009         |                    |                       |                    |
| To Bank            | 56,12,500          | 12.12.2009            |                    |
| (125000 USDx44.9)  |                    | By Exchange Loss      | 2,12,500           |
|                    |                    | (125000 USDx1.70)     |                    |
| 12.12.2009         |                    |                       |                    |
| To Bank            | 57,00,000          |                       |                    |
| (125000 USDx45.60) |                    |                       |                    |
|                    |                    |                       |                    |
|                    | <u>2,23,75,000</u> |                       | <u>2,23,75,000</u> |

Calculation of Exchange Gain/ Loss (Net)

|                       |                      |
|-----------------------|----------------------|
| E. Gain on 12.9.2009  | 12,500 Cr            |
| E. Loss on 12.10.2009 | 87,500 Dr            |
| E. Loss on 12.11.2009 | 125000 Dr            |
| E. Loss on 12.12.2009 | <u>212500</u> Dr     |
|                       | Net <u>412500</u> Dr |
|                       | Loss                 |



Note : There is a net Exchange Loss of ₹. 4/250 and It Should be Debited in P&L A/c as an Expense.

Q.14 (i) Calculation of Transaction value in USD

Export value in Indian currency ₹. 9,00,000

Rate per USD on the date of Export ₹. 72

Transaction Value in USD = ₹.  $\frac{900000}{72} = 12500$  USD

Calculation of Exchange fluctuation on B/S date

( Reporting of Monetary Items )

Value of F. c. Debtors in ₹. on B/S date ₹ 9,18,750  
@ Closing Rate  
( 12500 USD x 73.50 )

Value of F. c. Debtors at the time of Initial Recognition ₹ 9,00,000  
Exchange Gain due to increase in Value of Debtors ₹ 18,750

Q.15 → H.W.

Note : We have Converted F. c. Debtors on B/S date at Closing Rate because Reporting of Monetary Items is mandatory at closing rate on B/S date.

Q.16

Solution : Calculation of Exchange fluctuation on B/S date

Value of monetary Items on B/S date (31.3.x1) 11,10,000  
( 15,000 USD x 74 )

F. c. creditors at the time of Initial Recog.(1.1.x1) 11,25,000  
( 15,000 USD x 75 )

E. Gain due to decrease in creditors 15,000



Calculation of Exchange fluctuations  
on Settlement date

Payment made to creditors on 7.7.x/ ₹ 10,95,000  
( 15000 USDx73 )

B/S value in creditors A/c ₹. 11,10,000

Exchange gain due to  
Decrease in creditors at ₹. 15,000  
the time of payment

Unit 2 : Foreign currency Loans [ Para 46 A ]



**Note :** The Explanation on F. C. is still valid as per Para 46 A which was added by MCA in AS-11 without any deadline of time, but Para 46 does not Exist because It can not be applied beyond 31.3.20. Both para have some Explanation.



### Case 1 : Accounting for Short Term Borrowings

As per the Provision of AS-11, The following Steps should be applied while making Accounting Entries for STB :-

#### Step 1 : Initial Recognition

Initial Recognition for Short Term Loans will be made at Actual Rate which Prevails on the date of Borrowings

Journal : Bank a/c Dr xxxx —————> Actual Rate on date of Loans  
To Short Term Borrowing xxxx  
( Being Loans taken )

#### Step 2 : B/S date

The Entity should report the o/s Balance in S.T. Loan A/c at Closing Rate because It's a monetary Item. The Difference between Actual Rate ( Step 1 ) and closing Rate ( Step 2 ) Shall be considered as an Exchange difference.

| <u>Exchange Loss</u>        |  |
|-----------------------------|--|
| i. E. Loss Dr    xxxx (1-2) |  |
| To STB            xxxx      |  |
| ii. P&L Dr    xxxx          |  |
| To E. Loss    xxxx          |  |

| <u>Exchange Gain</u>           |  |
|--------------------------------|--|
| i. STB a/c    Dr    xxxx       |  |
| To E. gain            xxxx     |  |
| ii. E. Gain a/c    Dr    xxxx  |  |
| To P&L                    xxxx |  |

#### Step 3 : Settlement Date

At the time of Actual payment, Difference between Payment Rate & B/s Rate shall be considered as an Exchange fluctuation and It will also be transferred to P&L A/c.





Journal :

|              |    |                  |                |
|--------------|----|------------------|----------------|
| STB a/c      | Dr | xxxx (B/s value) | If payment     |
| Ex. Loss a/c | Dr | xxxx (Bal fig)   | Exceeds = Loss |
| To Bank      |    | xxxx (Actual)    | B/s or         |
| To E. Gain   |    | xxxx (Bal fig)   | Vice versa     |

(Being Settlement made)

If Payment Exceeds B/s = Loss or Vice versa

\*Part 5\*

## Q.4 \*Imp

(a) (i) Calculation of Borrowings on Different Given Dates

1.1.2013 Borrowings = USD 500,000 x 54 = ₹270,00,000

31.3.2013 Borrowings = USD 500,000 x 54.50 = ₹272,50,000

30.6.2013 Borrowings = USD 500,000 x 54.75 = ₹273,75,000

(ii) Journal Entries

1.1.2013 Bank a/c Dr 270,00,000

To F.C Loans (STB) 270,00,000

(Being Loans taken of 500,000 USD for Short Term Period @54 Per USD)

31.3.2013 Exchange Loss a/c Dr 250,000

To F.C Loans 250,000

(Being Monetary Items reported on B/s date at Closing Rate)

31.3.2013 P&amp;L A/c Dr 250,000

To Exchange Loss 250,000

(Being E. Losses written off)

30.6.2013 F.C Loss a/c Dr 272,50,000 (54.50)

Ex. Loss a/c Dr 125,000 (Bal fig)

To Bank 273,75,000 (54.75)

(Being settlement made for Loans)



(b) Journal EntryAssuming settlement Date is 28.2.2013

28.2.13 F.C Loans a/c Dr 270,00,000  
 Ex. Loss a/c Dr 100,000 (Bal fig)  
 To Bank 271,00,000 (500,000 USD x 54.2)  
 (Being Settlement made)

28.2.13 P&L a/c Dr 100,000  
 To E. Loss 100,000  
 (Being E. Losses written off)

Q.10 H.w

Q.17 \*Imp

Calculation of Exchange fluctuations on F.C Loans on B/s date (31.3.x1)

|                                                             |                    |
|-------------------------------------------------------------|--------------------|
| F.C Loans at Closing rate on B/s date<br>(450,000 USD x 49) | ₹220,50,000        |
| F.C Loans at Initial Recognition<br>(450,000 USD x 48)      | <u>₹216,00,000</u> |
| Increase in Liability on B/s date<br>(Exchange Loss)        | <u>₹450,000</u>    |

Calculation of Exchange fluctuations on settlement Date (31.7.x1)

|                                                                 |                    |
|-----------------------------------------------------------------|--------------------|
| F.C Loans on Settlement date (31.7.x1)<br>(450,000 USD x 49.50) | ₹222,75,000        |
| F.C Loans on B/s date (31.3.x1)                                 | <u>₹220,50,000</u> |
| Exchange Loss<br>(At the time of Settlement)                    | <u>₹225,000</u>    |



**\*VVImp**

## II<sup>nd</sup> Case: Accounting Treatment in Case of Long Term Foreign Currency Loss

As per the Provisions of AS-11, Foreign Currency Exchange fluctuations in Long Term Borrowings at each B/s date or at settlement date "shall be" transferred to a Separate A/c in the name of "FCMITD A/c" Foreign Currency Monetary Items Translation Difference A/c. The Following Points should be considered in relation to FCMITD A/c. :-

**\*Imp for Questions**

i) The Balance in FCMITD A/c will be amortised in P&L A/c over the remaining Period for Repayment of LTB.

➤ **Knowledge Purpose**

ii) The Unamortised Balance (Still o/s Balance) in FCMITD A/c shall be reported in B/s under the heading of "Reserves" in Equity & Liabilities Side.

### Example

i.) F.C Loans : \$10,000 (1.4.2023)

ii) Repayment after 5 years (31.3.2028)

iii) Exchange Rates : (Per USD)

|         |       |
|---------|-------|
| 1.4.23  | 60    |
| 31.3.24 | 61.50 |
| 31.3.25 | 62    |
| 31.3.26 | 61    |
| 31.3.27 | 62    |
| 31.3.28 | 65    |

Prepare F.C Loans A/c and FCMITD A/c for 5 years under the Guidance Of Para 46A.

### Solution



|                        |                |                           |                |
|------------------------|----------------|---------------------------|----------------|
|                        |                | By E. Loss                | 15000          |
|                        |                | $(61.5-60) \times 10000$  |                |
| .25                    |                | 1.4.24                    |                |
| Bal c/d                | 620,000        | By Bal b/d                | 615000         |
|                        |                | 31.3.25                   |                |
|                        |                | By E. Loss                | 5000           |
|                        |                | $(62-61.50) \times 10000$ |                |
| .26                    |                | 1.4.25                    |                |
| E. gain                | 10,000         | By Bal b/d                | 620,000        |
| $(62-61) \times 10000$ |                |                           |                |
| Bal c/d                | <u>610,000</u> |                           | <u>610,000</u> |
|                        |                | 1.4.26                    |                |
|                        |                | By Bal b/d                | 610,000        |
| .27                    |                | 31.3.27                   |                |
| Bal c/d                | <u>620,000</u> | By E. Loss                | 10,000         |
|                        |                | $(62-61) \times 10000$    |                |
|                        |                | 1.4.27                    |                |
|                        |                | By Bal b/d                | 620,000        |
| .28                    |                | 31.3.28                   |                |
| Bank                   | 650,000        | By E. Loss                | 30,000         |
|                        |                | $(65-62) \times 10,000$   |                |



| FCMITD A/c     |               |                      |               |
|----------------|---------------|----------------------|---------------|
| Particular     | ₹.            | Particular           | ₹.            |
| 31.3.24        |               | 31.3.24              |               |
| To E. Loss A/c | 15,000        | By P&L A/c           | <u>15000</u>  |
|                |               |                      | 5             |
|                |               | By Bal c/d           | <u>12,000</u> |
| 1.4.24         |               |                      |               |
| To Bal b/d     | 12,000        | 31.3.25              |               |
|                |               | By P&L               | <u>17000</u>  |
|                |               |                      | 4             |
| 31.3.25        |               |                      |               |
| To E. Loss A/c | 5,000         | By Bal c/d           | <u>12,750</u> |
|                |               |                      |               |
| 1.4.25         |               | 31.3.26              |               |
| To Bal b/d     | 12,750        | By E. Gain A/c       | 10,000        |
|                |               | By P&L               | <u>2750</u>   |
|                |               |                      | 3             |
|                |               | By Bal c/d           | 1833          |
|                |               |                      |               |
| 1.4.26         |               | 31.3.27              |               |
| To Bal b/d     | 1833          | By P&L A/c (11833/2) | 5917          |
|                |               | By Bal c/d           | <u>5916</u>   |
| 31.3.27        |               |                      |               |
| To E. Loss A/c | <u>10,000</u> |                      |               |
|                |               |                      |               |
| 1.4.27         |               | 31.3.28              |               |
| To Bal b/d     | 5916          | By P&L               | 35916         |
|                |               |                      |               |
| 31.3.28        |               |                      |               |
| To E. Loss     | <u>30,000</u> |                      |               |
|                |               |                      |               |
|                |               |                      |               |
|                |               |                      |               |



Example:

With the help of Given information in above Example, Prepare Loan A/c And FCMITD A/c assuming the loan is repayable in 5 equal annual Investments.

Solution

F. c. Loan A/c

| Particular              | ₹.       | Particular               | ₹.       |
|-------------------------|----------|--------------------------|----------|
| 31.3.24                 |          | 1.4.23                   |          |
| To Bank (2000x61.50)    | 1,23,000 | By Bank (10,000x60)      | 6,00,000 |
|                         |          | 31.3.24                  |          |
| To Bal c/d (8000x61.5)  | 492000   | By Ex. Loss              | 15000    |
|                         |          | [(61.5-60)x10,000]       |          |
| 31.3.25                 |          | 1.4.24                   |          |
| To Bank (2000 x 62)     | 124,000  | By Bal b/d (8000 x 61.5) | 492,000  |
| To Bal. c/d (6000 x 62) | 372000   | 31.3.25                  |          |
|                         |          | By E. Loss               | 4000     |
| 31.3.26                 |          | [(62-61.5)x8,000]        |          |
| To Ex. Gain             | 6000     | 1.4.25                   |          |
| [(61-62)x6,000]         |          | By Bal b/d (6000 x 62)   | 372,000  |
| To Bank                 | 122,000  |                          |          |
| (2000 x 61)             |          |                          |          |
| To Bal c/d              | 244,000  |                          |          |
| (4000 x 61)             |          | 1.4.26                   |          |
|                         |          | By Bal b/d (4000 x 61)   | 244,000  |
| 31.3.27                 |          | 31.3.27                  |          |
| To Bank                 | 124,000  | By E. Loss               | 4000     |
| (2000 x 62)             |          | [(62-61)x4,000]          |          |
| To Bal c/d              | 124,000  |                          |          |
| (2000 x 62)             |          | 1.4.27                   |          |
|                         |          | By Bal b/d (2000 x 62)   | 124,000  |
| 31.3.28                 |          | 31.3.28                  |          |
| To Bank                 | 130,000  | By Ex. Loss              | 6000     |
|                         |          | [(65-62)x2,000]          |          |





| FCMITD A/c     |             |                     |               |
|----------------|-------------|---------------------|---------------|
| Particular     | ₹.          | Particular          | ₹.            |
| 31.3.24        |             | 31.3.24             |               |
| To E. Loss A/c | 15,000      | By P&L A/c          | <u>15000</u>  |
|                |             |                     | 5             |
|                |             | By Bal c/d          | <u>12,000</u> |
| 1.4.24         |             |                     |               |
| To Bal b/d     | 12,000      | 31.3.24             |               |
|                |             | By P&L              | <u>16000</u>  |
|                |             |                     | 4             |
| 31.3.25        |             |                     |               |
| To E. Loss A/c | 4,000       |                     |               |
|                |             | By Bal c/d          | <u>12,000</u> |
|                |             |                     |               |
| 1.4.25         |             | 31.3.26             |               |
| To Bal b/d     | 12,000      | By E. Gain A/c      | 6,000         |
|                |             |                     |               |
|                |             | By P&L              | <u>6000</u>   |
|                |             |                     | 3             |
|                |             | By Bal c/d          | 4000          |
| 1.4.26         |             | 31.3.27             |               |
| To Bal b/d     | 4000        | By P&L A/c (8000/2) | 4000          |
| 31.3.27        |             |                     |               |
| To E. Loss A/c | <u>4000</u> | By Bal c/d          | <u>4000</u>   |
|                |             |                     |               |
| 1.4.27         |             |                     |               |
| To Bal b/d     | 4000        | By P&L              | 10000         |
| 31.3.28        |             |                     |               |
| To E. Loss     | 6000        |                     |               |
|                |             |                     |               |
|                |             |                     |               |
|                |             |                     |               |
|                |             |                     |               |
|                |             |                     |               |
|                |             |                     |               |



\*Part 6\*Case III: Foreign Currency Loans taken for Assets

PPE

I. Assets

Q.A (AS-16)

As per the Provisions of AS-11, Exchange fluctuations on Loans taken for Assets shall be capitalised to the cost of related Assets instead of transferring it to P&L A/c or FCMITDA. It can also be said that Cost of related Assets can be increased or decreased due to capitalisation of Exchange Fluctuations. The following Journal Entries can be Passed for Capitalisation of Exchange fluctuations:-

| <u>Exchange Loss</u>                                                    | <u>Exchange Gain</u>                                                          |
|-------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| i.) Exchange Loss a/c Dr xxxx<br>To F.C Loans                      xxxx | i.) F.C Loans a/c Dr xxxx<br>To Exchange Gain              xxxx               |
| (Being reporting of Loans made at closing rate on B/s date)             | (Being reporting of Loans made at closing rate on B/s date)                   |
| ii.) Assets a/c Dr xxxx<br>To Exchange Loss              xxxx           | ii.) Exchange Gain a/c Dr xxxx<br>To Assets                              xxxx |
| (Being Losses capitalised)                                              | (Being Gain adjusted in Assets A/c)                                           |

PPE

(I.A.)

Note : We will Compute Depreciation/ Amortisation only after adjusting Exchange Fluctuations in the Cost of Assets.

Example:

i.) Loan taken for P&amp;M : \$ 20,000

ii.) Loan is Repayable in 2 equal Annual Instalment

iii.) Life of P&amp;M : 5 years

iv.) Exchange Rates :

a) Date of acquisition of P&amp;M : 75/-

b) I<sup>st</sup> Balance Sheet date : 77c) II<sup>nd</sup> Balance Sheet date : 76

Assume Instalment has been paid on B/s date. Prepare F.C Loan A/c and P&M A/c. Interest on Loan is 10% P.a and It is also Paid on B/s date with Instalment.



## Solution

## F.C Loan A/c

| Particular               | ₹       | Particular       | ₹         |
|--------------------------|---------|------------------|-----------|
| To Bank (10,000x77)      | 770,000 | By P&M A/c       | 15,00,000 |
|                          |         | (20000 USD x 75) |           |
| To Bal c/d (10000 x 77)  | 770,000 | By Ex. Loss A/c  | 40,000    |
|                          |         | [(77-75)x20,000] |           |
| To Ex. Gain              | 10,000  | By Bal b/d       | 770,000   |
| [(76-77)x10000]          |         |                  |           |
| To Bank A/c (10000 x 76) | 760,000 |                  |           |

Note: There will be no impact on Exchange fluctuations in Loan A/c if we show Interest & its Payment in Loan A/c. So it is the Choice of student that these Entries can be shown or can be ignored.

## P&amp;M A/c

| To F.C Loans A/c     | 600,000 | By Depreciation  | 128,000 |
|----------------------|---------|------------------|---------|
|                      |         | (640,000 / 5)    |         |
| To Exchange Loss A/c | 40,000  | By Bal c/d       | 512,000 |
| To Bal b/d           | 512,000 | By Exchange Gain | 10,000  |
|                      |         | By Depreciation  | 125,500 |
|                      |         | (502,000 / 4)    |         |
|                      |         | By Bal c/d       | 376,500 |

Note : After repayment of Loans, there will be no fluctuations on F. Currency. So, Depreciation in P&M A/c will remain same for 3<sup>rd</sup>, 4<sup>th</sup> & 5<sup>th</sup> Year.

$$\text{Depreciation} = \frac{376,500}{3 \text{ years}} = 125,500$$

3<sup>rd</sup> Year  
 4<sup>th</sup> year  
 5<sup>th</sup> Year



Q.8

As per the Provisions of Para 46A in As-11, Exchange fluctuations on Funds Borrowed for acquisition of Assets shall be capitalised to the cost Of related Assets.

In the Given Case, there is an o/s Balance of USD 200,000 on B/s date which is related with acquisition of P&M.

Conclusion: So, the amount of ₹800,000  $[(42-38) \times 2L]$  which is an Exchange Loss on O/s credit, shall be added to the cost of P&M because It is related with acquisition of Assets.

Q.12 \*VV Imp

## F.C Loan A/c

| Particular               | ₹        | Particular                                 | ₹        |
|--------------------------|----------|--------------------------------------------|----------|
| 31.3.2009                |          | 1.1.2009                                   |          |
| To Bal c/d               | 21250000 | By Bank                                    | 21125000 |
| (500000 USD x 42.5)      |          | (500,000 USD x 42.25)                      |          |
|                          |          | 31.3.2009                                  |          |
|                          |          | By Ex. Loss                                | 125000   |
|                          |          | $(42.50-42.25) \times 500,000 \text{ USD}$ |          |
|                          |          | 1.4.2009                                   |          |
|                          |          | By Bal b/d (500000 x 42.5)                 | 21250000 |
| 30.6.2009                |          | 30.6.2009                                  |          |
| To Bank (500000 x 42.90) | 2145000  | By E. Loss                                 | 20000    |
|                          |          | $[(42.9-42.5) \times 500000]$              |          |
| 31.12.2009               |          | 31.12.2009                                 |          |
| To Bank (500000 x 43.9)  | 2195000  | By Ex. Loss                                | 70000    |
|                          |          | $(43.9-42.5) \times 500000$                |          |
| 31.3.10                  |          | 31.3.2010                                  |          |
| To Bal c/d (Bal fig)     | 17400000 | By Ex. Loss A/c                            | 400,000  |
|                          |          | $[(43.5-42.50) \times 400000]$             |          |

Loss in 2009-10 = 20,000 + 70,000 + 400,000 = 490,000



Q.14 (ii) \* Imp

Calculation of Loan and Instalment in F.C on respective dates

|                                                               |             |
|---------------------------------------------------------------|-------------|
| i.) Loan taken on 1.4.2019 ( $\text{₹}75,00,000/72.50$ )      | USD 103,448 |
| ii) Instalment Paid on 31.12.2019 ( $\text{₹}500,000/70.50$ ) | USD 7092    |
| iii) Loan o/s on 31.3.2020 ( $103448 - 7092$ )                | USD 96356   |

Calculation of Exchange fluctuations

|                                                                 |              |
|-----------------------------------------------------------------|--------------|
| i.) Exchange Gain on Instalment $[(70.50 - 72.50) \times 7092]$ | 14184        |
| ii.) Exchange Loss on Closing Balance in Loan A/c               | <u>96356</u> |
| $[(73.50 - 72.50) \times 96356]$                                |              |
| Net Loss                                                        | <u>82172</u> |

\*Part 7\*

Q.21

As per the Provisions of Para 46A in As-11, Exchange fluctuations on F.C Loans taken for acquisition of Assets should be capitalised to the cost of Assets.

In the given case, Company has taken place a F.C Loan of 75,00,000 USD ( $\text{₹}3000 \text{ Lacs}/\text{₹}40$ ) for the acquisition of fixed Asset. At B/s date, there is an Exchange fluctuation of  $\text{₹}187.50 \text{ Lacs}$   $[(42.50 - 40) \times 75 \text{ Lacs}]$  due to increase in Rate Per USD. Further, It is clearly mentioned in question that Company has capitalised the entire Ex fluctuations.

Conclusion : On the basis of Given Explanation as in above, It can be said that treatment done by company is correct.





**\*VVV Imp****Unit III : Forward Contracts (Hedge Accounting) [5M- 15Marks]**

(Related with Import/ Export etc.)

**Cases****Settlement in Same year****(I)****Settlement in Next year****(II)****Case I: Forward Contract on Export of Goods****Example:**

i.) Date of Export : 1.7.x1

ii.) Export Value : 20000 USD

iii.) Spot Rate on 1.7.x1 : 60

iv.) Forward Rate (3 months) : 58.50 (Locked)

V.) Rate on 30.9.x1 : 62

Pass journal Entries for above Given Transactions

**Solution      Journal Entries****(In the books of Exporters)**

1.7.x1      Foreign Currency Debtors a/c      Dr      ₹12,00,000

Debtors का पैसा      To Foreign Currency Sales      ₹12,00,000

payables में चला जाएगा      (Being Goods Sold worth 20,000 USD @60 Per USD)

1.7.x1 Forward Contract Receivables a/c      Dr      ₹11,70,000 (20000 x 58.5)

Forward Discount a/c      Dr      ₹30,000 (Bal. fig)

To Forward Contract Payables (USD)      12,00,000 (20000 x 60)

(Being forward contract Entered into by Exporter)

30.9.x1 Bank a/c      Dr      12,40,000 (20000 x 62)

To F.C Debtor      12,00,000

To Exchange Gain      40,000 (Bal fig)

(Being collection made from Debtors)





|         |                                                                           |    |                   |
|---------|---------------------------------------------------------------------------|----|-------------------|
| 30.9.x/ | Forward Contract Payables a/c                                             | Dr | 12,00,000         |
|         | Exchange Loss a/c                                                         | Dr | 40,000 (Bal. fig) |
|         | To Bank                                                                   |    | 12,40,000         |
|         | (Being collection from Debtors withdrawn by Bank due to Forward contract) |    |                   |

|         |                                             |    |           |
|---------|---------------------------------------------|----|-----------|
| 30.9.x/ | Bank a/c                                    | Dr | 11,70,000 |
|         | To forward Contract Receivables             |    | 11,70,000 |
|         | (Being collection made as per forward Rate) |    |           |

|         |                              |    |        |
|---------|------------------------------|----|--------|
| 30.9.x/ | P&L a/c                      | Dr | 30,000 |
|         | To Discount                  |    | 30,000 |
|         | (Being Discount written off) |    |        |

Example :

- i.) Date of Export : 1.7.x/
- ii.) Export Value : \$ 5000
- iii.) Spot rate (1.7.x/) : 50
- iv.) Forward Rate (2 months) : 49 (Locked)
- v.) Actual Rate on 31.8.x/ : 47

Pass journal Entries in the books of Exporter in relation to forward Contracts.

Solution: Journal Entries

|        |                                                    |    |          |
|--------|----------------------------------------------------|----|----------|
| 1.7.x/ | Foreign Currency Debtors a/c                       | Dr | ₹250,000 |
|        | To Foreign Currency Sales                          |    | ₹250,000 |
|        | (Being Goods Exported worth 5000 USD @ 50 Per USD) |    |          |

|        |                                      |    |                 |
|--------|--------------------------------------|----|-----------------|
| 1.7.x/ | Forward Contract Receivables a/c     | Dr | ₹245,000        |
|        | Forward Discount (Bal fig) a/c       | Dr | ₹5000 (Bal fig) |
|        | To Forward Contract Payables (₹5000) |    | ₹250,000        |
|        | (Being forward contract Entered)     |    |                 |



31.8.x1 Bank a/c Dr 235,000 (5000 x 47)

E. Loss a/c Dr 15,000 (Bal fig)

To F.C Debtors 250,000

(Being collection from Debtors recorded)

31.8.x1 Forward contract Payables a/c Dr 250,000

To Bank 235,000

To E. gain 15,000

(Being forward contract settled)

31.8.x1 Bank a/c Dr 245,000

To Forward Contract Receivable 245,000

(Being final collection made)

31.8.x1 P&L a/c Dr 5000

To Forward Discount 5000

(Being Discount written off)

\*Part 8\*

Example : [Settlement in Next Year]

i.) Date of Export : 28.2.20x1

ii.) Export Value : 10000 USD

iii.) Spot rate (28.2) : 1 USD = 80

iv.) Forward Rate (4 months) : 1 USD = 78

v.) Exchange Rate on (31.3.x1) : 1 USD = 81 (B/S)

vi.) Exchange Rate on 28.6.x1 : 1 USD = 82

Pass journal Entries for the Given Transaction on relevant dates.

Solution: Journal Entries

28.2.x1 F.C Debtors a/c Dr ₹800,000

To F.C Sales a/c ₹800,000

(Being Goods Exported worth 10,000 USD @ 80 Per USD)



|                                                      |    |                  |          |
|------------------------------------------------------|----|------------------|----------|
| 28.2.x/ Forward Contract Receivables a/c             | Dr | ₹780,000         |          |
| (10000 USD @78)                                      |    |                  |          |
| Forward Discount (Bal fig) a/c                       | Dr | ₹20000 (Bal fig) |          |
| To forward contract payables (USD)                   |    |                  | ₹800,000 |
| (Being forward contract Entered into by the Parties) |    |                  |          |

### Accounting on B/s date

I The Exporter should value F.C Debtors at closing rate. In Addition, Exporter should also value Forward Contract Payables equal to F.C Debtors because these Accounts are taken inter related after entering into forward contracts. It can also be said that Exchange Fluctuation on F.C Debtors will be adjusted against Exchange Fluctuation on forward contracts as per contra.

II As per the Provisions, forward Discount will be written off on SLM Basis over the contract Period on Accrual Basis. It can also be said that A Portion of Discount may be written off in current year on B/s date and Some Amount may be written off in Next year based on Period.

|                                                               |    |                          |        |
|---------------------------------------------------------------|----|--------------------------|--------|
| 31.3.x/ F.C Debtors a/c                                       | Dr | 10,000 [10000 x (81-80)] |        |
| To E. gain                                                    |    |                          | 10,000 |
| (Being valuation of Debtors made at closing rate on B/s date) |    |                          |        |

|                                                 |    |        |  |
|-------------------------------------------------|----|--------|--|
| 31.3.x/ E. Loss a/c                             | Dr | 10,000 |  |
| To Forward Contract Payables                    |    | 10,000 |  |
| (Being forward Payables valued at Closing Rate) |    |        |  |

|                                           |    |                      |  |
|-------------------------------------------|----|----------------------|--|
| 31.3.x/ P&L a/c                           | Dr | 5000 (20000/4m x 1m) |  |
| To forward Discount                       |    | 5000                 |  |
| (Being Discount written off on SLM Basis) |    |                      |  |



|         |                                                 |    |          |                 |
|---------|-------------------------------------------------|----|----------|-----------------|
| 28.6.x1 | Bank a/c                                        | Dr | ₹820,000 | (10,000 x 82)   |
|         | To F.C Debtors                                  |    | ₹810,000 | (B/s date)      |
|         | To E. Gain                                      |    | ₹10,000  | (Bal fig)       |
|         | (Being Collection made from Debtors)            |    |          |                 |
| 28.6.x1 | Forward Contract Payables a/c                   | Dr | 810,000  | (B/s)           |
|         | Ex. Loss a/c                                    | Dr | 10,000   | (Bal fig)       |
|         | To Bank                                         |    | 820,000  |                 |
|         | (Being F.C Payables settled)                    |    |          |                 |
| 28.6.x1 | Bank a/c                                        | Dr | 780,000  |                 |
|         | To Forward Contract Receivable a/c              |    | 780,000  |                 |
|         | (Being Collection made as per forward contract) |    |          |                 |
| 28.6.x1 | P&L a/c                                         | Dr | 15,000   | (20000/4m x 3m) |
|         | To Forward Discount                             |    | 15,000   |                 |
|         | (Being Discount Written off)                    |    |          |                 |

### Case II : Forward Contract for Import of goods \*Imp

Example:

- i.) Date of Import : 1.7.x1
- ii) Import Value : \$ 6000
- iii) Spot Rate on 1.7.x1 : 60
- iv) Forward Rate (1.7.x1 for 3 months) : 62
- v) Settlement Rate (30.9) = 59

Pass journal Entries for the Given Transactions

Solution Journal Entries

|        |                                                     |    |          |
|--------|-----------------------------------------------------|----|----------|
| 1.7.x1 | F.C Purchases a/c                                   | Dr | ₹360,000 |
|        | To F.C Creditors a/c                                |    | ₹360,000 |
|        | (Being Goods Imported worth 6,000 USD @ 60 Per USD) |    |          |

Forward Currency Creditors \$

Forward Contract Receivable

आपस में जुड़े हुए हैं



|                                         |          |          |
|-----------------------------------------|----------|----------|
| 1.7.x/ Forward Contract Receivables a/c | Dr (USD) | 360,000  |
| Forward Premium a/c                     | Dr       | 12000    |
| To forward contract payables (₹)        |          | 372,000  |
| (6000 USD @62)                          |          | (Locked) |

(Being forward contract Entered)

|                           |    |                     |
|---------------------------|----|---------------------|
| 30.9.x/ F.C Creditors a/c | Dr | 360,000 (6000 x 60) |
| To Bank                   |    | 354,000 (6000 x 59) |
| To E. Gain a/c            |    | 6000 (Bal fig)      |

(Being Payment made to creditors)

|                              |    |                |
|------------------------------|----|----------------|
| 30.9.x/ Bank a/c             | Dr | 354,000        |
| E. loss a/c                  | Dr | 6000 (Bal fig) |
| To forward cont. Receivables |    | 360,000        |

(Being Amount reversed in Bank A/c equal to Actual Payment to creditors)

|                                    |    |         |
|------------------------------------|----|---------|
| 30.9.x/ Forward cont. Payables a/c | Dr | 372,000 |
| To Bank                            |    | 372,000 |

(Being Payment made as per Contract)

|                    |    |       |
|--------------------|----|-------|
| 30.9.x/ P&L a/c    | Dr | 12000 |
| To forward Premium |    | 12000 |

(Being Premium written off)

Example:

With help of Given information in Previous Example, Pass Journal Entries assuming Exchange Rate on Settlement Date was 64 Per USD.

**Solution :** Journal Entries

|                                            |    |          |
|--------------------------------------------|----|----------|
| 1.7.x/ F. c. Purchases a/c                 | Dr | 3,60,000 |
| To F. c creditors                          |    | 3,60,000 |
| (Being Goods Imported worth 6000 USD @ 60) |    |          |





1.7.x/ Forward Cont. Receivable Dr 3,60,000 (USD)  
 Forward Premium Dr 12,000  
 To forward Cont. Payable 3,72,000 (₹) (Locked)  
 (Being forward contract Entered)

30.9.x/ F. c. creditors a/c Dr 3,60,000  
 E. Loss a/c Dr 24,000 (Bal. fig)  
 To Bank (6000x64) 3,84,000  
 (Being Payment made to creditors as per current Rate)

30.9.x/ Bank a/c Dr 3,84,000  
 To forward Cont. Receivable 3,60,000  
 To E. Gain 24,000  
 (Being Amt Reversed in a/c as per Contract)

30.9.x/ Forward contract Payable a/c Dr 3,72,000  
 To Bank 3,72,000  
 (Being Actual Payment made)

30.9.x/ P&L a/c Dr 12,000  
 To forward Premium 12,000  
 (Being Premium written off)

E.g. (Settlement in Next year)

i. Date of Import : 1.2.x/

ii. Date of B/S : 31.3.x/

iii. Date of Settlement : 31.5.x/

iv. Spot Rate : 1 USD = 60

v. Forward Rate (4M) : 1 USD = 61.50

vi. B/S Rate : 63

vii. Settlement Rate : 64

Pass Journal Entries for the given Transaction assuming Value of Import is 10,000 USD.





## Solution : Journal Entries

1.2.x/ Foreign Currency Purchases a/c Dr ₹. 6,00,000  
 To Foreign Currency Creditors ₹. 6,00,000  
 (Being Goods imported worth 10,000 USD @ 60 Per USD)

↗ Equal to Creditors

1.2.x/ Forward Cont. Receivable Dr 600,000  
 Forward Premium Dr 15,000 (Bal fig)  
 To forward Cont. Payable 615,000 (₹.) (Locked)  
 [USD 10,000 x 61.50]  
 (Being forward contract Entered)

### Notes

31.3.x/

I. On B/s date, we will value creditors & Forward Contract Receivables at Closing Rate.

II. On B/s date, we will write off Forward Premium on SLM Basis over the period of contract.

31.3.x/ Exchange Loss a/c Dr 30,000  
 To F.C Creditors 30,000 [(63-60) x 10000]  
 (Being monetary items valued at closing Rate)

31.3.x/ Forward Contract Receivables a/c Dr 30,000  
 To Exchange Gain a/c 30,000  
 (Being Forward Receivables adjusted as per contra)

31.3.x/ P&L a/c Dr 7500 [1500/4m\*2m]  
 To forward Premium 7500  
 (Being Forward Premium written off)

31.5.x/ F.C Creditors a/c Dr 630,000 (B/s)  
 Exchange Loss a/c Dr 10,000 (Bal fig)  
 To Bank 640,000  
 (Being Payment made to creditors)



31.5.x/ Bank a/c Dr 640,000

To Forward cont. Receivable (B/S) 630,000

To Exchange Gain 10,000

(Being Amount reversed as per contra)

31.5.x/ Forward Contract Payable a/c Dr 615,000

To Bank 615,000

(Being Payment made as per contract)

31.5.x/ P&L a/c Dr 7500

To Forward Premium 7500

(Being Premium written off)

### Notes on Concept on Forward Contracts

#### Forward Contracts

Case I: Non Speculative  
Contracts

Case II : Speculative  
Contracts

Hedge Accounting  
(for Managing Risk in F.C  
Transactions)

Only for Speculation  
without any Involvement  
of F.C Transactions

Discussed in Class because  
Under AS-11 for CA Inter

Refer CA Final Classes

### "Non Speculative Forward Contracts"

As per the Provisions of AS-11, Forward Contracts (Hedge) are entered into by Importer/ Exporter with Banks to manage their Risk due to Fluctuation in foreign currency at future date. After Entering into Forward contracts, Exchange fluctuation cannot hit the Party Financial



Statements beyond the Forward Rates. We have discussed "6" different Examples to understand the Accounting Treatment under Forward Contracts.

### Forward Contract

Export

Import

F.C Debtors = Forward Payables

F.C Creditor = Forward Receivables

| Contract Date | B/S Date | Settlement date | Contract date | B/s date | Settlement date |
|---------------|----------|-----------------|---------------|----------|-----------------|
|---------------|----------|-----------------|---------------|----------|-----------------|

Q.6 \* Imp

Journal

1.2.2013 F.C Debtors a/c Dr ₹10,82,000

To F.C Sales a/c ₹10,82,000

(Being Goods Exported to an American company worth 20,000 USD @ 54.10 Per USD)

1.2.2013 Forward Contract Receivables a/c Dr (₹) 10,78,000 (Locked)  
(USD 20,000 @53.90)

Forward Discount (Bal. fig) a/c Dr (₹) 4000

To Forward Cont. Payables 10,82,000

(Equal to F.C Debtors)

(Being forward Contract Entered)

31.3.2013 Exchange Loss a/c Dr 18,000

To F.C Debtors 18,000 [(54.1-53.2) x 20000]

(Being monetary items valued on B/s date at closing Rate)

31.3.2013 Forward contract Payable a/c Dr 18,000

To Exchange Gain 18,000

(Being forward Payable valued equal to Debtors on B/s date)



31.3.13 P&L a/c Dr 2667 (4000/3m x 2m)

To forward Discount 2667

(Being Discount written off on SLM Basis)

1.5.2013 Bank a/c Dr 11,20,000 (20000 x 56)

To F.C Debtor 10,64,000 (B/S)

To Exchange Gain 56,000 (Bal. Fig)

(Being Collection made)

1.5.2013 Forward Contract Payables a/c Dr 1064000 (B/s)

Exch. Loss a/c Dr 56,000 (Bal fig)

To Bank 11,20,000

(Being Amount reversed into Bank a/c as per forward contract)

1.5.2013 Bank ac/ Dr 10,78,000

To Forward Receivables 10,78,000

(Being Actual Collection made)

1.5.2013 P&L a/c Dr 1333 (4000/3m x 1m)

To Forward Discount 1333

(Being Discount written off)

Q.5 V.V. Imp

Journal Entries

1.12.x1 F. c. Purchases a/c Dr 52,02,000

To F. c creditors 52,02,000

(Being Goods Imported worth 100,000 USD @ 52.02 Per USD)

1.2.x1 Forward Contract Receivables a/c Dr 52,02,000 (Locked)

(Equal to Creditors)

Forward Premium (Bal. fig) a/c Dr 8000

To Forward Cont. Payables 52,10,000

(100,000 USD @ 52.10) (Locked)



31.12.x1 Exchange Loss a/c Dr 13,000  
 To F.C Debtors 13,000 [(52.15-52.02) x 100000]  
 (Being monetary items valued at closing Rate)

31.12.x1 Forward Contract Receivables a/c Dr 13,000  
 To Exchange Gain a/c 13,000  
 (Being forward Receivables Valued equal to creditors)

31.12.x1 P&L a/c Dr 2667 (8000/3m x 1m)  
 To Forward Discount 2667  
 (Being Discount written off on SLM Basis)

31.1.x2 F.C Creditors a/c Dr 52,15,000 (B/s)  
 Exchange Loss a/c Dr 3,000 (Bal fig)  
 To Bank 52,18,000  
 (Being Payment made to creditors)

31.1.x2 Bank a/c Dr 52,18,000  
 To Forward cont. Receivable 52,15,000  
 To Exchange Gain 3,000  
 (Being Amount reversed equal to Payment to creditors)

31.1.x2 Forward Contract Payable a/c Dr 52,10,000  
 To Bank 52,10,000  
 (Being Actual Payment made as per Forward Rate)

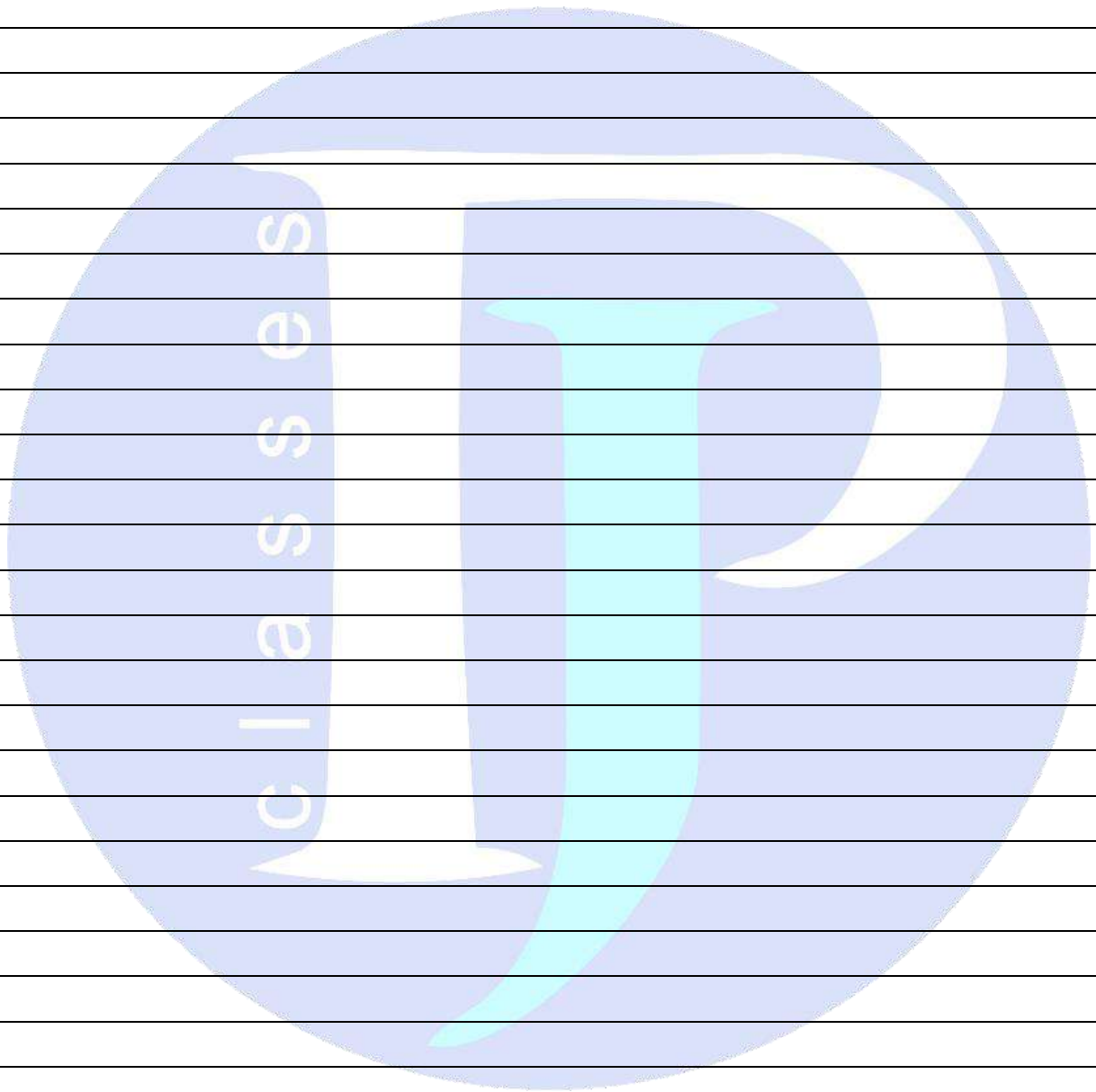
31.1.x2 P&L a/c Dr 5333 (8000-2667)  
 To forward Premium 5333  
 (Being Forward Premium written off)

Q.19, Q.13, Q.7 (Discussed in Class)

#### Unit IV: Accounting for foreign Operations

- Refer Foreign Branches in Branch A/c's Topic -  
 (We will cover it there)





Thank You  
Best of Luck.....!!!!!!  
CA. Parveen Jindal





## Chapter-6 Accounting Standard 10 \*Imp (5m-6m) Property, Plant & Equipment

### \*Part 1\*

#### Concept 1: Applicability & Nature

Applicable : 1.4.2016 onwards

Nature : Mandatory for all Enterprises

"Only for knowledge  
Purpose"

(Except for those Enterprises which are applying Ind AS-16)

#### Concept 2: Meaning of Tangible Fixed Assets

##### Fixed Assets

##### Tangible fixed Assets

↓  
AS-10

(i.e., Land, Building, P&M,  
Vehicles, Furniture  
etc.)

##### Intangible fixed Assets

↓  
AS-26

(i.e., Patents, Trademarks,  
Goodwill, Copyrights etc.)

#### Meaning of Tangible F. Assets :-

As per the Provisions of AS-10, An Assets can be classified under the heading of "PPE" then the following Conditions should be Satisfied :-

[ All Condition are mandatory ]

↗ L&B, P&M, Furniture, etc.

Condition I: It Should be held for use in Production Deptt.,  
Administration Deptt. Or in selling Deptt.

**Note :** It means that It Should not be held for Re-Sale  
because Assets held for Re-sale are considered as  
Inventories.



OR

Condition I : It should be held for Rental Purpose Except Investment Property which is covered in AS-13.

Note : It means that Assets, which are held for Earning

Cars, Trucks, Rentals, are also covered under AS-10 : PPE Machinery, etc.

+

Condition II : It should held for more than 12 Months

Note : If Useful life of an Asset is less than 12 months then It should be written off in same year of Acquisition

+

Condition III : It should have a reliable Estimate of its Cost

Note : If we don't know the cost of an Asset then it can not be recognised in Books.

+

Condition IV : It should have Economic Benefits for the Enterprise

Note : If any Asset does not have any Benefit then It should be written off in P&L A/c immediately .

### Concept 3 : Out of Scope

As per the Provisions of AS-10, the following Assets are specifically out Of this Statement :-

Assets not covered

Biological Assets

Wasting Assets

(Ind AS-41)

Mineral oils, ores, Natural Gases or any other Non-Regenerative Assets  
(Ind AS 106)

Living Animals

living Plant or Tree

(i.e., Cows, Sheep, Goats, Hen etc.

\* Except Bearer Plant

( Ind AS 41)

\*Bearer Plant is covered under AS-10



\*At Present, there is no Accounting Standard on Biological or waste assets **Explanation on Bearer Plant :-**

If any Plant Provides Agriculture Produce in the form of Fruits then It is called Bearer Plant. It means that **Fruit trees are covered under the heading AS-10 : PPE.**

The following Do's and Don'ts are relevant for Bearer Plant :-

Bearer Plants Should :

(i) Have Useful life for more than 12 Months

(ii) Provide Agriculture Produce in the form of Fruits i.e., Apple, Mangoes, Oranges, Almond etc.



Apple Tree, Mangoes Tree, Oranges Tree, Almond - Tree

Bearer Plant Should not be :

i) Held for Lumber/ wood Logs ( Teak tree, Pine wood Tree etc.)

ii) Crops [Wheat, Rice etc.]

\*Part 2\*

### Concept 4: Initial Recognition of PPE

( Acquisition of PPE by the Entity )

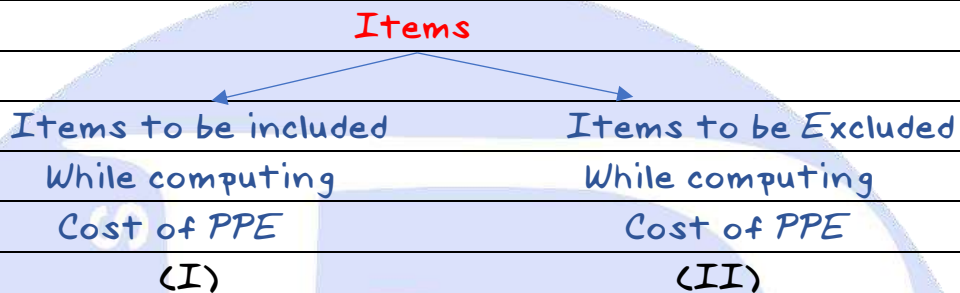
Cases

| Cases                  |                         |               |                    |                    |                   |
|------------------------|-------------------------|---------------|--------------------|--------------------|-------------------|
| Purchase by Cash/ Bank | Self Constructed Assets | Hire Purchase | Exchange of Assets | Exchange by Shares | Exceptional Cases |
| (1)                    | (2)                     | (3)           | (4)                | (5)                | (6)               |



### Case I : Purchase by Cash

If Any Tangible Fixed Assets is acquired by Cash then there may be 2 Types of items which are to be Considered while computing Cost of PPE :



### I Statement Showing computation of Cost of PPE .

|                                                                        |        |
|------------------------------------------------------------------------|--------|
| Purchase Price (Net of Trade Discount)                                 | xxxx   |
| Taxes & Duties [GST etc.]<br>(Non Refundable/ Non Adjustable)          | xxxx   |
|                                                                        | xxxx   |
| <u>Other Relevant Items to be added :-</u>                             |        |
| Transportation Charges                                                 | xxxx   |
| Loading/ Unloading Charges                                             | xxxx   |
| Transit Insurance                                                      | xxxx   |
| Site Preparation Expenses                                              | xxxx   |
| Installation Charges                                                   | xxxx   |
| Professional Fees (if any)                                             | xxxx   |
| Start up & Commissioning Cost → (Trial Run Cost)                       | xxxx   |
| [Cost of Sample units- Scrap of Sample Units] → (M + L + OH)           |        |
| Any other Expense which is directly related with<br>Acquisition of PPE | xxxx   |
| <u>Exceptional Items to be Considered :-</u>                           |        |
| Waiver, Concessions etc. by Vendor after<br>Acquisition of Assets      | (xxxx) |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Govt. Grant (if any) for acquisition of Assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | (xxxx)      |
| Cost of Demolition (if any)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | xxxx        |
| (Net of Scrap from old Material)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |             |
| Cost of PPE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <u>xxxx</u> |
| <u>*V.V.V Imp</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |             |
| ADD : Present value of Provision for                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | xxxx        |
| De-Commissioning Cost                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |             |
| <div> <div>Re-Storation</div> <div>Cost</div> </div> <div> <div>Cost of</div> <div>Removal</div> </div> <div> <div>Cost of</div> <div>Disposal</div> </div> <div> <div>Cost of</div> <div>Dismantle</div> </div>                                                                                                                                                                                                                                                                                                                                                                                                                     |             |
| Final Cost Of PPE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <u>xxxx</u> |
| Journal : PPE a/c Dr                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | xxxx        |
| To Bank                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | xxxx        |
| To Provision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | xxxx        |
| <u>*Explanation on De-commission Cost</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |             |
| <p>As Per the Provisions of AS-10, It may be Possible that an Entity is required to Incur Some De-commissioning Cost at the time of Expiry of Useful life of the acquired Asset. In this Case, Present value of such cost Should be Provided for in cost of PPE at the time of Acquisition of PPE. Such Type of Cost is also known as Re-storation Cost, Cost of Removal or Cost to Dismantle the Assets.</p> <p>(i.e., Aircrafts, Cruises, Ships etc. may require some cost of Dismantling at the time of Expiry of Useful life, restoration cost may be required to Re-fill the Land which is damaged by Nuclear Testing etc.)</p> |             |
| Example:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |             |
| i.) De-commissioning Cost : 10,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |             |
| ii.) Market Rate : 10% —————> 'Pre Tax Rate'                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |             |
| Calculate Present value of De-Commission Cost and its Subsequent Measurement as well as assuming it is required <u>after 5 year</u> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |             |





Solution :

Present value of D. Cost = D. Cost x PVF

$$= 10,000 \times \frac{1}{1.10} \quad 5 \text{ year}$$

$$= 10,000 \times .621$$

$$= 6210$$

Journal : PPE a/c Dr 6210

To Prov. For D. Cost 6210

(Being Prov. For D. Cost provided)

Subsequent Measurement

Interest Exp. Dr 621 (6210 x 10%) (at the end of I<sup>st</sup> year)

To Prov. For D. Cost 621

(Being Interest made due)

P&L a/c Dr 621

To Int. Exp. 621

(Being Int. written off)

|                         | I    | II   | III  | IV   | V     |
|-------------------------|------|------|------|------|-------|
| O. Balance              | 6210 | 6831 | 7514 | 8265 | 9091  |
| (+) U. Cost/ Int. @ 10% | 621  | 683  | 751  | 826  | 909   |
| C. Balance              | 6831 | 7514 | 8265 | 9091 | 10000 |

II Items to be Excluded while computing cost of PPE

As per the Provisions, the following items are not be covered under the Calculation of Cost of PPE :-





I Inauguration Expenses " New Launch of Products,  
 II Advertising Exp./ Promotional Exp. Showroom etc.

III Staff Training [It is relating to operation of Business only]

IV Operation Losses at initial stage of Business

(i.e., Salaries to Staff during Renovation or Sale of Goods at Discounted Prices)

V Cost to Re-locate the Assets during Renovation

Set up cost of  
old P&M at New  
Place

Removal cost  
on old P&M  
etc.

It is not acquisition  
of Assets

Q 17 : [3-4 Marks]

Calculation of Cost of Machinery

|                               |                 |
|-------------------------------|-----------------|
| Purchases Price               | ₹ 1,58,00,000   |
| Transportation charges        | ₹ 50,000        |
| Site Preparation              | ₹ 1,40,000      |
| Technician Salary (45000x3m)  | ₹ 13,50,00      |
| Professional fees (Architect) | <u>₹ 30,000</u> |
| Cost of PPE                   | ₹ 1,61,55,000   |

Q 16: \*Imp

As per the Provisions of AS-10, the Expenses which are incurred on re-location of Assets, can not be considered as a part of Cost of PPE.

In the Given case, Company has incurred ₹ 23,00,000 (5L+15L+3L) on Re-location of Assets which is not related to construction of New Building .

Conclusion : On the basis of given Explanation, the Entity Should not Capitalise the re-location Expenses to the cost of New Building .



\*Part 3\*Q 1: \*ImpCalculation of Cost of Land

|                            |                  |
|----------------------------|------------------|
| Purchase Price             | 50,00,000        |
| Legal Fees                 | 2,50,000         |
| Insurance                  | 1,00,000         |
| Cost of Demolition (5L-1L) | <u>4,00,000</u>  |
| <b>Cost of Land</b>        | <b>57,50,000</b> |

\*ImpCase II : Self Constructed Assets

It may be Possible that An Asset is not Purchased from outside, but It is Constructed by the entity itself

As per the Provision of AS-10, the following statement Should be Prepared to compute the cost of Self Constructed Assets :-

Statement Showing Calculation of Cost of Self Const. Assets

|                                 |                    |
|---------------------------------|--------------------|
| Direct Material                 | xxxx               |
| Direct Wages                    | xxxx               |
| Direct overheads                | xxxx               |
| Share in Common overheads       | xxxx               |
| *Transfer of Material or Labour | xxxx               |
| From any other deptt.           |                    |
| <b>T. Cost</b>                  | <b><u>xxxx</u></b> |

\*Internal Profits Should be Eliminated (if any)

(Note: If any Profit is included by any deptt. in Transfer of Material & Wages then such Profit Should be Eliminated while computing Cost of Self Constructed Assets.



**Q 3 : Calculation of Cost of Assets**

|                                             |                    |
|---------------------------------------------|--------------------|
| Direct Material                             | ₹ 10,00,000        |
| Direct Expenses                             | ₹ 2,50,000         |
| Direct Labour (₹ 5,00,000x1/10)             | ₹ 50,000           |
| Office & Adm. Exp. (₹ 8,00,000x 5%)         | ₹ 40,000           |
| Depreciation on Assets used in Construction | <u>₹ 10,000</u>    |
| <b>Total Cost</b>                           | <b>₹ 13,50,000</b> |

\*Imp Q 8, Q 10 → H.W.

Q 11 \*(Important for Revision)

**Calculation of Cost of Assets**

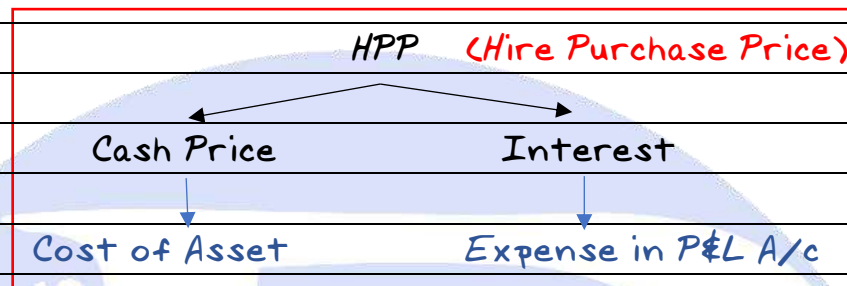
|                                                                            |                |
|----------------------------------------------------------------------------|----------------|
|                                                                            | (Lacs)         |
| Quoted Price $\frac{370.44 \times 100 = 343 \times 100}{108 \quad 98}$     | 350            |
| Trade Discount @ 2% on Quoted Price                                        | <u>(7)</u>     |
| Purchase Price                                                             | 343            |
| Add : Taxes @ 8% on P.P.                                                   | <u>27.44</u>   |
| Invoice Price                                                              | 370.44         |
| Transportation Charges (350x0.25%)                                         | 0.875          |
| Installation Charges (350x1%)                                              | 3.50           |
| Start up & Commissioning Cost [Sample: Trial Run]<br>(35000+ 25000+ 15000) | .75            |
| Interest on Loan (300Lx 15%x 2/12)                                         | <u>7.5</u>     |
| <b>Cost of Asset</b>                                                       | <b>383.065</b> |

**Note :** All Expenses including Interest on Loan which are incurred by the Entity in between 1.12 to 1.5, Shall be written off in P&L A/c because no Exp. Can be capitalised after the date of Assets becoming ready for us.

**Case III : Acquisition of Assets under "Hire Purchase Contract"**

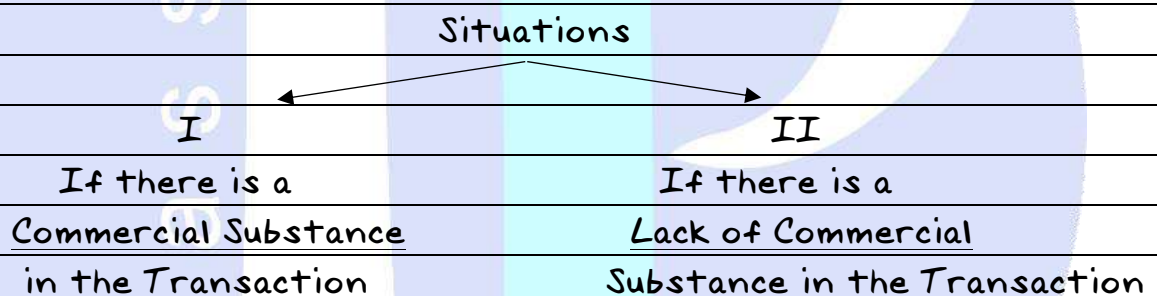

If an Assets is acquired on Hire Purchase then cost of Asset Shall be considered equal to "Cash Price".

Note: The Amount of Interest will be written off in P&L A/c which will be Paid in addition to Cash Price of Assets.



\*Part 4\*

#### Case IV : Exchange of Assets



Note : If question remains Silent on Commercial Substance then It will always be assumed that Transaction has Commercial Substance.

"Situation I is always preferred"

Meaning of Commercial substance : If there will be a Change in Expected Cash Flows from Newly Acquired Asset than the Actual Cash Flows from Old Asset which is Exchanged with the New one then It will be assumed that there is a Commercial substance in the Transaction. It can also be said that Lack of Commercial substance will be identified when Expected Cash Flow will remain same which were under we of use Exchanged Asset.



### Accounting for Exchange of Assets under Situation I

Case I : Fair value of Assets acquired Given (Rank I)

Case II : Fair value of Assets Given up (Rank II)

Case III : Carrying Amt. of Assets Given up (Rank III)

### Case I : Fair value of Asset Acquired is Given

New Asset a/c Dr xxxx (fair value)

P&L a/c Dr xxxx (Loss)

(Fv of old - WDV)



To old Asset xxxx (WDV)

To Bank xxxx

(Fv of New - Fv of old)

To P&L (Gain) xxxx

(fv of old - WDV)



(Being Exchange of Assets made)

E.g.

i) Fair value of New Asset : 20,00,000

ii) Fair value of old Asset : 11,00,000

a) if = ₹ 9,00,000

iii) WDV of old Asset

b) if = ₹ 13,00,000

Pass Journal Entries

Solution :

### Journal Entries

a)

New Assets a/c Dr 20,00,000

To Bank 9,00,000

(20L-11L)

To old Asset 9,00,000

(WDV)

b)

New Assets a/c Dr 20,00,000

P&L a/c (loss) Dr 20,0000

(13L-11L)

To Bank 9,00,000

(20L-11L)



|                                        |                                 |
|----------------------------------------|---------------------------------|
| To P&L A/c (Gain) 2,00,000<br>(11L-9L) | To old Asset 13,00,000<br>(WDV) |
| (Being Exchange of Assets made)        | (Being Exchange of Assets made) |

Case II : Fair value of Assets Given up

(Fair value of Acquired Asset is missing)

Journal : New Asset a/c Dr xxxx [Fair value of Given up]

Loss ← P&amp;L a/c Dr xxxx (Bal. fig)

To old Asset xxxx [WDV]

To P&amp;L xxxx (Bal. Fig) → Gain

(Being Exchange of Assets made)

E.g.

i) Fair value of New Asset : ?

ii) fair value of Given up Assets : 25,00,000

iii) WDV of Given up Assets : 15,00,000

Solution

Journal

New Asset a/c Dr 25,00,000 (Fv of old)

To old Assets 15,00,000 (WDV)

To P&amp;L (Gain) 10,00,000 (Bal. Fig)

(Being Exchange of Assets made)

Case III : Carrying Amt. of Assets Given up

(If Both Fair value are missing)

Journal : New Asset a/c Dr xxxx [WDV of Given up]

To old Asset xxxx [WDV]

(Being Exchange of Assets made)





E.g.

i) Fair value of New Asset : ?

ii) Fair value of Given Asset : ?

iii) WDV of Given Asset : ₹ 50,000

Solution :

Journal

New Assets a/c Dr 50,000 ( WDV of Given up )

To old Assets 50,000 (WDV)

(Being Exchange of Assets made)

Situation II : If there is a Lack of Commercial Substance

(Rare)

New Asset's Recognition = WDV of Given up Asset + Cash Adjustment (if Any)

+ Cash Given

- Cash Received

E.g.

WDV of Asset Given up = 12 lacs

a) Cash Given at the time = 2 lacs

Of Exchange

Difference

in

Fair

Value

b) Cash Received at the time = 2 lacs

Of Exchange

Solution

(a)

New Assets a/c Dr 14L

To old Asset 12L

To Cash 2L

(Being Exchange made)

(b)

New Assets a/c Dr 10L

Cash a/c Dr 2L

To old Asset 12L

(Being Exchange made)



Q.5 \*ImpAccounting for Exchange of Plantsi.) Calculation of fair value of New Plant X:-

$$\begin{aligned} \text{Cash Settlement} &= \text{Fair value of New} - \text{Fair value of old} \\ 20,000 &= \text{Fair value of New} - 150,000 \text{ (Given)} \end{aligned}$$

$$\text{Fair value of New} = 170,000 \text{ (150,000 + 20,000)}$$

ii.) Journal : Plant X a/c Dr 170,000 (FV : New)

P&amp;L a/c Dr 25,000 (Loss)

To Plant B a/c 175,000 (WDV)

To Bank 20,000

(Being Exchange of Assets made)

Assumption : We have assumed that there is a commercial substance in Given Transaction.

Q.20 \*Imp

In the given question, It is clearly mentioned that the transaction has Commercial substance due to which Newly Acquired Asset should be recognised at its fair value. So, the newly acquired P&M will be recorded at ₹25,00,000 which is its fair value.

Journal:

Bank a/c Dr 20,00,000

P&amp;M a/c Dr 25,00,000

To Land 10,00,000

To P&amp;L (Gain) 35,00,000

(Being Exchange of Assets made)

Q.21 \*V.V.Imp

As per the Provisions of AS-10, Recognition of New Asset under lack of Commercial substance is made at WDV of Given Asset with adjustment Of Cash Paid or Received. In the Given Case, WDV of Car X is 13,00,000 Out of which 15000 have been received. So we will consider Car Y at 1285000



Journal: Car Y A/c Dr 1285000  
 Cash a/c Dr 15000  
 To Car X 1300000  
 (Being Exchange made)

### Case V : Exchange by Shares

As per the Provisions of AS-10, Newly Acquired Asset will be recognised at fair value of Shares issued by the company if Exchange of Asset is made by issue of shares.

Journal: Asset (New) a/c Dr xxxx (No. of shares x MV Per  
 Issued share)  
 To S. Cap xxxx (Face value)  
 To S. Premium xxxx (MV – FV)  
 (Being shares issued for Asset)

Q.4

Journal

Machinery a/c Dr 1462500 (7500 x 195)  
 To S. Capital 750,000 (7500 x 100)  
 To S. Premium 712,500 (7500 x 95)  
 (Being 7500 shares issued @195 in Exchange of P&M)

### Exceptional Cases for Assets Acquisition (Case VI)

#### Point 1 : Consolidated Price (Assets acquired in Group)

If Multiple Assets are acquired by a Consolidated Price then Allocation Of such Price over the acquired Assets will be made in the ratio of fair Value of Acquired Assets.

In the absence of fair value of Acquired Assets, Allocation of Consolidated Price over the acquired assets will be made under the Guidance of Competent Valuer.



### Point 2 : Acquisition of Assets in the form of Recovery from Debtors

Q.6

If any Asset is acquired as a Recovery from Debtors then Cost of such Assets will be considered equal to o/s Balance in Debtors A/c. We will not consider fair value of Acquired Asset because it is not a case of Exchange of Assets

**Note :** If any cash is Paid at the time of acquisition of New Assets in addition to o/s Balance then that can be added to cost of Asset

|           |                              |
|-----------|------------------------------|
| Journal : | New Assets a/c Dr xxxx       |
|           | To Debtors xxxx (o/s Bal)    |
|           | To Cash        xxxx (if any) |

### Point 3 : Fire & Safety Equipment

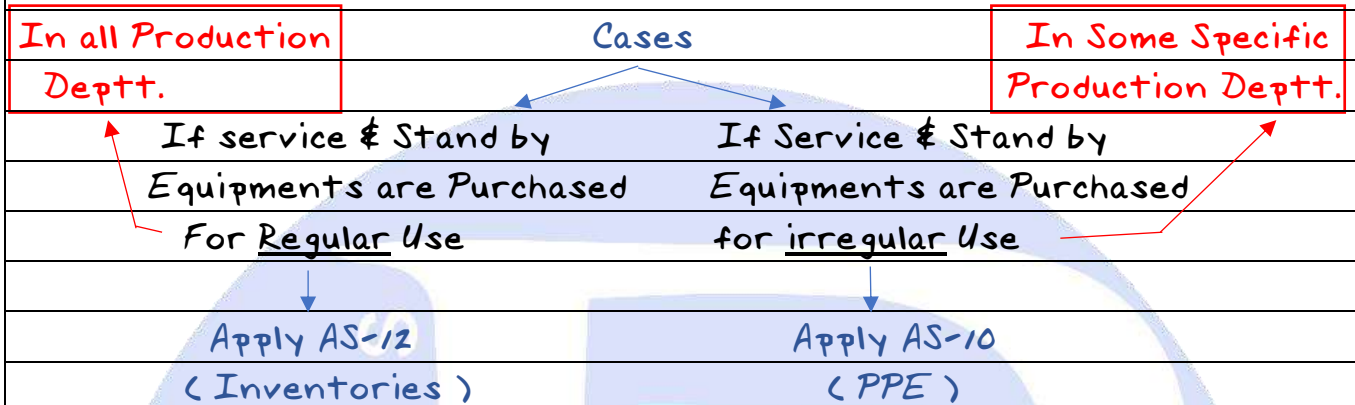
As per the Provision of AS-10, Fire & Safety Equipments are also covered under the heading of PPE.

### Point 4 : Moulding, Dyies etc. (Small & Similar Assets)

i) If Value of An Asset is not significant then It can be written off in P&L A/c. It means that we will carry small value Assets in B/s [ Management will decide what is significant or in Significant ]

ii) Similar Assets can be Grouped as a Single Asset for Accounting Purpose



\*Part 5\*Point 5 : Service & Stand by Equipment [ Loose Tools ]Concept 5 : Subsequent Recognition

It may be Possible that An Entity has spent some Amount on an Existing Assets due to its servicing or on its Improvement . The following Accounting Treatment may be considered for this Subsequent Expenditure on an Existing Assets :-

Subsequent Expenditure (Q.7)

Repairs & Maintenance  
(Day to Day Servicing)

It is incurred "to maintain" the Performance of Assets

This Expense shall be written Off in P&L A/c as an Expense

|                |    |      |
|----------------|----|------|
| i) Repairs a/c | Dr | xxxx |
| To Bank        |    | xxxx |

Improvements/ Replacements

It is incurred to increase the Performance of Assets or to increase the life of Assets or to increase the Value of Assets

This Expense will be capitalised to the Cost of related Existing Asset and It will be depreciated over the remaining useful life of related Asset





|             |    |      |
|-------------|----|------|
| ii) P&L a/c | Dr | xxxx |
| To Repairs  |    | xxxx |

|         |    |      |
|---------|----|------|
| PPE a/c | Dr | xxxx |
| To Bank |    | xxxx |

### Exception

Small value of Replacements or Improvements can be written off in P&L A/c.

### Special Note on "Inspection Cost" of An Asset

As per the Provisions of AS-10, Inspection Cost shall be capitalised to the cost of Asset and It will be Depreciated over the Period of Inspection.

(i.e., Inspection for Aircrafts, Ships, Cruises, etc)

### Concept 6: Measurement of PPE

(Accounting Models for PPE)

As per the Provisions of AS-10, there are Two Accounting Models for Measurement of Assets as follows:-

i) Cost Model OR

ii) Revaluation Model

(Note: Any model can be selected by the Management. It is their choice.)

### Explanation on Cost Model

Under this Accounting Model, PPE is measured at its Original Cost / Historical Cost. We cannot value the Assets under this model over \$ above the original Cost of Assets. The following Presentation can be Considered under Cost Model:-

|                          |             |
|--------------------------|-------------|
| Original Cost            | xxxx        |
| Depreciation             | (xxxx)      |
| Impairment Loss (if any) | (xxxx)      |
|                          | <u>xxxx</u> |

Downward Revaluation → If market value of Asset becomes lower than Book Value → "Upward Revaluation is not Allowed under cost model"





### Explanation on Revaluation Model

As per the Provisions of AS-10, Upward Revaluation is allowed under Revaluation Model, but the remaining Accounting Treatments are same as in cost model. The following Points should be considered under Revaluation Model:-

Point I: As per the Provisions, Revaluation is not done every year, but It is Preferred once in a Period of 3-5 years.

Exception: Annual Revaluation can be made in the situation of Hyper inflationary Environment. This Point is not valid for India.

Point II: As per the Provisions, Different Accounting Model can be selected for different type of Assets, but model will remain same for Similar Assets.

(i.e., we can select cost model for P&M or Revaluation Model for L&B, but Cost Model will remain same all similar P&M and Revaluation model for all similar L&B)

[\*Revaluation Model should be applied on Global basis on similar Assets]

Point III: Accounting Entries at the time of Revaluation of Assets

Journal: PPE a/c Dr    xxxx  
                                     To Revaluation Reserve    xxxx  
                                     (Being Upward Revaluation Made)

Point IV: Accounting for Revaluation Reserve

After Revaluation, the carrying Amount of Assets shall be increased due to which, there will be an increase in Depreciation of Assets. The amount of Extra Depreciation will be amortised from Revaluation Reserve to General Reserve each year according to method of Depreciation as follows:-



If Dep. is charged on Revalued Assets under SLM =  $\frac{\text{Revaluation Res}}{\text{years}}$

OR

If Dep is charged on WDV Basis on Revalued Assets =  $\text{Revaluation Res} \times \% \text{ of Dep}$

Amortisation = Rev. Res a/c Dr xxxx

To G. Res

xxxx

(Being Extra Depreciation Amortised)

(Note : If Revalued Asset is sold before Expiry of useful life then the o/s Balance in R. Res will be transferred to G. Reserve on the date of Sale of Assets)

### \*Part 6\*

Example:

i) Carrying Amount of P&M = 200,000

(WDV/ book value)

ii) Market value of P&M = 300,000

iii) Method of Depreciation (10% P.a) WDV

Prepare Revaluation Reserve A/c for 2 years assuming that the Asset has been sold in the beginning of 3<sup>rd</sup> year.

Solution

P&M A/c

|                 |               |              |               |
|-----------------|---------------|--------------|---------------|
| I               |               |              |               |
| To Bal b/d      | 200000        | By Dep (10%) | 30000         |
| To Rev. Res a/c | 100000        | By Bal c/d   | 270000        |
|                 | <u>300000</u> |              | <u>300000</u> |
| II              |               |              |               |
| To Bal b/d      | 270000        | By Dep (10%) | 27000         |
|                 |               | By Bal c/d   | 243000        |
|                 | <u>270000</u> |              | <u>270000</u> |
| III             |               |              |               |
| To Bal b/d      | 243000        | By Bank      | ?             |



|     |       |            |       |
|-----|-------|------------|-------|
| Bal | 81000 |            |       |
|     |       | III        |       |
| GR  | 81000 | By Bal b/d | 81000 |

↓

has been transferred to GR in full Amount because Asset has been sold in 3<sup>rd</sup> year

### Exceptional Cases under Revaluation Model of Assets

#### Exceptional Case I ( 5 Marks )

Accounting for Revaluation Reserve if Accumulated Dep. is Given in B/E

Example :

Original Cost of Assets : 200,000

Provision for Depreciation : 80,000

Market value on the date of Revaluation : 180,000

**Now Journal Entries for Revaluation under Both the Alternatives.**

Revaluation

#### Alternative I : Net Method

## Exceptional Cases under Revaluation Model of Assets

### Exceptional Case I ( 5 Marks )

### Accounting for Revaluation Reserve if Accumulated Dep. is Given in B/V

Original Cost of Assets : 200,000  
Provision for Depreciation : 80,000  
Market value on the date of Revaluation : 180,000

Provision for Depreciation : 80,000

Market value on the date of Revaluation : 180,000

### Now Journal Entries for Revaluation under Both the Alternatives.

### Alternative I: Net Method

|                                               |    |                            |
|-----------------------------------------------|----|----------------------------|
| Provision for Dep. a/c                        | Dr | 80,000                     |
| To PPE                                        |    | 80,000                     |
| (Being Provision for Depreciation Eliminated) |    |                            |
| PPE a/c                                       | Dr | 60,000 (180,000 – 120,000) |
| To Rev. Reserve                               |    | 60,000                     |
| (Being Assets Revalued)                       |    |                            |

To PPE 80,000

Being Provision for Depreciation Eliminated)

PPE a/c      Dr 60,000 (180,000 - 120,000)

|                 |        |
|-----------------|--------|
| To Rev. Reserve | 60,000 |
|-----------------|--------|

(Being Assets Revalued)



Alternative II: Gross Method

|                   | Original Cost | PFD     | WDV     | Changes                                                 |
|-------------------|---------------|---------|---------|---------------------------------------------------------|
|                   |               |         |         | $\left( \frac{60000 \times 100}{120000} = 50\% \right)$ |
| Given Balances    | 200,000       | 80,000  | 120,000 |                                                         |
| Changes           | 100,000       | 40,000  | 60,000  |                                                         |
|                   | (50%↑)        | (50%↑)  | (Given) |                                                         |
| Revalued Balances | 300,000       | 120,000 | 180,000 |                                                         |

Journal : PPE a/c Dr 100,000  
 To PFD 40,000  
 To R. Res 60,000  
 (Being PPE revalued at O. Cost)

As per the Provisions of AS-10, Revaluation of a PPE can be made under 2 Alternatives when such PPE is maintained by the Entity at original cost and its Depreciation is accumulated in a Separate A/c.

AlternativesAlternative I: Net MethodAlternative II: Gross Method

Step I: Cancel the Provision for  
Dep. A/c

Step I: Calculate % of increase in  
WDV due to Revaluation

Step II: Revalue the PPE

Step II: Increase O. Cost and Prov  
For Dep. Proportionately  
as per % of increase in  
WDV of Asset

Exceptional Case IIRelationship between Revaluation Reserve & Impairment of Assets

(This Concept relates to AS-28, but Discussed by ICAI in AS-10)



Revaluation Reserve a/c      Dr    xxxx (B/s)

P&L A/c Dr xxxx (Bal fig)

To Assets  xxxx (Decline)

(Being Downward Revaluation made of a revalued Asset)

i) Carrying Amount of PPE ; 20,00,000

ii) I<sup>st</sup> year : Market value : 25,00,000

iii) II<sup>nd</sup> year : Market value a) 21,00,000

b) 18,00,000

### Pass journal Entries for Revaluation & Impairment.

|                      |         |            |
|----------------------|---------|------------|
| I <sup>st</sup> year | PPE a/c | Dr 500,000 |
|----------------------|---------|------------|

|                    |         |
|--------------------|---------|
| To Rev Reserve a/c | 500,000 |
|--------------------|---------|

(Being Assets revalued)

II<sup>nd</sup> year a) Revaluation Reserve a/c Dr 400,000

|        |         |
|--------|---------|
| To PPE | 400,000 |
|--------|---------|

(Being Downward Revaluation made)

OR

|                            |    |         |
|----------------------------|----|---------|
| b) Revaluation Reserve a/c | Dr | 500,000 |
|----------------------------|----|---------|

|         |                      |
|---------|----------------------|
| P&L a/c | Dr 200,000 (Bal fig) |
|---------|----------------------|

|        |                   |
|--------|-------------------|
| To PPE | 700,000 (Decline) |
|--------|-------------------|

(Being Downward Revaluation made)

---





In the Given case, we cannot create Revaluation Reserve Directly. We should reverse the increase in value in P&L A/c which was Previously Written off in P&L A/c. After recovering the earlier Loss, we can show Revaluation Reserve for remaining increase

- i) Carrying Amount of PPE : 20,00,000
- ii) Market value (I<sup>st</sup> year) : 18,00,000
- iii) Market value (II<sup>nd</sup> year) : a) 19,00,000  
b) 21,00,000

## Journal Entries

|                                 |    |         |         |
|---------------------------------|----|---------|---------|
| II (a) PPE a/c                  | Dr | 100,000 |         |
| TO P&L a/c                      |    |         | 100,000 |
| (Being upward Revaluation made) |    |         |         |

|                                 |                           |
|---------------------------------|---------------------------|
| (b) PPE a/c                     | Dr 300,000                |
| To P&L a/c                      | 200,000                   |
| To Rev. Res                     | 100,000 (Excess increase) |
| (Being upward Revaluation made) |                           |

## Concept 7: Accounting for Depreciation

(Earlier Depreciation was covered in AS-6)





### General Rules

Non Corporate Entities

Corporate Entities

Follow AS-10 for Accounting  
Of Depreciation

Follow AS-10 with Schedule II  
of Co. Act 2013 for Accounting  
Of Depreciation

The following Points may be considered while making Accounting Entries  
for Depreciation:-

### Point I : Methods for Depreciation

#### Methods

SLM

WDV

VOP

(Straight Line Method)

(Written Down Value  
Method)

(Unit of Production  
Method)

Depreciation will  
Remain same over the  
Useful life of Assets

Depreciation is  
calculated by a fixed  
Percentage and Amount  
Of Depreciation Reduces  
over the Useful life of  
Assets

Depreciation is  
Computed  
according to No.  
of Units Actually  
Produced in  
Current year in  
Proportion to  
Estimated units  
Of Production

Dep =  $\frac{\text{Original Cost} - \text{Expected Salvage value}}{\text{Expected Useful Life of Assets}}$

(Cost of x% of Dep)  
Asset

$\frac{\text{Actual Production} \times \text{Cost}}{\text{Estimated Total Units}}$

Note : 1) The selection of appropriate method in accordance with nature



of Asset will be made by the Management.

- 2) The Entity can apply different methods for different Assets. It means that Application of one method on all Assets is not necessary.

### Point 2 : Change in Estimated Useful Life

If there is a change in Estimated Useful life of Assets then revised Amount of Depreciation will be computed as follows:-  
(Prospectively Basis)

$$\text{Revised Depreciation} = \frac{\text{Remaining Book Value}}{\text{Revised Remaining Life}}$$

Example:-

Original Cost = 10,00,000

Estimated life = 10 years

After 3 years remaining life is estimated for further 5 years

Solution

#### Calculation of Revised Dep

|                               |           |
|-------------------------------|-----------|
| Original Cost                 | 10,00,000 |
| Dep (10,00,000/10 x 3)        | (300,000) |
| Carrying Amount after 3 years | 700,000   |

$$\text{Revised Dep} = \frac{700,000}{5 \text{ Y}} = 140,000 \text{ P.a}$$

\*Part 7\*

Q.24

#### Calculation of Revised Amount of Depreciation

|                              |          |
|------------------------------|----------|
| Original Cost                | 100,000  |
| Depreciation (100000 x 4/10) | (40,000) |



|                                        |                   |
|----------------------------------------|-------------------|
| Carrying Amount of Asset after 4 years | 60,000            |
| Revised Estimated Useful life          | 4 years           |
| Revised Depreciation                   | 15000 p.a         |
|                                        | (60000 / 4 years) |

Q.25

Calculation of Depreciation

$$a) \text{ Depreciation} = \frac{\text{O. Cost} - \text{Estimated S. value}}{\text{Useful Life}} = \frac{10L - 10L}{20 \text{ Year}} = 0$$

Note : In the Given Case, Estimated Salvage Value is equal to 0. Cost of Asset which indicates that there is no Loss on use of Asset . So, Dep. will be zero in this case.

$$b) \text{ Depreciation} = \frac{10,00,000 - 9,00,000}{20 \text{ Year}} = 5,000 \text{ Per Annum}$$

Note : We Can write off only depreciable which ₹ 10000 after adjusting Salvage Value .

Point 3 : Change in Estimated "Salvage Value"

As per the Provisions of AS-10, change in Salvage Value is also to be considered as Change in Estimation . The Amt of depreciation will be Increased or Decreased change in Salvage value on "Prospectively Basis"

E.g.

i) O. Cost of PPE : 10,00,000

ii) Salvage Value : 1,00,000

iii) Estimated useful life : 10 Years

After 5 year, the revised Estimation of remaining life is 3 year and revised Estimation of salvage Value is ₹ 50,000. Calculate the revised Amount of Dep. after 5 years



Solution :

Calculation of Revised Dep.

|                                 |                   |                            |
|---------------------------------|-------------------|----------------------------|
| Original Cost                   | 10,00,000         |                            |
| Salvage value                   | <u>(1,00,000)</u> | Reduction in SV = Add Back |
| Depreciable Amt.                | 9,00,000          | Increase in SV = Less      |
| Depreciation (9000000 x 5/10)   | <u>(450,000)</u>  |                            |
| Remaining Depreciable Amt       | 450,000           |                            |
| Add: Reduction in Salvage value | <u>50,000</u>     |                            |
| Revised Depreciable Amount      | 500,000           |                            |
| Revised Life                    | 3 years           |                            |
| Revised Dep                     | 166,667           |                            |

Point 4: Change in Method of Depreciation

(SLM to WDV or Vice Versa)

As per the Provisions of AS-10, change in Present Method of Depreciation can be changed if the Entity thinks that Present method of Depreciation does not reflect the true value of Depreciation in accordance with nature of Assets. The change in method of Depreciation will also be considered as change in Estimation and It will also be taken On Prospectively Basis.

Example :

O. Cost : 20,00,000

Estimated life : 10 years

After 2 years, Entity wants to Apply WDV method @10% P.a. Calculate the revised Dep in 3<sup>rd</sup> Year.

Solution

Calculation of Revised Depreciation

|                                  |                  |
|----------------------------------|------------------|
| Original Cost                    | 20,00,000        |
| Depreciation (20L x 24/10Y)      | <u>(400,000)</u> |
| Carrying Amount of PPE after 2 Y | 600,000          |



Revised Dep = 600,000 x 10% = 60,000

\*Imp

### Point 5: Commencement & Cessation of Depreciation

#### Depreciation

#### Commencement of Depreciation

It will be commenced from the date at which PPE becomes ready for use

**Note:-** We will ignore the date from which the PPE Actually becomes in Use.

#### Cessation of Depreciation

The Entities can stop charging the Depreciation from the date of sale of Assets or Retirement Assets

**\*Retired Assets** are the Assets which are not used as well as not sold, but these are kept as memory

### Concept 8 : Disposal of PPE

As per the Provisions of AS-10, Profit or Loss on Sale of Assets shall be transferred to P&L A/c.

|               |    |                      |
|---------------|----|----------------------|
| Bank a/c      | Dr | xxxx (Selling Price) |
| P&L a/c       | Dr | xxxx (Loss: Bal fig) |
| To Assets     |    | xxxx (WDV)           |
| To P&L (gain) |    | xxxx (Bal fig)       |

**(Being Assets Disposed off)**

### Concept 9 : Accounting for Abnormal Loss of PPE & its Insurance Claim

As per the Provisions of AS-10, the following Entries shall be considered for Accounting in the Given situation:-

|                   |                      |    |      |
|-------------------|----------------------|----|------|
| I Abnormal Loss : | i) Abnormal Loss a/c | Dr | xxxx |
|                   | To PPE               |    | xxxx |
|                   | ii) P&L a/c          | Dr | xxxx |





|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| To Abnormal Loss                                                                                                                                                                                                                                                                                                                                                                                                      | xxxx    |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| II Insurance Claim : i) Bank/ New Asset a/c                                                                                                                                                                                                                                                                                                                                                                           | Dr xxxx |
| To I. claim                                                                                                                                                                                                                                                                                                                                                                                                           | xxxx    |
| ii) I. Claim a/c                                                                                                                                                                                                                                                                                                                                                                                                      | Dr xxxx |
| To P&L                                                                                                                                                                                                                                                                                                                                                                                                                | xxxx    |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Note: It can be said that Accounting for Losses and Abnormal Gain will be done separately. <u>We Should not net off the given values.</u></b>                                                                                                                                                                                                                                                                      |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Q.27</b>                                                                                                                                                                                                                                                                                                                                                                                                           |         |
| As per the Provisions of AS-10, Accounting for Abnormal Loss of PPE and its insurance claim will be done separately. So, the Entity should debit its P&L by 200,000 as abnormal Loss, but It should credit 20,00,000 as an Income from I. Claim in P&L A/c.                                                                                                                                                           |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Q.26 ( Not so Important)</b>                                                                                                                                                                                                                                                                                                                                                                                       |         |
| If output is consistent then SLM will be best Option                                                                                                                                                                                                                                                                                                                                                                  |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Q.23 ( Not so Important)</b>                                                                                                                                                                                                                                                                                                                                                                                       |         |
| The Selected Policy for not providing Dep is not acceptable because Accounting is done on Accrual Basis.                                                                                                                                                                                                                                                                                                              |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Q.22 ( Not so Important)</b>                                                                                                                                                                                                                                                                                                                                                                                       |         |
| As per the Provisions of AS-10, Revaluation Model is mandatory for Similar Assets on Global Basis. In the Given case, Nature of Factory Building & Office Building is quite different due to their locations. So, Different Models can be applied on different Building. The Selected Policy Of the Entity is Correct because Revaluation model can be applied on Office Building and Cost model on factory Building. |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |
| <b>Q.19 ( Promotional Activities)</b>                                                                                                                                                                                                                                                                                                                                                                                 |         |
| AS-10 does not allow Promotional Exp or operating loss in the cost of PPE. The Period, which is given in the question, cannot be said as Trial Run Period because Park is already available for Public at low Prices. So, It's a Promotional Period.                                                                                                                                                                  |         |
|                                                                                                                                                                                                                                                                                                                                                                                                                       |         |





**Q.14 (Improvements)**

In the Given Case, Renovation Exp can be capitalised because sale will be increased by 15% after such Renovation. So, It can be classified as Improvements in Assets.

Q.12 H.W.

Thank You  
Best of Luck.....!!!!!!  
CA. Parveen Jindal



## Chapter-7 Accounting Standard 26 \*Imp Accounting for Intangible Assets

### \*Part 1\*

AS-26 : 1.4.2003 onwards

Nature: \* Mandatory for all

\*Except for those Entities which are applying Ind AS-38

### Concept 1: Meaning of Intangible Assets

As per the Provisions of AS-26, An Asset can be classified as an Intangible Asset only if the Following 3 Basic Conditions are Satisfied:-

**Condition 1: It Should not have any Physical Substance**

(i.e., It can be not touched & It cannot be seen. It means that It should not be a tangible Asset)

+

**Condition 2: It should be a Non-Monetary Asset**

(i.e., It should be held for use in Business, but not for Re- Sale Purpose)

+

**Condition 3: It should be an Identifiable Asset**

(i.e., It can be Sold, can be Exchanged or can be given on Rent. It means that there should be some Consideration to identify the Existence of Non Physical Asset.)

### Concept 2: Recognition Rules \*Imp

(Rules to Recognise an I. Asset in Books of A/c)

As per the Provision of AS-26, the Following Condition should be Satisfied **before making Recognition of Intangible Assets in B/S of an Entity:-**



Condition 1: It should be under control of the Entity

(i.e., It means that It should be under Undisputed Ownership of the Entity. If there is any dispute regarding ownership of Assets then such An Assets cannot be recognised in B/S.)

+

Condition 2 : It should have a reliable Estimate of its cost

+

Condition 3 : There should be some Economic Benefits from use of such an Assets.

Note : In Case, Any Asset does not satisfy the recognition rules then It will be written off in P&L at once.

Concept 3: Examples of Intangible Assets which are discussed in AS-26

i. Patents

ii. Copyrights

ii. Trade marks

iv. R&D

v. Licences for mining, Stock Exchanges etc.

vi. Goodwill

vii. Advertising

viii. Training Cost → (Refer Para 56 of AS-26)

ix. Preliminary Exp.

x. Start up Cost

[Note : The item from (vii) to (x) are not) Intangible, but have been discussed in AS-26]



\*Part 2\*Concept 4: Acquisition of Intangible Assets

## Acquisition of Intangible Asset

|          |          |           |              |          |             |
|----------|----------|-----------|--------------|----------|-------------|
| Case I:  | Case II: | Case III: | Case IV:     | Case V:  | Case VI:    |
| Purchase | Purchase | Exchange  | Amalgamation | Purchase | In house    |
| by       | by       | of Asset  | of Company   | from     | Research    |
| Cash     | Shares   |           |              | Govt.    | \$          |
|          |          |           |              |          | Development |

(Refer AS-10: PPE for Understanding)

(AS-10 & AS-26 are Same on these concepts)

Case I : Purchase by Cash

As per the Provisions of AS-26, Cost of Intangible Assets, which are Purchased by Cash, shall include Purchase Price, Stamp duty, Brokerage Or commission, (Non Refundable) other Taxes & Duties or any other Expense which is related with acquisition of Intangible Assets. The Following Statement shall be Prepared for the computation of cost of Intangible Assets:-

Statement Showing Computation of Cost of Intangible Assets

|                                                                                   |             |
|-----------------------------------------------------------------------------------|-------------|
| Purchase Price                                                                    | xxxx        |
| Stamp Duty                                                                        | xxxx        |
| Brokerage/ Commissions                                                            | xxxx        |
| Other Taxes & Duties (Non Recoverable)                                            | xxxx        |
| Any Other Expense which is Directly related with acquisition of Intangible Assets | <u>xxxx</u> |
| Cost of Intangible Assets                                                         | <u>xxxx</u> |



Journal :

|                       |         |
|-----------------------|---------|
| Intangible Assets a/c | Dr xxxx |
| To Bank               | xxxx    |

(Being Intangible Assets Acquired)

#### Case IV : Acquisition of Intangible Assets under Scheme of Amalgamation

As per the Provisions of AS-26, Purchasing Company can recognise the Intangible Assets which are taken from vendor company Only if fair value is available for these Assets. It can also be said that Intangibles Of Vendor company can be taken over by Purchasing company only if Fair value is known for these Assets.

Note: In the absence of Fair value/ Market value, the Intangible Assets Of Vendor co. shall be considered value Less. "Nil"

#### Case V: Purchase from Govt.

If any Intangible Asset is acquired from the Govt. directly then It will be recorded at such Price which is paid to Govt. It may be at full Price, Concessional Price or Nominal Price.

Free of Cost i.e., @1/-

#### Case VI : Research & Development (In house)

R&D

Phase I : Research Phase  
- P&L

Phase II: Development Phase  
- Can be capitalised subject to  
Some conditions

Research Phase: If any Expense is incurred during Research Phase then It will be written off in P&L A/c because such Expenditure does not meet the definition of Intangible Asset.



Development Phase: If any Expense is incurred during the Development Phase (Trial Phase) after completing Research Phase then It can be capitalised as an Intangible Asset subject to following conditions:-

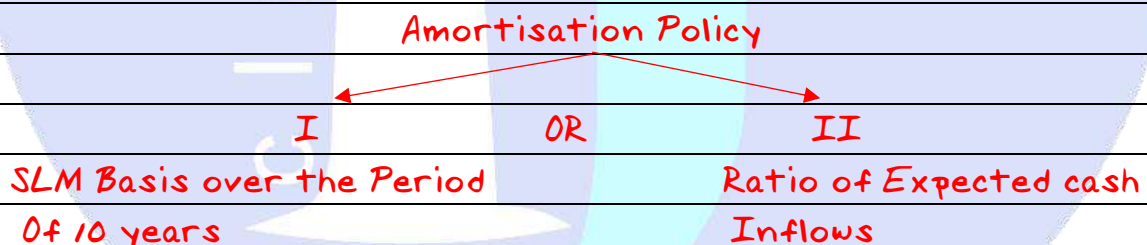
- i. Technical feasibility of Product
- ii. Availability of Product for Sale
- iii. There is an External Market of such Product
- iv. Conversion of Research work in Commercial Production

Note: If the specified factors cannot be fulfilled then Development Exp will also be written off in P&L A/c.

### \*Part 3\*

### Concept 5: Amortisation of Intangible Assets

As per the Provisions of AS-26, Intangible Assets should be Amortised as per Amortisation Policy as follows:-



#### Notes:

1. In the absence of any specific requirement, we should always prefer Ratio of Expected Cash Inflows.
2. A Longer Period or Shorter Period than 10 years can be used, but Valid reason should be given by the Entity.

It may be Possible that Legal Life is given in question





Journal:

i. Amortisation Exp. A/c Dr    xxxx  
     To Intangible Assets            xxxx  
 (Being Intangible Assets Amortised)

ii. P&L a/c            Dr            xxxx  
     To Amortisation Exp.            xxxx  
 (Being Amort Exp. Written off in P&L)

Q.10

Calculation of Carrying Amount of Patent after 2 years

|                                                    |                    |
|----------------------------------------------------|--------------------|
| Original Cost of Patent                            | 80,00,000          |
| Amortisation Exp. For 2 years (80L/8y x 2Y)        | <u>(20,00,000)</u> |
| Carrying Amount of Intangible Assets after 2 years | <u>60,00,000</u>   |

Statement showing Amortisation of Intangible Assets  
(Over the remaining life)

| <u>Years</u> | <u>cash flows (Expected)</u> | <u>Ratio of C.F</u> | <u>Amortisation Exp.</u>  |
|--------------|------------------------------|---------------------|---------------------------|
| 1            | 36,00,000                    | 18                  | 10,80,000 (18/100)        |
| 2            | 46,00,000                    | 23                  | 13,80,000 (23/100)        |
| 3            | 44,00,000                    | 22                  | 13,20,000 (22/100)        |
| 4            | 40,00,000                    | 20                  | 12,00,000 (20/100)        |
| 5            | 34,00,000                    | <u>17</u>           | <u>10,20,000 (17/100)</u> |
|              |                              | <u>100</u>          | <u>60,00,000</u>          |

Q.8 \* V.V.Imp

A) In the Given Case, there is a revision in No of Expected Units at the end of I<sup>st</sup> year itself. It means that change in Expected cash flows has taken place in I<sup>st</sup> year due to which we should Apply the revised Estimation for computing Amortisation Exp. at the end of I<sup>st</sup> year. The following Statement may be Preferred:-

Statement Showing Amort Expense.

| <u>Years</u> | <u>cash flows</u> | <u>Ratio of C.F</u> | <u>Amortisation Exp.</u>    |
|--------------|-------------------|---------------------|-----------------------------|
| 1            | 25,000            | 5                   | 60,97,561 (5/41)            |
| 2            | 35,000            | 7                   | Not required<br>in question |
| 3            | 65,000            | 13                  |                             |
| 4            | 80,000            | <u>16</u>           |                             |
|              |                   | <u>41</u>           | <u>500,00,000</u>           |

B) In the Given case, It is clearly mentioned that Technical know how is directly used in Production of MoPEDS. So, we should consider the Amortisation Exp. in the Cost of Inventory instead of transferring it to P&L A/c.

Q.18 (Discussed in Class) H.W

Q.19 \*Imp

Calculation of carrying Amount of Patent after 3 years

| Original Cost of Patent           |                     | Rs.400,00,000            |
|-----------------------------------|---------------------|--------------------------|
| Amortisation Expenses : (3 years) |                     | (Rs.300,00,000)          |
| <u>Years</u>                      | <u>Ratio of C.F</u> | <u>Amortisation Exp.</u> |
| 1                                 | 200                 | 100,00,000               |
| 2                                 | 200                 | 100,00,000               |
| 3                                 | 200                 | 100,00,000               |
| 4                                 | 100                 | 50,00,000                |
| 5                                 | <u>100</u>          | <u>50,00,000</u>         |
|                                   | <u>800</u>          | <u>400,00,000</u>        |
| Carrying Amount after 3 years     |                     | <u>Rs.100,00,000</u>     |

Statement Showing Revised Amort. Expense

| <u>Years</u> | <u>cash flows</u> | <u>Ratio of C.F</u> | <u>Amortisation Exp.</u> |
|--------------|-------------------|---------------------|--------------------------|
| 1            | 100L              | 2                   | Rs.40,00,000             |
| 2            | 100L              | 2                   | Rs.40,00,000             |
| 3            | 50L               | <u>1</u>            | <u>Rs.20,00,000</u>      |
|              |                   | <u>5</u>            | <u>₹ 100,00,000</u>      |



Q.21, Q.26, Q.32 (Discussed in Class)

\*Part 4\*

Concept of 6: Impairment of I. Assets \*Imp

(Valuation Test at each B/S date)

As per the Provisions of AS-26, Valuation of Intangible Assets at each B/S date is required to be made. We will Provide for "Impairment Loss" if Recoverable Amount becomes less than Carrying Amount of I. Assets  
The following Entries may be recorded:-

1. Impairment Loss a/c Dr xxxx  
    To I. Assets                      xxxx  
(Being Downward Revaluation made)

2. P&L a/c Dr xxxx  
    To Impairment Loss xxxx  
(Being Losses written off)

|                                   |                   |                |
|-----------------------------------|-------------------|----------------|
| Impairment Loss = Carrying Amt at | – Recoverable Amt | → It Should be |
| B/S Date                          | at B/S Date       | less than      |
|                                   |                   | carrying       |
|                                   |                   | Amt            |

Additional Point to be Considered:

A. The Process of I. Loss should be Applied before computing Amortisation Exp. for the year.

B. As per the Rules, we will ignore the upward Valuation if Recoverable Amount becomes higher than carrying Amt of I. Assets." It means that we cannot create Revaluation Reserve on I. Assets".



|                                  |  |
|----------------------------------|--|
| Summary → Valuation of I. Assets |  |
| → Downward: Recognise I. Loss    |  |
| → Upward: Ignore                 |  |

Q.14 \*ImpI. Calculation of Amount to be Charged to P&L during 2003-04

|                                                                                   |                       |
|-----------------------------------------------------------------------------------|-----------------------|
| Total Expenditure during 2003-04                                                  | Rs.50,00,000          |
| Expenditure Incurred after 1.12.2003 Recognition of I. Assets (Development Phase) | <u>(Rs.28,00,000)</u> |
| Expenditure till 1.12.2003 to be charged to P&L A/c (Research Phase)              | <u>Rs.22,00,000</u>   |

II. Calculation of carrying Amount of I. Asset as on 31.3.2014

|                                                    |                                     |
|----------------------------------------------------|-------------------------------------|
| Carrying Amount = Total Expenditure during 2003-04 | – Written off Amount during 2003-04 |
| = Rs.50,00,000                                     | – Rs.22,00,000                      |
| = Rs.28,00,000                                     |                                     |

III Calculation of Amount to be charged to P&L in 2004-05

|                                          |                       |
|------------------------------------------|-----------------------|
| Opening Balance in I. Asset A/c          | Rs.28,00,000          |
| Expenditure during 2004-05               | <u>Rs.80,00,000</u>   |
| Total                                    | Rs.108,00,000         |
| Recoverable Amount as on 31.3.2005       | <u>(Rs.72,00,000)</u> |
| Impairment Loss to be written off in P&L | <u>Rs.36,00,000</u>   |

IV Calculation of Carrying Amount of I. Assets as on 31.3.2005

|                                                           |
|-----------------------------------------------------------|
| Carrying Amount = Total Carrying Amount – Impairment Loss |
| = Rs.108,00,000 – Rs.36,00,000                            |
| = Rs.72,00,000                                            |

Q.16, Q.31 Discussed in Class



### Concept 7: Expenditures don't qualify as I. Assets

(Para 56 of AS-26)

As per the Provisions of AS-26, there are some Expenditures which give an impression of I. Assets, but don't qualify for Recognition in Books.

It can also be said that these Expenses shall be written off in P&L A/c instead of Capitalising as an Intangible Asset. The following Expenses can be taken into consideration under such heading:-

|                                                     |     |                                       |                                            |
|-----------------------------------------------------|-----|---------------------------------------|--------------------------------------------|
| These Expenses Don't qualify as an Intangible Asset | I   | Advertising & Promotional Expenses    | These Exp. Shall be Written off in P&L A/c |
|                                                     | II  | Startup Cost                          |                                            |
|                                                     | III | Preliminary Exp. (Incorporation Exp.) |                                            |
|                                                     | IV  | Staff Training Cost                   |                                            |
|                                                     | V   | Business Relocation Expenses etc.     |                                            |

Q.5, Q.34, Q.3, Q.4 (Discussed in Class)

### \*Part 5\*

Q.9

Solution

As per the Provisions of AS-26, The Amortisation of Intangible Assets should be made on the basis of SLM over the Period of 10 year or in the Ratio of Expected Cash inflows. A longer Period than 10 years or A Shorter Period than 10 years may also be used, but the Entity is required to give valid reasons (Legal life).

In the Given situation, Entity has Purchased membership of Stock Exchange with Perpetual life. It indicates that legal life of this Membership is perpetual.

Conclusion: On the basis of above Explanation, It can be said that there is no need to Amortise the given Intangible Asset due to its Endless life, but Annual Impairment Test shall be conducted at each B/s date.





Q.11

As per the Provisions of AS-26, An Asset should be recognised as an Intangible Asset if it fulfils the definition of I. Asset. **In the given Case, company has purchased Technical Know how from Foreign Manufacturers which qualify as an I. Asset.**

As per the Rules, the following points should be considered by the Company while making Accounting for Technical know how:-

I. The Entity should recognise Technical Know how as an I. Asset.

II. The Entity should amortise it as Amortisation Policy defined in AS-26

**III. The Entity should not disclose it under fixed Assets as a Depreciable Asset.**

**Concept 8: Explanation on Toll Roads \*Imp**  
(Schedule II: Companies Act 2013)

**AS-26 does not deal with Toll Roads**

As per the Rules of Companies Act 2013, The Toll Road Model is based on 'PPP' model. The following Points may be noted :-

→ "Public Private Partnership"

1. If any Private Company obtains Toll Road Licence from Govt. (NHAI) then Such Private Company will recognise an Intangible Asset equal to the amount of Expenditure on Toll Roads because It is just like as a Licence for Specified Period.

(Note: The Ownership of Road remains with Govt.)

2. The Private Company will charge its fees from Public for using Toll Roads.

3. The Private company will Amortise its Licence for Toll Roads on the basis of following formula :-

|                |                         |   |                           |
|----------------|-------------------------|---|---------------------------|
| Amortisation = | Expenditure Incurred on | x | Actual Revenue during C.Y |
| Exp.           | Toll Roads              |   | Total Expected Revenue    |





## Q.12 \*Imp

As per the Provisions of AS-26, An Entity can recognise an Asset as Intangible Asset only if it fulfills the definition of I. Asset.

In the Given case, Entity has paid Rs.50L to State Govt. for Construction of Roads, but ownership of Road shall be of Govt. only. It indicates that the Entity will have a Licence to use the roads only.

Conclusion: The Entity should recognise the Rs.50 Lacs as an Intangible Asset in its B/s in the name of Licence Fees.

## Q.36 \*V.V.Imp (Rectification)

As per the Provisions of AS-26, An Intangible Asset should be written off over the period of 10 years if there is no Estimation of future cash flows. A different Period than 10 years can also be used but valid Reason should be given. In the Given case, Entity is using 15 years as a base for Amortisation which is completely wrong because no reason has been defined. So, we need to correct the amortisation Expenses which has been charged in previous years as follows:-

Calculation of Difference in Amortisation Exp. as per correct Policy & Used Policy

|                             |            |
|-----------------------------|------------|
| Correct Policy as per AS-26 | 48 L       |
| $(120 L \times 4Y)$         |            |
| 10 Y                        |            |
| Used Policy as per Entity   | (32 L)     |
| $(120L/15Y \times 4Y)$      |            |
| Additional Amort. Required  | <u>16L</u> |

\*The Entity should charge Rs.16L in its Revenue Reserve/PL as an additional Amortisation as follows:-

|                         |    |    |
|-------------------------|----|----|
| Rev. Res a/c            | Dr | 16 |
| To I. Asset             |    | 16 |
| (Being correction made) |    |    |



Revised Carrying Amount =  $88L - 16L = 72L$

Amort. Exp (2021-22) =  $\frac{72L}{6 \text{ years}} = 12L \text{ P.a}$

6 years → Remaining life

Remaining Carrying Amt

Q.39 (Discussed)

### Concept 9 : Cost of Internally Generated Goodwill \*Imp

As per the Provisions of As-26, Self/Internally Generated Goodwill cannot be recognised in Books. This Goodwill is considered as free of Cost Goodwill and Double Entry system cannot be applied on it.

Note: If any Goodwill is purchased as a Part of Scheme of Business Acquisition then it can be shown in books as a Purchased Intangible Asset.

### \*Part 6\*

Q.7 \*Imp

As per the Provisions of As-26, Intangible Asset can be recognised in the books of Accounts only if Such an Asset fulfills the conditions which are required as per Recognition Rules.

In the given case, Company had written off Rs.75,00,000 in Past 3 years which is 100% correct because such an Expenditure did not fulfill the criteria of I. Assets at that time. So, there is no mistake in Accounting in Previous Financial Statements.

Conclusion: On the basis of Given Explanation, It can be said that the Company cannot write back its Expenditure of Rs.75,00,000 because it is not a Prior Period Item.



Q.17 \*V.V.Imp

i. Statement Showing Amortisation of Goodwill

a) Goodwill = PC – N. Assets

$$= \text{Rs.}11,40,000 - \text{Rs.}850,000$$

$$= \text{Rs.}290,000$$

$$\text{Amortisation (P.a)} = \frac{\text{Rs.}290,000}{10Y} = \text{Rs.}29,000 \text{ P.a}$$

ii. In the Given question, Projected cash flows are mentioned due to which we should use Ratio of Cash flows for the Amortisation of Transportation Licence instead of taking SLM as a base. Further, there is a fees of 4% of Revenue which is to be Paid additionally. This fees will be written off in P&L against Revenue in the respective year.

Statement Showing Amortisation of Licence Fees

| <u>Years</u> | <u>cash flows</u> | <u>Ratio</u> | <u>Amortisation Exp.</u> |
|--------------|-------------------|--------------|--------------------------|
| 1            | 120,000           | 120          | Rs.102,128               |
| 2            | 240,000           | 240          | Rs.204,255               |
| 3            | 350,000           | 350          | Rs.297,872               |
| 4            | 350,000           | 350          | Rs.297,872               |
| 5            | 350,000           | <u>350</u>   | <u>Rs.297,873</u>        |
|              |                   | <u>1410</u>  | <u>12,00,000</u>         |

iii. Calculation of Amortisation Exp. (Per Annum)

$$\text{Total Cost} = 110,000 + 300,000 = \text{Rs.}410,000$$

$$\text{Amortisation (P.a)} = \frac{\text{Rs.}410,000}{10Y} = \text{Rs.}41,000 \text{ P.a}$$

Q.20, Q.25, Q.27, Q.29 (Discussed in Class)

Homework- Q.33, Q.38



## Concept 10 : Disposal of Assets

|                        |    |                      |
|------------------------|----|----------------------|
| Journal: Bank a/c      | Dr | xxxx (SP)            |
| P&L a/c                | Dr | xxxx (loss: Bal fig) |
| To I. Assets           |    | xxxx (Book Value)    |
| To P&L (Profit)        |    | xxxx (Bal fig)       |
| (Being I. Assets Sold) |    |                      |

As per the Provisions of AS-26, Each Entity should review Estimated useful life of I. Assets at the end of each year. It may be possible that there is a change in useful life of Assets. The Entity should use the Change in useful life on Prospectively basis for computing Revised amount of Amortisation Expense. The following Equation may be Considered :-

Example :

### Calculate Revised Amount of Amortisation

### Calculation of Revised Amort. Exp



|                                              |              |
|----------------------------------------------|--------------|
| Original Cost                                | Rs.10,00,000 |
| Amort. Exp for 1 <sup>st</sup> year (10L/5Y) | (Rs.200,000) |
| Remaining Carrying Amount                    | Rs.800,000   |
| Revised Useful life                          | 2 y          |
| Revised Amortisation Exp.                    | 400,000      |

### Concept 12: Computer Software & Websites \*Imp

(Internally Generated)

#### Computer Softwares

|                                                                                                            |                                                                                                   |                                |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------|
| Pre-Installed Software in Computers at the time of Acquisition Of Computers                                | Additional Software (Purchased from markets)                                                      | *Internally Generated Software |
| ↓                                                                                                          | ↓                                                                                                 |                                |
| These software are not Recognised separately but these are considered as a Part of Cost of PPE Under AS-10 | These are recognised as I. Asset at acquisition cost under AS-26 (Refer Purchase by Cash Concept) |                                |

### \*Internally Generated Softwares

#### Unit I : Computation of Cost of such software

I. The whole Expenditure, which is incurred during the Research Phase, shall be written off in P&L A/c.

II. The whole Expenditure, which is incurred during the Development Phase, shall be capitalised to Cost of I. Asset. The following Expenses can be capitalised to the cost of such softwares :-





|                  |      |
|------------------|------|
| Salaries & Wages | xxxx |
|------------------|------|

|           |      |
|-----------|------|
| Overheads | xxxx |
|-----------|------|

|                 |      |
|-----------------|------|
| Product Masters | xxxx |
|-----------------|------|

|                         |  |
|-------------------------|--|
| Coding & Testing during |  |
|-------------------------|--|

|             |             |
|-------------|-------------|
| Development | <u>xxxx</u> |
|-------------|-------------|

|  |             |
|--|-------------|
|  | <u>Xxxx</u> |
|--|-------------|

*\*Staff Training, Packaging or Promotional Exp. shall not be capitalised in the Cost of Softwares.*

### Unit II: Amortisation of Softwares

As per the Provisions of AS-26, the Entity should use Amortisation Policy of 3-5 years instead of using 10 years due to nature of Assets.

Q.28 \*Imp

#### I. Cost Incurred till Phase II:

As per the Provisions, we cannot capitalise the cost incurred during Phase I & II because there was no Technical feasibility till Phase II. So, the Expense of Rs.90,000 will be written off in P&L A/c (Rs.50000 + Rs.40000)

#### II. Cost Incurred after Phase II:

As per the Provisions, we can capitalise the whole Expenditure after Establishment of Technical feasibility Except Packaging Material which is a type of Selling Exp.

Expenses Eligible for = 63,000 + 18,000 + 19,500 = Rs.100,500

Capitalisation

*\*We will Write off Packaging Exp. in P&L A/c.*





Q.1 \*Imp

Treatment of Expenses Incurred during Research Phase

As per the Provisions of AS-26, the Entity should amortise Rs.20 Lacs in P&L A/c because we cannot capitalise Expenses incurred during Research Phase.

Treatment of Expenses incurred during Development Phase

All Expenses shall be capitalised which are incurred during Development Phase. The following statement shall be Prepared :-

|                            |                |
|----------------------------|----------------|
| Salaries & Wages (30 + 40) | 70 Lacs        |
| Overheads                  | 12 Lacs        |
| Adm OH                     | <u>10 Lacs</u> |
| Total Cost                 | <u>92 Lacs</u> |

\*Staff Training will be written off in P&L

$$\begin{aligned}
 \text{Impairment Loss} &= \text{Carrying Amount} - \text{Recoverable Amount} \\
 &= 92 \text{ Lacs} - 70 \text{ Lacs} \\
 &= \underline{\underline{*22 \text{ Lacs}}}
 \end{aligned}$$

\*To be written off in P&L A/c

Q.6 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-8 Accounting Standard 12

### Government Grants

#### \*Part 1\*

#### Concept 1: Applicability & Nature

- i. **Applicable: 1.4.94 onwards**
- ii. **Nature: Mandatory for all Entities**  
Except for those Entities which are covered by Ind -AS

#### Concept 2: Important Definitions

- i. Meaning of Govt: As per Provisions of AS 12, Govt. means State Govt; C. Govt; Local Authorities, Foreign Govt or any other kind of Govt.
- ii Meaning of Grant: As per AS-12, Grant means Financial Assistance which is Provided by a Govt to an Entity subject to fulfillment of certain conditions which are attached to it. The Following Grant are covered under the Scope of AS-12
  - i. Grant related to Fixed Assets
  - ii. Grant related to Promoters Contribution
  - iii. Grant related to Revenues
  - iv. Non-Monetary Grants

#### **Operating Benefits**

Note: Tax Benefits (if any) which are Provided by a Govt to an Entity are not Considered as Grant under AS/12.



### Concept 3: Recognition of Grant \*Imp

As per the Provision of AS-12, Grant can be Recognised in the books on Accrual Basis if the following conditions are satisfied:

Condition 1: It should be certain that Entity will fulfill the attached Condition's to Grant

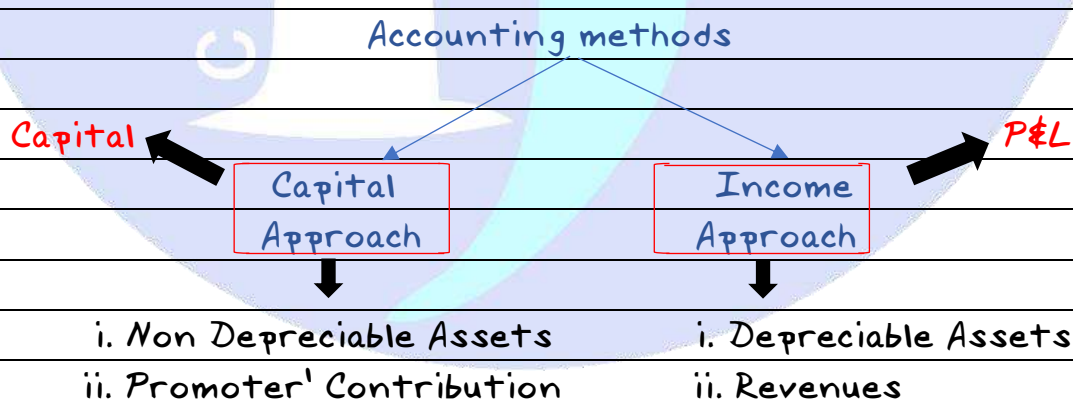
+

Condition 2: It should also be certain that ultimate collection from Grant will be Completed

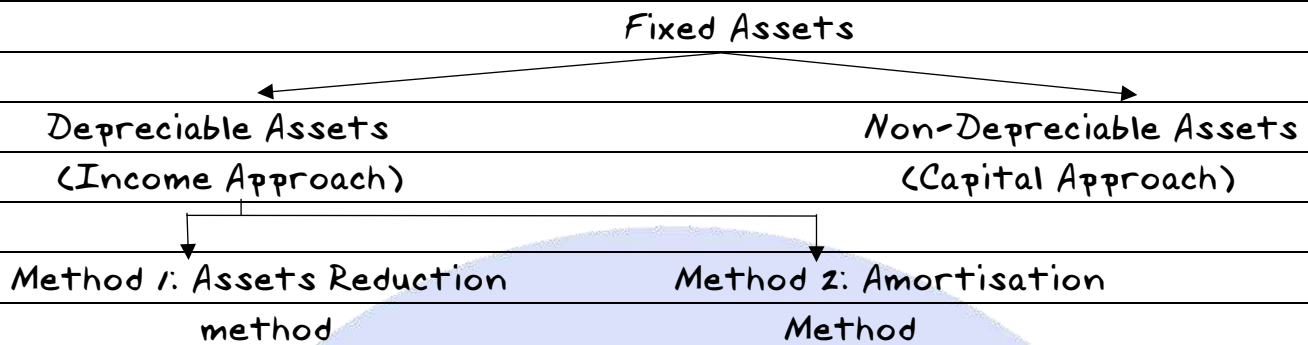
Note: In case there is any doubt in fulfillment of above conditions then Recognition of Grant shall be made on Cash Basis.

| <u>Accrual Basis</u>                      | <u>Cash Basis</u>      |
|-------------------------------------------|------------------------|
| Receivable a/c Dr      xxxx               | Bank a/c Dr      xxxx  |
| To G. Grant              xxxx             | To G. Grant      xxxx  |
| (Being Grant Recognised on Accrual Basis) | (Being Grant Received) |

### Concept 4: Accounting methods for Grant



### Concept 5: Accounting for Grant related to Fixed Assets



(It is Preferable in the absence of specific Requirement)

#### Method 1: Assets Reduction method (Depreciable Assets)

##### Step 1: At the time of Receiving of Grant

- i. Bank a/c Dr      xxxx  
    To G. Grant      xxxx  
    (Being Grant Received)
- ii. G. Grant a/c Dr      xxxx  
    To fixed Assets      xxxx  
    (Being Grant adjusted against Cost of Assets)

Note: Under this method, Grant is directly adjusted against cost of Assets. After Such an adjustment, Cost of Assets will be reduced and Depreciation will be computed on Reduced cost

##### Step 2: Depreciation at the end of year

Dep =  $\frac{\text{Carrying Amt of Asset} - \text{Grant Received}}{\text{Estimate useful life of Assets}}$  (SLM)

Or

Dep =  $[\text{Carrying Amt of Assets} - \text{Grant Received}] \times \%$  of Depreciation (WDV)



|                                     |   |          |
|-------------------------------------|---|----------|
| Example: i. Original Cost of Assets | : | 5,00,000 |
| ii. Grant Received                  | : | 2,00,000 |
| iii. Estimated useful life of Asset | : | 5 Year   |
| iv. Salvage value (Estimated)       | : | 40,000   |
| Calculate Dep for each year         |   |          |

Solution

Statement showing Calculation of Dep

|                                                       |                  |
|-------------------------------------------------------|------------------|
| Original Cost of Asset                                | 500,000          |
| Grant Received                                        | <u>(200,000)</u> |
| Net Cost                                              | 300,000          |
| Dep = $\frac{300000 - 40000}{5Y} = 52000 \text{ P.a}$ |                  |

Example \*Imp

With the help of given information as in above Example, Calculate Dep. For 3<sup>rd</sup> Year assuming company has received Grant in the beginning of 3<sup>rd</sup> year.

Solution

Statement Showing Revised Dep. For 3<sup>rd</sup> year

|                                                                           |                  |
|---------------------------------------------------------------------------|------------------|
| Original Cost of Assets                                                   | 500,000          |
| Dep for first & Second year                                               | <u>(184,000)</u> |
| $\left( \frac{500,000 - 40,000}{5Y} \right) \times 2Y$                    |                  |
| Carrying Amount after 2 years                                             | 316,000          |
| Grant received                                                            | <u>(200,000)</u> |
| Revised C. Amt                                                            | 116,000          |
| Revised Depreciation = $\frac{116,000 - 40,000}{3Y} = 25,333 \text{ P.a}$ |                  |

Step 3: Refund of Grant

If grant is to be Refunded to Govt due to Non-Fulfillment of attached conditions then the following Entry shall take place:



|         |      |
|---------|------|
| To Bank | xxxx |
|---------|------|

Note: After Refund of Grant, Dep will get increased due to increase in Carrying Amount of Assets.

1. Original Cost: 10,00,000
2. Estimated useful life of Asset: 10 years
3. Grant Received in 3<sup>rd</sup> year: 200,000
4. Grant Received in 6<sup>th</sup> Year: 150000

Calculate Dep for 6<sup>th</sup> Year

Statement showing Revised Dep.

|                                                |                  |
|------------------------------------------------|------------------|
| Original Cost                                  | 10,00,000        |
| Depreciation for 2 years<br>(10,00,000/10 x 2) | <u>(200,000)</u> |
| Carrying Amount after 2 years                  | 800,000          |
| Grant Received                                 | <u>(200,000)</u> |
| Revised Carrying Amount                        | 600,000          |
| Depreciation for 3 years<br>(600,000/8y x 3y)  | <u>(225000)</u>  |
| Carrying Amount of Asset after 5Y              | 375000           |
| Add: Grant Refunded                            | <u>150000</u>    |
| Revised C. Amt                                 | 525000           |

$$\text{Revised Dep after Refund} = \frac{525000}{5Y} = 105000 \text{ p.a.}$$




Method 2: Amortisation method(Deferred Grant method)Step 1: At the time of Receipt of Grant

i. Bank a/c Dr      xxxx  
       To G. Grant      xxxx  
(Being Grant Received)

ii. G. Grant a/c Dr                      xxxx  
       To Deferred Grant A/c              xxxx  
(Being Grant Recognised as Deferred Grant)

Step 2: Amortisation of Grant at year end

Deferred Grant a/c Dr      xxxx  
       To P&L A/c                      xxxx  
(Being Deferred Grant Amortised in P&L A/c)

i.  $SLM = \frac{\text{Deferred Grant A/c}}{\text{Useful life of Assets}}$   
 OR

ii.  $WDV = \text{Deferred Grant A/c} \times \%$

Example

Case 1: i. Grant Received : 2,00,000  
       ii. Useful life of Assets : 10 year  
       iii. Method of Dep : SLM

Case 2: What if, Grant has been received after 2 years from acquisition  
 Of assets

Case 3: What if, Dep. is 15 % P.a. on WDV basis in case I



Solution

Case 1:

Deferred Grant A/c

|            |                                    |               |             |          |
|------------|------------------------------------|---------------|-------------|----------|
| To P&L     | $\frac{2,00,000}{10 \text{ year}}$ | 20,000        | By G. Grant | 2,00,000 |
| To Bal c/d |                                    | <u>180000</u> |             |          |
|            |                                    |               | By Bal b/d  | 180000   |
| To P&L     | $\frac{180000}{9}$                 | 20000         |             |          |
| To Bal c/d |                                    | <u>16000</u>  |             |          |

Case 2:

Deferred Grant A/c

|            |                                   |               |             |        |
|------------|-----------------------------------|---------------|-------------|--------|
| To P&L     | $\frac{2,00,000}{8 \text{ year}}$ | 25000         | By G. Grant | 200000 |
| To Bal c/d |                                   | <u>175000</u> |             |        |
| To P&L     | $\frac{175000}{7 \text{ year}}$   | 25000         | By Bal b/d  | 175000 |
| To Bal c/d |                                   | <u>150000</u> |             |        |

Case 3:

Deferred Grant A/c

|                                 |                 |             |          |
|---------------------------------|-----------------|-------------|----------|
| To P&L ( $200000 \times 15\%$ ) | 30,000          | By G. Grant | 2,00,000 |
| To Bal c/d                      | <u>1,70,000</u> |             |          |
| To P&L ( $170000 \times 15\%$ ) | 25500           | By Bal b/d  | 1,70,000 |
| To Bal c/d                      | <u>144500</u>   |             |          |



Note on Concept: Under this method, Grant is not reduced from cost Of Assets, but It is transferred to a Separate Account "Deferred Grant A/c" The o/s Balance in Deferred Grant A/c will be amortised in P&L A/c over the useful life of Assets in accordance with method of Depreciation. The Balance in Deferred Grant A/c will be shown under the heading of R&S.

### Step 3: Refund of Grant

If Grant is to be Refunded under Amortisation method then there may be 2 cases as follows:

1<sup>st</sup> Case: If Refund is more than o/s balance in Deferred Grant A/c

|                     |                |                 |
|---------------------|----------------|-----------------|
| Deferred Grant Dr   | xxxx (Balance) |                 |
| P&L                 | Dr             | xxxx (Bal. fig) |
| To Bank             |                | xxxx (Refund)   |
| (Being Refund made) |                |                 |

2<sup>nd</sup> Case: If Refund is less o/s balance in Deferred Grant A/c

In this Case, Refund will be debited in Deferred Grant A/c and remaining Balance in Deferred Grant A/c will be amortised over remaining Useful life of Asset

Example: i. Balance in Deferred Grant A/c : 20,000  
 ii. Refund of Grant : 12,000  
 iii. Remaining useful life of Asset : 10year

Solution:

| Deferred Grant A/c |       |            |       |
|--------------------|-------|------------|-------|
| To Bank            | 12000 | By Bal b/d | 20000 |
| To P&L ( 8000 )    | 800   |            |       |
| 10 year            |       |            |       |
| To Bal c/d         | 7200  |            |       |



### Grant for Non- Depreciable Assets (Capital Approach)

If any Grant is Provided by Govt. to an Entity which is related with Non Depreciable Assets then It will be Accounted for under Capital Approach as follows :-

#### Step 1: At the time of Receipt of Grant

Bank a/c Dr        xxxx  
    To G. Grant        xxxx  
(Being Grant Received)

G. Grant a/c Dr        xxxx  
    To capital Reserve        xxxx  
(Being Grant transferred)

#### Step 2: At the time of refund of Grant (if any)

Capital Reserve a/c Dr    xxxx  
    To Bank                    xxxx  
(Being Grant Refunded)

### Concept 6: Grants Related to Promoter's Contribution " Capital Approach "

If any Grant is received for setting up of a new business then It will be considered as Grant related to Promoter Contribution. It will be Accounted for under "Capital Approach". *The Entries shall remain same as in case of Non Depreciable Assets.*

### Concept 7: Grant Related to " Revenues "

↓  
(Income Approach)    It may be related with Expenses  
                                         or Income



If any Grant is Provided by Govt. for Public Service (i.e, Public, Welfare, Staff welfare, Sale of Goods at discounted Prices etc.) then It will be considered as Grant Related to Revenue. It will be Accounted for under Income Approach as Follows :

### Step 1: At the time of Receipt of Grant

i. Bank a/c Dr      xxxx  
       To G. Grant      xxxx

ii. G. Grant Dr      xxxx  
       To P&L      xxxx

### Step 2: Refund of Grant

P&L a/c Dr      xxxx  
       To Bank      xxxx

### Concept 8: Non-Monetary Grants

There will be no accounting for these Grants because the Grants are provided by Govt. by reducing Purchase Price of Assets. It can also be said that these Grants are already adjusted in acquisition Price of Assets or It can also be said that Assets are acquired directly at Reduced Prices.

#### " Free of Cost Assets"

i. If any Assets is Received by Entity from Govt. for free then It will be disclosed in B/S at " Nominal value".

| ii. | <u>B/S</u> | Value which is written on Allotment Paper |
|-----|------------|-------------------------------------------|
|     |            | Fixed Assets                              |
|     |            | (Nominal Value)                           |
|     |            | 0                                         |



\*Part 2\*

Q.1, Q.2, Q.3 (Discussed in Class)

Q.4

Solution: Statement Showing Accounting Treatment of GrantMethod 1: Assets Reduction method

|                                                                          |                 |
|--------------------------------------------------------------------------|-----------------|
| Cost of Assets                                                           | 2500000         |
| Grant (20%)                                                              | 500000          |
| Net Cost                                                                 | 20,00,000       |
| Dep. <span style="border: 1px solid black; padding: 2px;">2000000</span> | = 2,00,000 P. a |
| <span style="border: 1px solid black; padding: 2px;">10 year</span>      |                 |

Method 2: Deferred Grant method

i. Depreciable = ₹ 25,00,000 = ₹ 2,50,000 P. a  
10 year

ii. Deferred Grant will be = ₹ 500000 = 50,000 P. a  
Amortised in P&L 10 year

Q5.

Journal Entries: (Asset Reduction Method)

1<sup>st</sup> year

i. Asset a/c Dr 75,00,000  
To Bank 75,00,000

(Being Asset acquired)

ii. Bank a/c Dr 15,00,000  
To Govt. Grant 15,00,000

(Being Grant Received)

iii. Govt. Grant Dr 1500000  
To Assets 1500000

(Being Grant Adjusted against Cost of Assets)





iv. Dep a/c Dr 1050000 (60-7.5) / 5 year  
     To Assets 1050000  
     (Being Asset Depreciated)

v. P&L a/c Dr 1050000  
     To Dep. 1050000  
     (Being Exp. written off)

2<sup>nd</sup> year

vi. Dep a/c Dr 1050000  
     To Assets 1050000  
     (Being Asset Depreciated)

vii. P&L a/c Dr 1050000  
     To Dep. 1050000  
     (Being Dep. written off)

### Deferred Grant Method

1<sup>st</sup> year

i. Asset a/c Dr 7500000  
     To Bank 7500000  
     (Being Asset acquired)

ii. Bank A/c Dr 15,00,000  
     To Govt. Grant 15,00,000  
     (Being Grant Received)

iii. Govt Grant a/c Dr 15,00,000  
     To Deferred Grant 15,00,000  
     (Being Grant Deferred)

iv. Dep a/c Dr 13,50,000 (7500000 - 750000) / 5Y  
     To Asset 13,50,000  
     (Being Asset Depreciated)

v. Deferred Grant a/c Dr 300,000 (15,00,000 / 5Y)  
     To P&L 300,000  
     (Being Grant Amortised over the useful life of Asset)

vi. P&L a/c Dr 13,50,000  
     To Dep 13,50,000  
     (Being Dep written off)



2<sup>nd</sup> year

vii. Dep a/c Dr 13,50,000

To Asset 13,50,000

viii. P&amp;L a/c Dr 13,50,000

To Dep 13,50,000

ix. Deferred Grant a/c Dr 300,000

To P&amp;L 300,000

Q.7, Q.8, Q.9, Q.18 (Discussed in Class)

Q.10

Method I: Asset Reduction Methodi. Journal Entry for Refund of Grant

F. Asset a/c Dr 12L

To Bank 12L

(Being Grant Refunded &amp; Capitalised to Cost of Asset)

ii. Calculation of Value of F.Asset after Refund

Cost of Asset 40,00,000

Grant Received (16,00,000)

N Cost 24,00,000

Depreciation for 2 years

 $(24-8)/4 \times 2$  (800,000)

Book value after 2 years 16,00,000

Add: Refund of Grant 12,00,000Revised Valued 28,00,000

Revised Dep =  $\frac{28,00,000 - 800,000}{2Y} = 10,00,000 \text{ P.a}$



Method II: Deferred Grant Methodi. Balance in Deferred Grant A/c :

|                           |                  |
|---------------------------|------------------|
| Grant Received & Deferred | 16,00,000        |
| Grant Amortised           | <u>(800,000)</u> |
| $(16,00,000 \times 2)/4Y$ |                  |
| Balance                   | <u>800,000</u>   |

## ii. Journal: Deferred Grant Dr 800,000

P&L Dr 400,000

To Bank 12,00,000

(Being Refund of Grant made)

## iii. Asset a/c: Cost of Asset

40,00,000

Depreciation

(16,00,000)

$(40,00,000 - 800,000)/4Y \times 2Y$

Book Value after 2 years

24,00,000

\*There will be no impact on Asset A/c after Refund of Grant under Deferred Grant method.

Q.11, Q.12 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-9 Accounting Standard 16

### Borrowing Cost

#### \*Part 1\*

#### Concept 1 : Applicability & Nature

Applicable : 1.4.2000 onwards

Nature : Mandatory for all Entities Except Entities which are Applying Ind AS 23

#### Concept 2 : Important Definitions

(i) Meaning of Borrowing cost :- As per the Provisions of AS-16, Borrowing Cost means "Interest and other cost" Which is incurred by an Enterprise for the arrangement of Borrowed funds.

(Note : Borrowed Funds do not include Equity or Pref. Capital)

The Following Items can be included in the meaning of Borrowing cost :-

loans                      loans  
(i) Interest on long Term debts / Short Term debts

+

(ii) Amortised Portion of Discounts or Premiums

↓  
Issue

↓  
Redemption

+

(iii) Amortised Portion of Ancillary Cost

↓  
Underwriting Commission, Stamp duty etc.



Amortised Portion :-

(1) If Loan is Repayable after a certain Period in Lump Sum

$$\frac{\text{Other Cost}}{\text{Term of Loan}} = \text{Cost Per Annum}$$

Or

(2) If Loan is Repayable in Installments :

$$\text{Other Cost} \times \text{Ratio of o/s Principal over the Term}$$

+

iv) Finance Charges incurred for Finance Leases (AS-19)

\*Imp

+

v) Exchange Fluctuations to the Extent of Interest Adjustment  
(Para 4e)

Calculation of B. Cost

|                                       |      |
|---------------------------------------|------|
| Interest on Loans (LT/ST)             | xxxx |
| Amortised Portion : Discount on Issue | xxxx |
| Premium on Red.                       | xxxx |
| Ancillary Exp.                        | xxxx |
| B. cost                               | xxxx |

(ii) Meaning of Qualifying Assets :- As per the Provisions of AS-16,

Q. Asset is an Asset that takes Substantial Period of time to get ready for its intended use or Sale.

"Substantial Period"

As per the Provisions, Substantial Period is a Period of 12 Months.

However Longer Period or Shorter Period than 12 months may also be justified based on circumstances.



**Exams :** Students should consider Substantial Period for Exam Purpose in Months even It is Given one Month.

The following Assets may take Substantial Period of Time to get ready for use or Sale :-

(i) Fixed Assets : A. Construction of Building  
B. Installation of P&M  
C. Power Generation Plants etc.

(ii) I. Assets : Development of Patents, Trade marks or Copy Rights etc.

(iii) Investment : Investment Properties, but Invest in Shares/ Deb. are not Q. Assets

(iv) Inventories : Other than Routine Inventories  
(i.e., Expensive Liquor Expensive Can etc.)

### Concept 3 : Recognition of Borrowing Cost

Case I : If Borrowed Funds have been arranged for acquisition, Production or Construction of Q. Assets then B. Cost will be Capitalised to the cost of Q. Asset as follows :-

i) B. Cost a/c Dr xxxx  
To Bank            xxxx

ii) Q. asset a/c Dr xxxx  
To B. Cost        xxxx

Case II : If Borrowed Funds are not taken for Q. Assets then B. Cost will be written off in P&L A/c. It can also be said that B. cost which is not incurred for Q. Assets should be written off in P&L

(1) B. Cost a/c Dr xxxx  
To Bank            xxxx





(2) P&L a/c Dr    xxxx  
       To B. Cost    xxxx

\*V.V.imp

Concept 4 : Conditions under AS-16 for Capitalisation of B. Cost

Condition/ Stages

Commencement  
Capitalisation  
Of B. Cost

Suspension of  
Capitalisation  
Of B. Cost

Cessation of  
Capitalisation  
Of B. Cost

Stage 1 : Commencement of Capitalisation

As per the Provisions of AS-16, capitalisation of B. Cost to Q. Assets can be commenced only if the following 3 Conditions are Satisfied :-

All 3 are mandatory

Condition I : Expenditure on Q. Assets should be incurred out of Borrowed Funds

Explanation

If any Borrowed Fund remains unutilised then Borrowing cost on Unutilised funds shall be written off in P&L A/c .

+

Condition II : Interest Cost Should be actual

Explanation

As per AS-16, Notional Interest can be Capitalised. If Expenditure becomes more than Borrowed Funds then we cannot calculate cost on Expenditure out of own Funds. In this case, Actual Interest can only be Capitalised.



### Expenditure

If it is Less than  
B. funds

If, it is more than  
B. Funds

Capitalisation will be  
Calculate on Expenditure

Capitalisation will be  
Calculated on Loan

Summary : Capitalisation will be computed on Expenditure or Loan  
whichever is Lower

### \*Part 2\*

+

Condition III : Necessary Activities should remain continue  
whether Physical or Administrative

### Stage II : Suspension of Capitalisation

A per the Provisions of AS-16, Capitalisation of Borrowing Cost will be Suspended if Necessary Activities for Completion of Work are discontinued. It can also be said that B. Cost during such Period of discontinuation of work will be written off in P&L A/c. As per the Provisions, Such Period of discontinuation is called Suspension Period.

The reason of discontinuation does not matter. It may be due to Labour strike, Shortage of material etc.

### Exception

→ Hours

If Suspension is temporary in nature then Capitalisation of B. Cost can be continued .

( i.e., If Suspension taken place due to rainfalls, water levels in river etc. then these are considered as temporary Reasons )



\*Imp

### Stage III : Cessation of Capitalisation

As per the Provisions of AS-16, Capitalisation of Borrowing cost will be ceased from the date at which Q. Asset gets ready for its use or sale.

It can also be said that B. Cost will be written off in P&L A/c if Activities are Completed.

### Exception

If cessation of Q. Asset is in Part/ Phases then It may be Possible that any Part is Completed earlier without completing other Parts. In this case, Borrowing Cost for completed portion can be treated as Follows :-

Case I : If Completed Phase is dependent on other Phases from the Point of view of its use then It will be assumed that It is not ready for use and B. Cost should be Capitalised to its cost even work is completed.

Case II : If Completed Phase is ready for use and It is not dependent on other Phases then capitalisation to such Portion should be ceased. It can be said that Interest will be written Off in P&L A/c in this case.

Q.4

As per the Provisions of AS-16, Borrowing Cost can be Capitalised to the cost of Qualifying Assets only. A Q. Asset is an asset that takes Substantial Period of time to get ready for its use or sale.

In the Given case, R Ltd. has Borrowed Funds for investments in shares which cannot be considered as Q. Asset because Investment in shares does not take Substantial time in its acquisition.

Conclusion: On the basis of above Explanation, It can be said that Interest of ₹3 Cores cannot be Capitalised to the cost of Investments and It will be written off in P&L A/c.



Q.3

Statement Showing Allocation & Treatment of Int.(Rate of Int. =  $58.5/650 \times 100 = 9\%$ )

| Assets      | Expenditure | Interest<br>(Allocation) | Treatment |
|-------------|-------------|--------------------------|-----------|
| Building    | 120L        | 10.8L                    | Note 1    |
| P&M         | 350L        | 31.5L                    | Note 1    |
| Advances    | 70L         | 6.30L                    | Note 2    |
| Working Cap | <u>110L</u> | <u>9.9L</u>              | Note 3    |
|             | <u>650L</u> | <u>58.5L</u>             |           |

Note 1: In the Given Case, It is clearly mentioned that Building & plant have been completed by 31.3.2002 which indicates that these Assets have taken substantial time to get ready. So we will capitalise Int. Of ₹10.8L to Cost of Building & Int. of ₹31.5L to Cost of P&M A/c

Note 2: It is not mentioned that Advances have been made for Q.Assets So we will write off Interest of ₹6.3 lacs to P&L A/c.

Note 3: As per rules, working capital cannot be considered as a Q. Asset due to which interest of ₹9.9 lacs will be written off in P&L A/c.

i) Interest a/c    Dr    58.50  
                             To Bank                      58.50  
 (Being Interest Paid)

ii) Building a/c    Dr    10.80L  
          P&M a/c        Dr    31.50L  
          P&L a/c        Dr    16.20L (6.3 + 9.9)  
                             To Interest                      58.50  
 (Being Int. Capitalised & written off)



Q.9

As per the Provisions of AS-16, Interest can be capitalised to the cost of Q. Assets only. A Q. Asset is an Asset that takes substantial Period of time to get ready for its use or sale.

In the Given case, company has issued Debentures for raising teak trees which are taking 10-15 years to get ready due to which It satisfies definition of Q. Asset.

Conclusion : On the basis of Given Explanation as in above, It can be said that Treatment of the Company is correct.

Q.10

As per the provisions of AS-16, B. Cost cannot be capitalised after cessation of Activities. It can also be said that capitalisation of Interest will be ceased if Assets become ready for use.

In the Given case, factory Building becomes ready for use in January 2005. So, we can Capitalise Int till January 2005.

Conclusion : On the basis of Given Explanation as in above, It can be said that company should capitalise Interest of ₹18L to the Cost of Asset which is incurred upto completion of work, but Interest of 7 lac will be Written off in P&L A/c.

Q.11 \*Imp

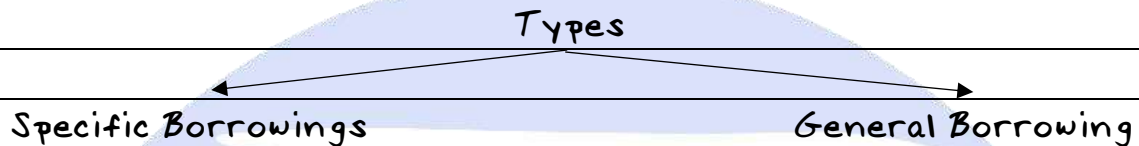
Statement showing calculation of Estimated Cost at the end of 5<sup>th</sup> Year

| Years | O. Bal | New Expenditure | Int @ 12%            | C. Bal        |
|-------|--------|-----------------|----------------------|---------------|
| 1     | Nil    | 100             | 7.20<br>(60 x 12%)   | 107.20        |
| 2     | 107.20 | 100             | 14.40<br>(120 x 12%) | 221.60        |
| 3     | 221.60 | 80              | 19.2<br>(160 x 12%)  | 320.80        |
| 4     | 320.80 | 60              | 24<br>(200 x 12%)    | 404.8         |
| 5     | 404.80 | 50              | 27.6<br>(230 x 12%)  | 482.40        |
|       |        |                 |                      | Expected Cost |





Q.13, Q.14, Q.17 H.w

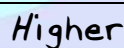
\*Part 3\*Concept 5 : Types of BorrowingsCase I: Specific Borrowings

If direct relationship between Borrowed funds & Q. Assets can be Established then It will be considered as a Case of Specific Borrowing. In the Given case, B. Cost on Specific funds will be capitalised to the Cost of related Assets.

Case II: General Borrowings

If direct relationship between Borrowed funds & Q. Assets cannot be Established then It will be taken as a case of General Borrowings. In the Given case, Capitalisation of B. Cost will be made on the basis of "Weighted Average Capitalisation Rate" (WACR)

$$\text{WACR} = \frac{\text{Actual Interest incurred on Borrowed funds}}{\text{Effective Borrowed or Effective Expenditure Funds}} \times 100$$



Higher





Example:

i) Borrowed funds : 10% Deb of ₹50L

15% B. Loan of ₹70L

ii) Expenditure on Q. Assets out of General funds:-

a) Building under const: 48L

b) P&amp;M (Installation) : 42L

c) factory shed (under const) : 18L

Apply AS-16 for capitalisation of Int.

Solution :

Calculation of WACR

$$\text{WACR} = \frac{(50,00,000 \times 10\%) + (70,00,000 \times 15\%)}{50,00,000 + 70,00,000} \times 100$$

$$= 12.92\%$$

Statement Showing Treatment of Int.

|                       |           |
|-----------------------|-----------|
| Total Actual Interest | 15,50,000 |
|-----------------------|-----------|

Interest to be capitalised :

|                               |          |
|-------------------------------|----------|
| Building (48,00,000 x 12.92%) | (620160) |
|-------------------------------|----------|

|                          |          |
|--------------------------|----------|
| P&M (42,00,000 x 12.92%) | (542640) |
|--------------------------|----------|

|                           |                 |
|---------------------------|-----------------|
| Shed (18,00,000 x 12.92%) | <u>(232560)</u> |
|---------------------------|-----------------|

Interest to be written off in P&amp;L

|                     |               |
|---------------------|---------------|
| On Unutilised funds | <u>154640</u> |
|---------------------|---------------|

Example:

i) General funds : 10% SBI Loan 40L

15% Debent. 60L

ii) Expenditure incurred out of Borrowed funds:

a) Building : 60L

b) P&amp;M : 50L

c) Other Q. Assets : 30L

Apply AS-16.



Solution :

Calculation of WACR

$$\text{WACR} = \frac{(40,00,000 \times 10\%) + (60,00,000 \times 15\%)}{1,00,00,000 \text{ or } 1,40,00,000} \times 100$$

(Loans)
(Expenditure)

Higher

= 9.28%

Statement Showing Treatment of Interest

|                      |                                    |
|----------------------|------------------------------------|
| i) Building          | = 60,00,000 x 9.28% = 556800       |
| ii) P&M              | = 50,00,000 x 9.28% = 464000       |
| iii) Other Q. Assets | = 30,00,000 x 9.28% = 279200 (Bal) |
|                      | ₹ 1300000                          |

E.g.

i) Accounting year : 1.1.2020- 31.12.2020

ii) General Funds Raised :

a) 10% B. Loan of ₹ 20,00,000

On 1.5.2020

b) 15% Deb. Of ₹ 10,00,000

Issued on 1.2.2020

iii) Expenditure incurred on Q. Assets as Follows :-

a) Building : 25,00,000 (8 Months)

b) P&M : 15,00,000 (6 Months)

c) Other Q. Assets : 10,00,000 (1 M)

Apply AS-16 .

Solution

Calculation of WACR

i) Actual Int. for 2020 :

|                             |           |        |
|-----------------------------|-----------|--------|
| Int. on Deb.                | 1.2-31.12 | 137500 |
| ( 10,00,000 x 15% x 11/12 ) |           |        |



Int. on B. Loan 1.5-31.12 133333

( 20,00,000x 10% x 2 ) 270833  
12

ii) Effective Borrowed funds :

Debentures (10,00,000x 11/12) = 916667

B. Loan (20,00,000x 8/12) = 1333333

Total 2250000

iii) Effective Expenditure :

Building 25,00,000x 8/12 = 1666667

P&M 15,00,000x 6/12 = 750000

O. Q. Assets 10,00,000x 1/12 = 83333

2500000

WACR = 270833 x 100

2250000 or 2500000

Higher

= 10.83%

Statement Showing Treatment of Interest

Building = 2500000x 10.83%x 8/12 = 180500

P&M = 1500000x 10.83%x 6/12 = 81225

O. Q. A = 1000000x 10.83%x 1/12 = 9108 (Bal)

270833

Ques No.12 V.V Imp

Calculation of WACR

i) Effective Borrowed Funds :

Bank Loan 1000x 12/12 = 1000

Debentures 2000x 6/12 = 1000

Term Loan 3000x 9/12 = 2250

4250



## ii) Effective Expenditure :

F. Shed  $2500 \times 12/12 = 2500$ Plant 1  $1500 \times 9/12 = 1125$ Plant 2  $1000 \times 7/12 = \underline{585}$ 

4208

WACR =  $\frac{680}{4250 \text{ or } 4208} \times 100 = 16\%$ 

4250 or 4208

Higher

Treatment of Int.

Actual B. Cost 680

Capitalisation to be made:Shed  $2500 \times 16\% \times \frac{12}{12}$  (400)Plant 1  $1500 \times 16\% \times 9/12$  (180)Plant 2  $1000 \times 16\% \times 7/12$  (93.33)

Int. on unutilised Funds to be 6.67

Written off in P&amp;L A/c

\*Part 4\*Q.6 \* ImpI Treatment of Specific Borrowing Cost

(Specific Borrowings: 10% Term Loan)

Interest on Specific Borrowings  $(200L \times 10\% \times 9/12)$  15 Lacs

(1.4.2001 – 31.12.2001)

\*Related Expenses 2 Lacs

Total 17 Lacs

Comments : In the Given Problem, It is clearly mentioned that 10%

Term Loan has been raised specifically for P&M. So, specific Borrowing Cost of ₹17 Lacs should be capitalised directly to Cost of P&M.



## II Treatment of G.B Cost

### i) Total G.B Cost :-

|                                                           |                  |
|-----------------------------------------------------------|------------------|
| Interest on Debentures ( $400 \times 15\% \times 12/12$ ) | 60 Lacs          |
| Interest on Term Loans ( $300 \times 12\% \times 2/12$ )  | 6 Lacs           |
| *Related Expenses ( $1 + 2.50$ )                          | <u>3.5 Lacs</u>  |
|                                                           | <u>69.5 Lacs</u> |

ii)  $WACR = \frac{\text{G.B Cost}}{\text{Effective Loan or Effective Exp}}$

Higher

$$= \frac{69.5 \text{ Lacs}}{(400 \times 12/12 + 300 \times 2/12) \text{ or } (100 + 700 + 100)}$$

Higher

$$= \frac{69.5 \text{ Lacs}}{900 \text{ L}} \times 100$$

$$= 7.72 \%$$

### iii) Allocation of G.B Cost :-

|                                           |               |
|-------------------------------------------|---------------|
| Factory Shed ( $100 \times 7.72\%$ )      | 7.72L         |
| P&M ( $700 \times 7.72\%$ )               | 54.04L        |
| Other F. Assets ( $69.5 - 7.72 - 54.04$ ) | <u>7.74 L</u> |
| Total                                     | <u>69.5 L</u> |

**Comments :** As per the Provisions of AS-16, we have capitalised G.B Cost over the related Assets on the basis of WACR.

**\*Assumption:** We have assumed that the Given Related Expenses are Amortised Expenses.



Q.7 \*ImpTreatment of Specific Borrowing Cost : 16% Term Loan

In the Given question, Interest of ₹16 Lacs should be capitalised to the cost of Building because It is clearly mentioned in the question that 16% Term Loan has been raised specifically for Building.

Treatment of General Borrowing Cost: Debent. & Term Loans

$$\begin{aligned}
 \text{WACR} &= \frac{\text{T.G.B Cost}}{\text{Expenditure or Loan}} \\
 &= \frac{\text{Higher}}{28L + 36L} \\
 &= \frac{(200 + 100 + 100) \text{ or } (200 + 300)}{\text{Higher}} \\
 &= \frac{64 \text{ Lacs}}{500 L} \times 100 \\
 &= 12.8\%
 \end{aligned}$$

ii) Allocation of G.B Cost :-

|                                  |         |
|----------------------------------|---------|
| Total Borrowing Cost on G. funds | 64 Lacs |
|----------------------------------|---------|

To be capitalised :-

|                            |                     |
|----------------------------|---------------------|
| i) Plant A (200 x 12.8%)   | (25.60 Lacs)        |
| ii) Roads (100 x 12.8%)    | (12.80 Lacs)        |
| iii) Plant B (100 x 12.8%) | <u>(12.80 Lacs)</u> |

|                                     |  |
|-------------------------------------|--|
| B. Cost to be written off in P&L on |  |
|-------------------------------------|--|

|                  |                   |
|------------------|-------------------|
| Unutilised funds | <u>12.80 Lacs</u> |
|------------------|-------------------|

Comments: In the Given Case, Interest on Unutilised funds cannot be capitalised because Expenditure should be incurred out of Borrowed funds for commencement of Capitalisation of B. Cost.





Q.20 \* V.V.ImpTreatment of Specific B. Cost

Interest on Specific Borrowed Funds  $(1000000 \times 10\%)$  10,000  
 (1.1.2004-31.12.2004)

Comments : It is clearly specified that 10% Loan has been raised  
 Specifically for Building. So, Interest of ₹10,000 should be  
 capitalised to the Cost of Building.

Treatment of G.B. Cost

$$\begin{aligned} \text{i) WACR} &= \frac{(6000000 \times 11\%) + (8000000 \times 13\%)}{(6000000 + 8000000)} \times 100 \\ &= \frac{1700000}{14000000} \times 100 \\ &= 12.14\% \end{aligned}$$

ii) Allocation of B. Cost :

|                 |         |
|-----------------|---------|
| Total G.B. Cost | 170,000 |
|-----------------|---------|

Month wise Capitalisation :-

|                                             |               |
|---------------------------------------------|---------------|
| Jan $(1000000 \times 12.14\%)$              | 12140         |
| Apr. $(3000000 \times 12.14\% \times 9/12)$ | 27315         |
| July $(4000000 \times 12.14\% \times 6/12)$ | 24280         |
| Dec. $(1200000 \times 12.14\% \times 1/12)$ | <u>(1214)</u> |
| Interest to be written off in               | 105051        |
| P&L on Unutilised Funds                     |               |

Q 2 :

Assumptions : i) It has been assumed that Phase I is independent in  
 nature from the point of view of its use.

ii) It is also assumed that Phase I was ready for use in  
 the beginning of year.



### Statement Showing Treatment of B. Cost

$$\begin{aligned}
 \text{i) WACR} &= \frac{2200000 \times 12\%}{27,00,000 \text{ (Exp. is higher)}} \times 100 \\
 &\text{than B. Funds} \\
 &= \frac{264000}{2700000} \times 100 \\
 &= 9.78\%
 \end{aligned}$$

### ii) Allocation of B. Cost

|                                                            |                    |
|------------------------------------------------------------|--------------------|
| Total B. Cost                                              | ₹264000            |
| <u>To be Capitalised:</u>                                  |                    |
| Phase II (900000 x 9.78%)                                  | (₹88020)           |
| Phase III (800000 x 9.78%)                                 | (₹78240)           |
| To be written off in P&L on Phase I<br>(Refer Assumptions) | ₹97740 (Bal. fig.) |

### \*Part 5\*

### Concept 6 : Additional Points to be Considered

#### \*Imp

**A. Transfer of Assets :-** As per the Provisions of AS-16, Transfer of Assets means Consumption/ Utilisation of Existing Material into Construction/ Production of Q. Assets. The current Value of such Existing Material will be considered as an Expenditure on Q. Assets. It means that Capitalisation will be allowed on such Transfer of Assets .

**B. Temporary Income :-** As per the Provisions of AS-16, If any Income is Generated from Unutilised Borrowed Funds then such an Income will not be credited in P&L A/c, But It will be adjusted against Total B. Cost. The following steps should be followed in this case :-



Step I : Calculate Net Borrowing Cost as Follows :-

$$N.B. \text{ Cost} = \text{Total B. Cost incurred during the Period} - \text{Temporary Income on Unutilised Funds}$$

Step II : Calculate Effective Rate of Interest as Follows :-

$$\frac{\text{Net Borrowing Cost}}{\text{Borrowed Funds}} \times 100$$

Step III : We will Capitalise B. Cost on Expenditure incurred as per Effective Rate (Step II)

[ Note : Remaining B. Cost will be written] off in P&L A/c.]

Q. 16 (Discussed in Class)

C. Prepayment Premium :- If any Penalty/ Prepayment Premium is Paid Company to save the Interest cost by switching over the Financer then It will be expensed in P&L in same year. It means that It will not be allowed for capitalisation as other because It does not related with Arrangement of Funds.

\* Imp D. Govt. Grant/ Progress Payment :-

If any Amount is recovered in the form of Grant Or Progress Payment then It will be adjusted (Expenditure incurred - Grant/ Progress Payment ) while computing Net Expenditure for Capitalisation Purpose.

Q 1 : \*IMP

Calculation of Expenditure incurred till 31.3.2001

Opening Balance in Q. Asset A/c as on 1.4.2004 :-

|                          |           |
|--------------------------|-----------|
| i) Expenditure Incurred  | 450       |
| ii) Interest Capitalised | <u>24</u> |
|                          | 474       |



|                                |              |
|--------------------------------|--------------|
| Transfer of Assets (2000-01)   | 100          |
| Cash Payment (2000-01)         | 78           |
| Progress Payment               | <u>(300)</u> |
| Net Expenditure till 31.3.2001 | 352          |

i) Interest to be Capitalised :  $352 \text{ L} \times 12\% = 42.24 \text{ L}$

ii) Interest to be written :  $48 \text{ L} \times 12\% = \underline{5.76 \text{ L}}$

Off in P&L A/c on Unutilised

Funds

Total 48 L

Comments : In the Given Case, Company cannot capitalise full Interest Of ₹48 Lacs because Expenditure is Less than Borrowed Funds.

Q. 5: V.V.Imp

Statement Showing Month wise Capitalisation

| Month | Opening<br>Bal. | Expenditure | B. Cost to be<br>Capitalised | C. Bal  |
|-------|-----------------|-------------|------------------------------|---------|
| April | NIL             | 2,00,000    | 2000                         | 202000  |
| May   | 202000          | 3,00,000    | 5020                         | 507020  |
| June  | 507020          | -           | - (Note1)                    | 507020  |
| July  | 507020          | -           | 5070                         | 512090  |
| Aug.  | 512090          | 100000      | NIL (Note2)                  | 612090  |
| Sep.  | 612090          | 7,00,000    | 13120 (Note3)                | 1325210 |

Note 1 : In June, there was a Strike due to which Activities had stopped So, we have considered it as a Period of Suspension and Interest will be written off in P&L for such Period

Note 2 : In August, there was a Surplus in Bank due to which there will be no Borrowing cost in this Month.



Note 3 : In September, Company has taken an overdraft for more than 10 Lacs. which indicates that Q. Asset is still Financed by Overdraft. So, we have Capitalised full Interest.

\*Part 6\*

Q. 8 :

As per the Provisions of AS-16, Interest can be Capitalised to the Cost of Q. Assets only. Further, AS-16 defines Q. Asset as an Asset that takes Substantial period of time to get ready for its use or Sale.

In the Given Case, Company has incurred its interest for working capital Requirement. As per AS-16, Working capital can not be classified as a Q. Asset.

Conclusion : On the basis of above discussion, we can say that Company Cannot capitalise Interest to the cost of Inventories because It is not incurred for Q. Asset.

\*V.V Imp

Concept 7 : Exchange Differences under Para 4e

E.g.

i) Foreign Currency Loans : \$ 10,000

ii) Indian Interest Rate : 10% P.a.

iii) Foreign Bank Rate : 6% P.a.

iv) Exchange Rates :

Actual Rate = 60

Closing Rate = 65

Apply Para 4e assuming Interest is Paid at the end of year.

Solution :

Step I : Calculation of Exchange Loss

Loan at Closing Rate ( $\$10000 \times 65$ ) ₹ 650000

Loan at Actual Rate ( $\$10000 \times 60$ ) ₹ 600000

Exchange Loss ₹ 50000





|                                                                                                          |
|----------------------------------------------------------------------------------------------------------|
| <u>Step II : Calculation of Notional Saving in Interest</u><br><u>(If Borrowings were made in India)</u> |
|                                                                                                          |

|                                                   |         |
|---------------------------------------------------|---------|
| Interest at Indian Rate ( $6000000 \times 10\%$ ) | ₹60,000 |
|---------------------------------------------------|---------|

Interest at foreign Rate ( $\$10000 \times 6\% \times 65$ ) (₹ 39000)

|                 |         |
|-----------------|---------|
| Notional Saving | ₹ 21000 |
|-----------------|---------|

### Step III : Extra Capitalisation Allowed under Para 4e

|                           |        |
|---------------------------|--------|
| a) Exchange Loss on Loans | 50,000 |
|---------------------------|--------|

|                                 |        |
|---------------------------------|--------|
| b) Notional Savings in Interest | 21,000 |
|---------------------------------|--------|

Whichever is Lower = ₹ 21000

Journal: 1) Exchange Loss Dr. 50,000

|               |        |
|---------------|--------|
| To F.C. Loans | 50,000 |
|---------------|--------|

(Being Monetary Items reported at Closing Rate)

2) Q. Asset a/c Dr 21000

|     |     |                |
|-----|-----|----------------|
| P&L | a/c | Dr 29000 (Bal) |
|-----|-----|----------------|

|             |        |
|-------------|--------|
| To Ex. Loss | 50,000 |
|-------------|--------|

(Being Ex. Loss Capitalised as Per AS-16, Para 4e)

E.g.

i) F.C. Loans : \$10000

|                            |
|----------------------------|
| ii) Indian Rate : 10% P.a. |
|----------------------------|

|                             |
|-----------------------------|
| iii) Foreign Rate : 2% P.a. |
| iv) Exchange Rate :         |

Actual = 50

|              |
|--------------|
| Actual = 50  |
| Closing = 52 |

Apply Para 4e assuming Interest is Paid at the end of year.

[illegible]

Solution:

### Step I : Calculation of Ex. Loss on Loans

|                                               |        |
|-----------------------------------------------|--------|
| Loans at Closing Rate ( $100000 \times 5\%$ ) | 530000 |
|-----------------------------------------------|--------|

|                                  |           |
|----------------------------------|-----------|
| Loans at Actual Rate (100000x50) | (5000000) |
|----------------------------------|-----------|

|          |              |
|----------|--------------|
| Ex. Loss | <u>20000</u> |
|----------|--------------|





|                                                     |                 |
|-----------------------------------------------------|-----------------|
| Indian Interest (National) ( $500000 \times 10\%$ ) | 50,000          |
| Actual Interest ( $\$10000 \times 2\% \times 52$ )  | <u>(10,400)</u> |
| Notional Savings                                    | <u>39,600</u>   |

i) Exchange Loss = 20,000  
ii) Notional Savings = 39,600  
Whichever is Lower = 20,000

|                                                 |    |        |
|-------------------------------------------------|----|--------|
| i) Exchange Loss a/c                            | Dr | 20,000 |
| To F.C Loans                                    |    | 20,000 |
| (Being monetary Items reported at closing Rate) |    |        |

|                                            |    |        |  |
|--------------------------------------------|----|--------|--|
| ii) Q. Asset a/c                           | Dr | 20,000 |  |
| To E. Loss                                 |    | 20,000 |  |
| (Being E. Loss capitalised as per Para 4e) |    |        |  |

As per the Provisions of AS-16, Exchange Loss on Foreign Currency Loans which are taken for Q. Assets can be Capitalised to the cost of Q. Assets subject to Notional Savings in Interest if Borrowings were made in India subject to some Limits. The following steps should be applied under Para 4e :-

$$F.C \text{ Loans at Closing Rate} - F.C \text{ loans at Actual Rate} = E. \text{ Loss}$$

### Step II: Calculate Notional Savings in Interest if Borrowings were Made in India



Notional = Notional Interest at Indian Rate - Actual Int at Foreign Rate Savings

Step III : E. Loss to be capitalised under Para 4 e

Exchange Loss or Notional Savings  
Whichever is Lower

\*If E. loss becomes higher than Notional Saving then Remaining E. Loss will be written off in P&L.

Note: If there is an Exchange Gain under AS-11 at B/s date on F.C Loan due to decline in Exchange Rate then It will be transferred to P&L A/c without any discussion under 4e.

### Concept 8 : Disclosures

- i) The Entity should disclose Accounting Policy regarding Accounting for Interest
- ii) The Entity should also disclose the amount of Capitalised Interest during the year.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-10 Accounting Standard 3

### Cash Flow Statements

#### \*Part I\*

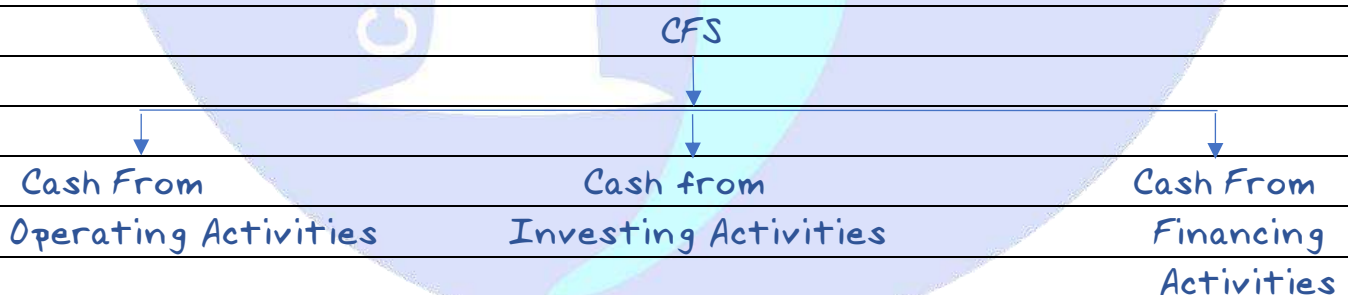
#### Concept 1 : Applicability

As per conceptual framework on Accounting Standards, AS-3, is Applicable on Non SMC, & Level I Enterprises. It is fully Exempted to SMC, & MSME, from the Point of its Application. [Refer AS Rules 2021]

↓  
Already covered in  
Module I Classes

#### Concept 2 : Meaning & Presentation of CFS

As per the Provisions of AS-3, Cash Flow Statement is a summary of Cash & Bank A/c. It is Prepared as a Part of Financial Statement just like B/S & P&L A/c. It is Prepared to Analyse the Position of Cash. It is Prepared & Presented under 3 Separate headings as follows :-



Cash from Investing Activities :- As per the Provisions of AS-3, All the Transactions in Cash & Bank A/c, which are related with "Fixed Assets\* & Investments\*\*" shall be disclosed under Investing Activities.

\*Fixed Assets 
{

Tangible (PPE) [i.e., furniture, P&M etc.]
   
Intangible [i.e., Patents, copyrights etc.]



### **\*\*Investments Except Short Term Investment**

[i.e., Shares, Debentures etc.]

#### Examples of Investing Activities :

i) Sale of fixed Assets

ii) Purchase of fixed Assets

iii) Sale of Investments

iv) Purchase of Investments

v) Income on Investments

(i.e., Dividend Received, Interest Received etc.)

vi) Capital Gain Tax on Sale of Assets etc.

Cash From Financing Activities : As per the Provisions of AS-3, All the transactions in C&B A/c, which are related with "Share Capital & Loans", shall be disclosed under the heading of financing Activities.

**\*Share capital = Equity and Preference**

**\*Loans = Long Term & Short Term**

#### Examples of Financing Activities :

i) Issue of Shares

ii) Buy Back or Redemption of Shares

iii) Receiving of Loans

iv) Repayment of Loans

v) Interest Paid , Dividend Paid etc.

vi) Premium on Issue of Shares, Debentures

viii) Premium on Redemption of Shares, Deb.

**\*V.V.Imp**

Cash from Operating Activities : If any Transaction can not be classified under Investing or Financing Activity then It will

Automatically be disclosed under the Operating Activities. The

Presentation of Operating Activities can be made under 2 Month as Follows :-

i) Direct Method

ii) Indirect Method



As per the Provisions of AS-3, Application of Indirect method is mandatory by Non SMC, & Level I Entities. It means that Application of Direct method is available for SMC, & MSME, if these Entities are interested in Presentation of CFS. It can also be said that Direct method can be applied by SMC, & MSMEs, only if Exemption is not availed by these Entities.

### Special Notes

- i) If question requires Application of Specific method then Apply the required method
- ii) If question remains silent then following chart will be referred :-

B/S, PL or Net Profit [Any one]

Given in question

Apply Indirect  
Method

Not Given in question

Apply Direct  
Method

### \*Part 2\*

### Concept 3 : Explanation on "Direct method"

As per the Provisions of AS-3, Application of Direct method can be made by SMC, & MSME, only if these Exempted Entities decide to Prepare & Present Cash flow Statement . It can also be said that Non SMC, and Level I Entities can not Apply Direct method. Under Direct method, we will not require B/S, PL or Net Profit of the Entities, but we will consider Cash & Bank Transactions Directly. The Following Format of Cash Flow Statement under Direct method can be considered :-





| Cash Flow Statement<br>(Direct method)                                                                              |               |               |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Particulars                                                                                                         | ₹             | ₹             |
| <u>Cash from Operating Activities :-</u>                                                                            |               |               |
| Cash sales                                                                                                          | xxxx          |               |
| Collection from Debtors                                                                                             | xxxx          |               |
| Cash Purchases                                                                                                      | (xxxx)        |               |
| Payment to Creditors                                                                                                | (xxxx)        |               |
| Expenses Paid                                                                                                       | (xxxx)        |               |
| Tax Paid (Income Tax)                                                                                               | <u>(xxxx)</u> | <u>+ xxxx</u> |
| <u>Cash from Investing Activities :-</u>                                                                            |               |               |
| Sale of fixed Assets <span style="margin-left: 20px;">↖ PPE</span><br><span style="margin-left: 100px;">↗ IA</span> | xxxx          |               |
| Purchase of fixed Assets                                                                                            | (xxxx)        |               |
| Sale of Investments                                                                                                 | xxxx          |               |
| Purchase of Investments                                                                                             | (xxxx)        |               |
| Interest/Dividend Received                                                                                          | xxxx          |               |
| Capital Gain Tax on Assets Sold                                                                                     | <u>(xxxx)</u> | <u>+ xxxx</u> |
| <u>Cash from Financing Activities :-</u>                                                                            |               |               |
| Issue of Share capital                                                                                              | xxxx          |               |
| Redemption of Share capital                                                                                         | (xxxx)        |               |
| Receiving of Loans                                                                                                  | xxxx          |               |
| Repayment of Loans                                                                                                  | (xxxx)        |               |
| Issue/Redemption of Debentures                                                                                      | <u>+ xxxx</u> |               |
| Interest PAID                                                                                                       | (xxxx)        |               |
| Dividend Paid                                                                                                       | (xxxx)        |               |
| Premium on Issue of Shares/Deb.                                                                                     | xxxx          |               |
| Premium on Redemption of Shares/Deb.                                                                                | <u>(xxxx)</u> | <u>+ xxxx</u> |
| Cash from operating, Investing & Financing Activities                                                               |               | <u>+ xxxx</u> |
| Add: opening Balance in C&B A/c                                                                                     |               | <u>xxxx</u>   |
| Closing Balance in C&B A/c                                                                                          |               | <u>xxxx</u>   |





Q.8 (10 marks)

Cash Flow Statement(Direct method)

| <u>Particulars</u>        | <u>₹</u> | <u>₹</u> |
|---------------------------|----------|----------|
| <u>CFOA :-</u>            |          |          |
| Collection from customers | 2800     |          |
| Payment to Suppliers      | (2000)   |          |
| Overhead Exp.             | (200)    |          |
| Wages & Salaries          | (100)    |          |
| Tax Paid                  | (250)    | 250      |
| <u>CFIA :-</u>            |          |          |
| Sale of fixed Assets      | 100      |          |
| Purchase of fixed Assets  | (200)    | (100)    |
| <u>CFFA :-</u>            |          |          |
| Issue of Shares           | 300      |          |
| Dividend Paid             | (50)     |          |
| Repayment of Loans        | (300)    | (50)     |
| Cash from O+I+F           |          | 100      |
| Add: opening Balance      |          | 50       |
| Closing Balance           |          | 150      |

Q.7, Q.50- H.w

Q. 21 (12 Marks)

Cash Flow Statement

| <u>Particulars</u>   | <u>₹</u>    | <u>₹</u> |
|----------------------|-------------|----------|
| <u>CFOA :-</u>       |             |          |
| Cash Sales           | 48,00,000   |          |
| Payment to creditors | (35,50,000) |          |
| Expenses Paid        | (3,60,000)  |          |
| Tax Paid             | (1,50,000)  | 7,40,000 |



|                      |                   |                   |
|----------------------|-------------------|-------------------|
| <u>(FIA):-</u>       |                   |                   |
| Purchase of P&M      | <u>(6,00,000)</u> | <u>(6,00,000)</u> |
| <u>(FFA):-</u>       |                   |                   |
| Dividend Paid        | <u>(120000)</u>   | <u>(120000)</u>   |
|                      | 0+I+F             | 20,000            |
| Add: opening Balance |                   | <u>50,000</u>     |
| Closing Balance      |                   | <u>70,000</u>     |

Q. 27 (12 Marks)

Cash Flow Statement

| <u>Particular</u>               | <u>₹</u>          | <u>₹</u>        |
|---------------------------------|-------------------|-----------------|
| <u>(FOA):</u>                   |                   |                 |
| Cash Sales                      | 11,50,000         |                 |
| Collection from Debtors (W.N#1) | 20,53,000         |                 |
| Cash Purchase                   | (60000)           |                 |
| Payment to creditors (W.N#2)    | (7,35,000)        |                 |
| Expenses Paid (W.N#3)           | (12,48,000)       |                 |
| Tax paid (330000-22500)         | <u>(30,75,00)</u> | 8,52,500        |
| <u>(FIA):</u>                   |                   |                 |
| Sale of Furniture               | 12,000            |                 |
| Purchase of Machinery           | (3,30,000)        | (318000)        |
| <u>(FFA):</u>                   |                   |                 |
| Redemption of P.S. Capital      | (10,00,000)       |                 |
| Premium on Redemption of PSC    | <u>(30,000)</u>   |                 |
| Issue of Shares (60,000x10)     | 6,00,000          |                 |
| Premium on Issue (60,000x2)     | 1,20,000          |                 |
| Dividend Paid on PSC            | (40,000)          |                 |
| Dividend Paid on ESC            | (11,0,000)        |                 |
| Dividend Tax Paid               | <u>(22500)</u>    | <u>(482500)</u> |
|                                 | 0+I+F             | 52000           |
| (Bal.Fig) Add: Opening Balance  |                   | <u>73,000</u>   |
| Closing Balance                 |                   | <u>125000</u>   |



|                                                                                                                                                                                                                                                                                            |                  |                   |                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|------------------|
| W.N#1 Debtors A/c                                                                                                                                                                                                                                                                          |                  |                   |                  |
| To Bal b/d                                                                                                                                                                                                                                                                                 | 1,50,000         | By Cash (Bal.Fig) | 2053000          |
| To Sales                                                                                                                                                                                                                                                                                   | 20,50,000        | By Bal c/d        | 1,47,000         |
| (32L-11.5L)                                                                                                                                                                                                                                                                                | <u>22,00,000</u> |                   | <u>22,00,000</u> |
| W.N#2 Creditors A/c                                                                                                                                                                                                                                                                        |                  |                   |                  |
| To Cash (Bal.fig)                                                                                                                                                                                                                                                                          | 735000           | By Bal b/d        | 78000            |
| To Bal c/d                                                                                                                                                                                                                                                                                 | 83000            | By Purchase       | 740000           |
|                                                                                                                                                                                                                                                                                            | <u>818000</u>    | (800000-60000)    | <u>818000</u>    |
| W.N#3 Expenses A/c                                                                                                                                                                                                                                                                         |                  |                   |                  |
| To Cash (Bal fig)                                                                                                                                                                                                                                                                          | 1248000          | By Bal b/d        | 63000            |
| To Bal c/d                                                                                                                                                                                                                                                                                 | 55000            | By PL             | 12,40,000        |
|                                                                                                                                                                                                                                                                                            | <u>1303000</u>   |                   | <u>1303000</u>   |
| Q.29, Q.46- H.w                                                                                                                                                                                                                                                                            |                  |                   |                  |
| <u>*Part 3*</u>                                                                                                                                                                                                                                                                            |                  |                   |                  |
| <u>Concept 4 : Explanation on Indirect method *V.V.Imp</u>                                                                                                                                                                                                                                 |                  |                   |                  |
| As per the Provisions of AS-3, The Application of Indirect method is mandatory for Non SMC, & Level I Entities. Under Indirect method, we Prepare cash from Operating Activities by taking Net Profits as a base. The following format may be considered under Indirect method for CFOA :- |                  |                   |                  |
| <u>CFOA</u>                                                                                                                                                                                                                                                                                |                  |                   |                  |
| Net Profit after Tax (PAT)                                                                                                                                                                                                                                                                 |                  | xxxx              |                  |
| Provision for Tax [cy]                                                                                                                                                                                                                                                                     |                  | xxxx              |                  |
| <u>Adjustments :</u>                                                                                                                                                                                                                                                                       |                  |                   |                  |
| i) Depreciation on PPE                                                                                                                                                                                                                                                                     |                  | xxxx              |                  |
| ii) Amortisation of Intangible Assets                                                                                                                                                                                                                                                      |                  | xxxx              |                  |
| iii) Loss on Sale of Assets                                                                                                                                                                                                                                                                |                  | xxxx              |                  |
| iv) Profit on Sale of Assets                                                                                                                                                                                                                                                               |                  | (xxxx)            |                  |



| v) Interest Expenses [will be deducted under (FFA)]                    | xxxx           |         |
|------------------------------------------------------------------------|----------------|---------|
| vi) Interest Income [will be Added to (FIA)]                           | (xxxx)         |         |
| <u>Working Capital Adjustments :</u>                                   |                |         |
| a) Increase in CA                                                      | (xxxx)         |         |
| b) Decrease in CA                                                      | xxxx           |         |
| c) Increase in CL                                                      | xxxx           |         |
| d) Decrease in CA                                                      | (xxxx)         | ± xxxx  |
| Tax Paid (Previous year)                                               | (xxxx)         |         |
|                                                                        | (FOA)          | xxxx    |
| <u>*Part 4*</u>                                                        |                |         |
| <u>Q. 9 Cash Flow Statement of Star Oils Limited for the year 2000</u> |                |         |
| Particular                                                             | ₹              | ₹       |
| <u>CFOA</u> : Net Profits (PAT)                                        | 25,000         |         |
| Provision for Tax                                                      | <u>5,000</u>   |         |
| Profit Before Tax                                                      | 30,000         |         |
| Loss on Sale of Assets                                                 | 40             |         |
| Depreciation on Assets                                                 | 20,000         |         |
| Profit on Sale of Investments                                          | (100)          |         |
| Interest Income                                                        | (2,506)        |         |
| Interest Expenses                                                      | 10,000         |         |
| Increase in W. Capital                                                 | (56075)        |         |
| Tax Paid                                                               | <u>(4,248)</u> | (2889)  |
| <u>CFIA</u> : Sale of Assets (185-40)                                  | 145            |         |
| Sale of Investment (27765+100)                                         | 27,865         |         |
| Interest Income Received                                               | 2,506          |         |
| Purchase of fixed Assets                                               | (14560)        |         |
| Investment in Joint venture                                            | (3850)         |         |
| Construction Exp.                                                      | (34740)        | (22634) |
| <u>CFFA</u> : Dividend Paid                                            | (8,535)        |         |
| Interest Paid                                                          | (10,520)       |         |
| Proceeds from call in arrear                                           | 2              |         |
| Proceeds from Long Term Loans                                          | 25,980         |         |
| Proceeds from Short Term Loans                                         | <u>20575</u>   | 27502   |



|                       |       |             |
|-----------------------|-------|-------------|
|                       | 0+I+F | 1979        |
| Add : Opening Balance |       | <u>5003</u> |
| Closing Balance       |       | <u>6982</u> |

### Additional Points to be Considered :-

#### Point 1 : If Net Profit is not Given in questions

If Net Profit is not Given in questions then we will calculate it with the help of B/S Figures. The following calculation will be made additionally in CFOA :-

#### CFOA

|                                  |             |
|----------------------------------|-------------|
| Changes in Reserves              | xxxx        |
| Changes in P&L A/c               | xxxx        |
| Proposed Dividend (current year) | <u>xxxx</u> |
| Net Profits                      | xxxx        |

#### Important Notes :-

- If there is Proposed Dividend in B/S of Previous year then It will be taken to "Financing Activities" as Paid Dividend.
- If Net Profit is Given as well as Balance Sheets are also Given then we will not use the Figures of Reserves, PL and current year's Proposed Dividend.

Q. 2

#### Cash Flow Statement

| <u>Particular</u>                  | <u>₹</u>      | <u>₹</u> |
|------------------------------------|---------------|----------|
| <u>CFOA</u> : Change in G. Reserve | 20,000        |          |
| Change in P&L A/c                  | 50,800        |          |
| Proposed Dividend (cy)             | <u>35,000</u> |          |
| Net Profits                        | 10,5,800      |          |
| Provision for Tax (cy)             | 40,500        |          |



|                                                |                       |                 |                 |
|------------------------------------------------|-----------------------|-----------------|-----------------|
| Add : Dep. on L&B                              | 60,000                |                 |                 |
| Dep. on P&M                                    | 50,000                |                 |                 |
| Dep. on Furniture                              | 1,200                 |                 |                 |
|                                                |                       |                 |                 |
| <u>Working Capital change :</u>                |                       |                 |                 |
| Increase in Creditors                          | 5,700                 |                 |                 |
| Increase in stock                              | (13300)               |                 |                 |
| Increase in Debtors                            | (10500)               |                 |                 |
| Tax Paid (Py)                                  | <u>(22,500)</u>       | 2,16,900        |                 |
| <u>(FIA) : Purchase of L&amp;B (W.N#1)</u>     | (2,20,000)            |                 |                 |
| Purchase of P&M (W.N#2)                        | (1,04,600)            |                 |                 |
| Purchase of Furniture (W.N#3)                  | <u>(2200)</u>         | (326800)        |                 |
| <u>(FFA) : Dividend Paid for Previous year</u> | (30,000)              |                 |                 |
| Issue of Shares (Including Premium)            | 80,000                |                 |                 |
| Issue of Debentures                            | <u>70,000</u>         | 1,20,000        |                 |
|                                                | O+I+F                 | 10,100          |                 |
|                                                | Add : Opening Balance | <u>34200</u>    |                 |
|                                                | Closing Balance       | <u>44300</u>    |                 |
|                                                |                       |                 |                 |
| W.N#1                                          |                       |                 |                 |
| Land & Building A/c                            |                       |                 |                 |
| To Bal b/d                                     | 2,30,000              | By Depreciation | 60,000          |
|                                                |                       |                 |                 |
| To Cash (Bal. fig)                             | <u>220000</u>         | By Bal c/d      | <u>3,90,000</u> |
|                                                | <u>4,50,000</u>       |                 | <u>4,50,000</u> |
|                                                |                       |                 |                 |
| W.N#2                                          |                       |                 |                 |
| P&M A/c                                        |                       |                 |                 |
| To Bal b/d                                     | 85,400                | By Dep.         | 50,000          |
|                                                |                       |                 |                 |
| To Cash (Bal.Fig)                              | <u>104600</u>         | By Bal c/d      | <u>1,40,000</u> |
|                                                | <u>1,90,000</u>       |                 | <u>1,90,000</u> |
|                                                |                       |                 |                 |
|                                                |                       |                 |                 |
|                                                |                       |                 |                 |
|                                                |                       |                 |                 |





W.N#3

## Furniture A/c

|               |             |            |             |
|---------------|-------------|------------|-------------|
| To Bal b/d    | 5500        | By Dep.    | 1200        |
|               |             |            |             |
| To Cash (Bal) | <u>2200</u> | By Bal c/d | <u>6500</u> |
|               | <u>7700</u> |            | <u>7700</u> |

Note : We have ignored Interest on Debentures in CFS because we do not have date of Issue of Debentures. In the absence of date of Issue, we can not compute Exact Amount of Int.

Note : The Change in Securities Premium can not take Place through Net Profits, but It always relates with Share Capital & Debentures. So we will Never Consider Security Premium in Net Profit calculations.

Q.15 :

Cash Flow Statement

| Particulars                             | ₹                  | ₹               |
|-----------------------------------------|--------------------|-----------------|
| <u>(FOA) : Net Profit (Given)</u>       | 10,00,000          |                 |
| Depreciation on Fixed Assets            | 3,00,000           |                 |
| <u>Working Capital Adjust :</u>         |                    |                 |
| Decrease in Stock                       | 3,75,000           |                 |
| Increase in Debtors                     | (5,00,000)         |                 |
| Decrease in CL                          | <u>(10,00,000)</u> | 1,75,000        |
| <u>(FIA) : Purchase of fixed Assets</u> | (4,00,000)         |                 |
| Purchase of Investments                 | <u>(1,50,000)</u>  | (5,50,000)      |
| <u>(FFA) : Issue of Shares</u>          | 10,00,000          |                 |
| Repayment of Loans                      | <u>(5,00,000)</u>  | <u>5,00,000</u> |
|                                         | 0+I+F              | 1,25,000        |
| Opening Balance                         |                    | <u>125000</u>   |
| Closing Balance                         |                    | <u>250000</u>   |



\*Part 5\*Point 2 : If Tax Paid is Given in question

|                  |             |             |
|------------------|-------------|-------------|
| <b>Example :</b> | <b>2021</b> | <b>2022</b> |
| Prov. For Tax    | 10,000      | 11,000      |

Additional Information :

|          |       |
|----------|-------|
| Tax Paid | 9,000 |
|----------|-------|

Solution :Provision for Tax A/c

|            |              |                   |               |
|------------|--------------|-------------------|---------------|
| To Cash    | 9,000        | By Bal b/d        | 10,000        |
|            |              |                   |               |
| To Bal c/d | <u>11000</u> | By P&L (Bal.fig.) | <u>10,000</u> |
|            | 20,000       |                   | 20,000        |

CFOA

|                   |             |
|-------------------|-------------|
| Net Profits       | xxxx        |
| (+) Prov. For Tax | 10,000      |
| (-) Tax Paid      | <u>9000</u> |

Notes : In case Tax Paid is Given in the question then we will have to Prepare " Prov. For Tax A/c" to find out current year' tax Expense in P&L A/c. If Amt. of Tax Paid is higher than Previous Year' Prov. For Tax Balance then we will create more Provision in current year' P&L or vice versa . It can be also be said that Amount of Tax Paid will can change current year' Prov. For Tax.

Q. 6 : \*Imp (16 marks)

Cash Flow Statement of Grow More Ltd. for the year .....

| <u>Particular</u>         | <u>₹</u>        | <u>₹</u> |
|---------------------------|-----------------|----------|
| CFOA : Change in Reserves | 50,000          |          |
| Change in P&L             | 40,000          |          |
| Proposed Dividend (cy)    | <u>2,00,000</u> |          |



|                                 |                   |                  |                 |
|---------------------------------|-------------------|------------------|-----------------|
| Net Profit                      | 2,90,000          |                  |                 |
| Provision for Tax (W.N#2)       | 80,000            |                  |                 |
| Depreciation on P&M (W.N#1)     | 1,25,000          |                  |                 |
| Profit on Sale of P&M           | (15000)           |                  |                 |
| <u>Working capital Adjust :</u> |                   |                  |                 |
| Decrease in creditors           | (1,20,000)        |                  |                 |
| Decrease in Debtors             | 200000            |                  |                 |
| Increase in Stock               | (200000)          |                  |                 |
| Tax Paid                        | <u>(50,000)</u>   | 3,10,000         |                 |
| (FIA : Sale of P&M              | 35,000            |                  |                 |
| Purchase of P&M (W.N#1)         | (3,45,000)        |                  |                 |
| Construction of Building        | (2,00,000)        |                  |                 |
| Purchase of Investment          | <u>(1,00,000)</u> | (6100000)        |                 |
| (FFA : Issue of Share capital   | 2,00,000          |                  |                 |
| Dividend Paid (Py)              | (1,00,000)        |                  |                 |
| Issue of Debentures             | <u>2,00,000</u>   | 3,00,000         |                 |
|                                 |                   | <hr/>            |                 |
|                                 | 0+I+F             | NIL              |                 |
| Add : Opening Balance           |                   | <u>200000</u>    |                 |
| Closing Balance                 |                   | <u>200000</u>    |                 |
| <u>W.N#1</u>                    |                   |                  |                 |
| <u>P&amp;M A/c</u>              |                   |                  |                 |
| To Bal b/d                      | 5,00,000          | By Depreciation  | 1,25,000        |
|                                 |                   | (25%)            |                 |
| To P&L (Profit)                 | 15,000            | By Bank (SP)     | 3,5000          |
| To cash (Bal)                   | <u>3,45,000</u>   | By Bal c/d       | <u>7,00,000</u> |
|                                 | <u>8,60,000</u>   |                  | <u>8,60,000</u> |
| <u>W.N#2</u>                    |                   |                  |                 |
| <u>PFT A/c</u>                  |                   |                  |                 |
| To Cash                         | 50,000            | By bal b/d       | 70,000          |
| To Bal c/d                      | <u>1,00,000</u>   | By P&L (Bal fig) | <u>80,000</u>   |
|                                 | <u>1,50,000</u>   |                  | <u>1,50,000</u> |



A diagram showing a box labeled 'Assets' at the top, with three arrows pointing down to three separate boxes labeled 'P&M', 'L&B', and 'Other Assets'.

**Journal :** Assets a/c Dr                  xxxx } No Cash Flow  
To S. Capital/Deb.                  xxxx }

(Being Shares/Deb. issued for Assets)

\*V.V.Imp

Q.24: \*Imp

| <u>Particular</u> | ₹ | ₹ |
|-------------------|---|---|
|-------------------|---|---|

[illegible]

|                                                  |                  |                   |                  |
|--------------------------------------------------|------------------|-------------------|------------------|
| <u>Working Capital Adjustments :</u>             |                  |                   |                  |
| Decrease in Creditors                            | (1,00,000)       |                   |                  |
| Decrease in Stock                                | 20,000           |                   |                  |
| Increase in Debtors                              | (20000)          |                   |                  |
| Tax Paid (W.N#3)                                 | <u>(45000)</u>   | 1,90,000          |                  |
|                                                  |                  |                   |                  |
| (FIA : Purchase of Machinery                     | (1,25,000)       |                   |                  |
| Sale of Investment                               | <u>60,000</u>    | (65,000)          |                  |
|                                                  |                  |                   |                  |
| (FFA : Dividend Paid (Py)                        | (1,00,000)       |                   |                  |
| Issue of Shares (W.N#2)                          | 1,50,000         |                   |                  |
| Repayment of Loans                               | <u>(1,00,00)</u> | <u>(50,000)</u>   |                  |
| O+I+F                                            |                  | 75,000            |                  |
| Add : opening Balance in Cash & Cash Equivalents |                  | <u>5,00,000</u>   |                  |
| Closing Balance in Cash & Cash Equivalents       |                  | <u>5,75,000</u>   |                  |
|                                                  |                  |                   |                  |
| W.N#1                                            |                  |                   |                  |
| Machinery A/c                                    |                  |                   |                  |
| To Bal b/d                                       | 7,50,000         | By Depreciation   | 55,000           |
| To Cash                                          | 1,25,000         | (Bal. Fig)        |                  |
| To E.S. capital                                  | 1,00,000         | By Bal c/d        | 9,20,000         |
|                                                  | <u>975000</u>    |                   | <u>975000</u>    |
|                                                  |                  |                   |                  |
| W.N#2                                            |                  |                   |                  |
| E.S. capital                                     |                  |                   |                  |
|                                                  |                  | By Bal b/d        | 10,00,000        |
|                                                  |                  | By Machinery      | 1,00,000         |
| To Bal c/d                                       | 12,50,000        | By Cash (Bal.Fig) | <u>1,50,000</u>  |
|                                                  | <u>12,50,000</u> |                   | <u>12,50,000</u> |
|                                                  |                  |                   |                  |
| W.n#3                                            |                  |                   |                  |
| PFT A/c                                          |                  |                   |                  |
| To Cash (Bal. Fig)                               | 45,000           | By Bal b/d        | 50,000           |
| To Bal c/d                                       | <u>60,000</u>    | By P&L A/c        | <u>55000</u>     |
|                                                  | 1,05,000         |                   | 1,05,000         |





### Point 5 : Cash & Cash Equivalents \*Imp

As per the Provisions of AS-3, Opening & Closing Balance in CFS should include Cash Balance, Bank Balance & \*Cash Equivalents.

\*Cash Equivalents are the investment which are having maturity Period upto 90 days. These Investments shall not be considered under Investing Activities, but these Investment shall be Considered in Opening & Closing balance in CFS.

These Investment may be Given in questions as Short Term Investments, Temporary Investment or Marketable Securities.

Q.11 :

### Cash flow Statement

| <u>Particular</u>                   | <u>₹</u> | <u>₹</u> |
|-------------------------------------|----------|----------|
| (FOA : Net Profit (PAT)             | 3,000    |          |
| Provision For Tax                   | 1500     |          |
| Dep. on Vehicles                    | 1000     |          |
| Dep. on Fixtures                    | 2500     |          |
| Profit on sale of Fixtures          | (700)    |          |
| <u>Working capital Adjustment</u>   |          |          |
| Creditors                           | 1500     |          |
| Stock                               | (3000)   |          |
| Debtors                             | (2000)   |          |
| Tax Paid (Py)                       | (1000)   | 2800     |
|                                     |          |          |
| (FIA : Purchase of vehicles (W.N#1) | (5500)   |          |
| Purchase of Fixtures (W.N#2)        | (9500)   |          |
| Sale of Fixtures                    | 1700     | (13300)  |
|                                     |          |          |
| (FFA : Dividend Paid (Py)           | (1000)   |          |
| Issue of Shares                     | (10,000) | 9000     |
|                                     |          |          |





|                                                                                                                                                                                                                                                                                                                                                                                      |              |                       |               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------|---------------|
|                                                                                                                                                                                                                                                                                                                                                                                      |              | O+I+F                 | (1500)        |
| Add: Opening Balance                                                                                                                                                                                                                                                                                                                                                                 |              |                       | 9500          |
| (1000+8500)                                                                                                                                                                                                                                                                                                                                                                          |              |                       |               |
| Closing Balance                                                                                                                                                                                                                                                                                                                                                                      |              |                       | <u>8000</u>   |
| (2000+6000)                                                                                                                                                                                                                                                                                                                                                                          |              |                       |               |
| W.N#1 Vehicles A/c                                                                                                                                                                                                                                                                                                                                                                   |              |                       |               |
| To Bal b/d                                                                                                                                                                                                                                                                                                                                                                           | 8000         | By Dep.               | 1000          |
| To Cash (Bal)                                                                                                                                                                                                                                                                                                                                                                        | <u>5500</u>  | By Bal c/d            | <u>12500</u>  |
|                                                                                                                                                                                                                                                                                                                                                                                      | <u>13500</u> |                       | <u>13500</u>  |
| W.N#2 Fixtures A/c                                                                                                                                                                                                                                                                                                                                                                   |              |                       |               |
| To Bal b/d                                                                                                                                                                                                                                                                                                                                                                           | 11000        | By Dep.               | 2500          |
| To PL (Profit)                                                                                                                                                                                                                                                                                                                                                                       | 700          | By Bank               | 1700          |
| To Cash (Bal)                                                                                                                                                                                                                                                                                                                                                                        | <u>9500</u>  | By Bal c/d            | <u>17000</u>  |
|                                                                                                                                                                                                                                                                                                                                                                                      | <u>21200</u> |                       | <u>21200</u>  |
| <u>*Part 6*</u>                                                                                                                                                                                                                                                                                                                                                                      |              |                       |               |
| <u>Point 6 : Treatment of Interim Dividend *Imp</u>                                                                                                                                                                                                                                                                                                                                  |              |                       |               |
| <p>If Dividend is Paid during current year then we should compare this Payment with Previous year' Proposed Dividend . If Payment of dividend becomes higher than Previous year' Proposed Dividend then <u>Excess Payment</u> (if any) will be considered as an Interim Dividend . The Amount of Interim dividend will be treated in addition to Proposed dividend as Follows :-</p> |              |                       |               |
| <u>CFOA</u>                                                                                                                                                                                                                                                                                                                                                                          |              | <u>CFFA</u>           |               |
| Change in GR                                                                                                                                                                                                                                                                                                                                                                         | xxxx         | Dividend Paid (Py)    | (xxxx)        |
| Change in PL                                                                                                                                                                                                                                                                                                                                                                         | xxxx         | Interim Dividend Paid | <u>(xxxx)</u> |
| Proposed Dividend (cy)                                                                                                                                                                                                                                                                                                                                                               | xxxx         |                       |               |
| Interim Dividend                                                                                                                                                                                                                                                                                                                                                                     | <u>xxxx</u>  |                       |               |
|                                                                                                                                                                                                                                                                                                                                                                                      | <u>NP</u>    |                       |               |



Example :

| 2021                               | 2022                        |
|------------------------------------|-----------------------------|
| Proposed Dividend 10,000           | 18,000                      |
| Dividend Paid during 2022 : 14,000 |                             |
| <u>Solution :</u>                  |                             |
| <u>CFOA</u>                        | <u>CFFA</u>                 |
| Change in GR ?                     | Dividend Paid (PY) (10,000) |
| Change in PL ?                     | Interim Paid (4,000)        |
| Proposed Dividend 18000            | (14,000-10,000)             |
| Interim "                          |                             |
| <u>4000</u>                        |                             |
| <u>NP</u>                          |                             |

Example :

| 2021                                 | 2022                      |
|--------------------------------------|---------------------------|
| Proposed Dividend -                  | -                         |
| Dividend Paid during 2022 : ₹ 10,000 |                           |
| <u>Solution</u>                      |                           |
| <u>CFOA</u>                          | <u>CFFA</u>               |
| Change in GR ?                       | Interim Dividend (10,000) |
| Change in PL ?                       |                           |
| P.D (cy) -                           |                           |
| Interim Dividend <u>10,000</u>       |                           |
| <u>NP</u>                            |                           |

Note : There is no Proposed Dividend in Previous year B/S due to which whole Payment has been considered as an Interim Dividend .

Point 7 : If Stock is Purchased by issue of Shares/Debentures

In case Purchase of Stock is Given in Lien of issue of Shares/ Debenture then such Purchase of Stock will always be considered as Non Cash Purchase. While Preparing CFS under indirect method, we will add back it to Net Profits assuming a non cash Expense.



Q.23:

Cash Flow Statement

|                                           |                       |                |
|-------------------------------------------|-----------------------|----------------|
| <u>(FOA):</u> Change in Reserves (W.N #3) | 10200                 |                |
| Change in P&L                             | 100                   |                |
| Dividend in cy (Interim)                  | <u>23,000</u>         |                |
| Net Profit                                | 33300                 |                |
| Provision for Tax (Given)                 | 33,000                |                |
| Dep. on Building                          | 10,000                |                |
| Non Cash Purchases                        | 20,000                |                |
| Depreciation on P&M                       | 12,000                |                |
| <u>Working capital Adjustment</u>         |                       |                |
| Decrease in creditors                     | (14800)               |                |
| Decrease in Stock                         | 26000                 |                |
| Decrease in Debtors                       | 15800                 |                |
| Tax Paid (W.N#2)                          | <u>(28000)</u>        | 107300         |
| <u>(FIA):</u> Purchase of Machinery       | (8,000)               |                |
| Sale of Machinery (W.N#1)                 | <u>1,800</u>          | (6,200)        |
| <u>(FFA):</u> Dividend Paid (Interim)     | <u>(23000)</u>        |                |
| Repayment of Loan                         | <u>(70,000)</u>       | <u>(93000)</u> |
|                                           | 0+I+F                 | 8100           |
|                                           | Add : Opening Balance | <u>500</u>     |
|                                           | Closing Balance       | <u>8600</u>    |

W.N#1

P&M A/c

|                |               |                    |                 |
|----------------|---------------|--------------------|-----------------|
| To Bal b/d     | 1,50,000      | By Depreciation    | 12,000          |
| To E.S capital | 25,000        | By Bank (Bal. Fig) | 1800            |
| To Cash        | 8,000         | By G. Res. (Loss)  | 200             |
|                |               | By Bal c/d         | <u>1,69,000</u> |
|                | <u>183000</u> |                    | <u>183000</u>   |

W.N#2

PFT A/c

|                    |              |            |               |
|--------------------|--------------|------------|---------------|
| To Cash (Bal. fig) | 28000        | By Bal b/d | 30,000        |
|                    |              |            |               |
| To Bal c/d         | <u>35000</u> | By P&L     | <u>33,000</u> |
|                    | 63000        |            | 63000         |



W.N#3

G. Res. A/c

|                   |              |                      |              |
|-------------------|--------------|----------------------|--------------|
| To P&M A/c (Loss) | 200          | By Bal b/d           | 50,000       |
|                   |              |                      |              |
| To Bal c/d        | <u>60000</u> | By PL A/c (Bal .fig) | <u>10200</u> |
|                   | 60200        | (Transfer)           | 60200        |

Point 8 : Treatment of Grants Received in CFS.

As per the Provisions of AS-3, Grants should be shown under Financing Activities in Cash Flow Statement because Grant is always assumed as a Financial Assistance and Source of Fund for the Company.

Important Note :

If Grant is a Revenue Grant and It is Amortised by the company in P&L A/c then It will be deducted from Net Profits under CFA.

CFACFFA

Net Profits        xxxx

Grant Received        xxxx

Grant Amortised (xxxx)

It's a Non operating Item  
because It is related With CFFA.

Q.25 :

Cash Flow Statement

| <u>Particular</u>                          | <u>₹</u> | <u>₹</u> |
|--------------------------------------------|----------|----------|
| (CFA : Net Profit (after Tax) (36000-6000) | 30,000   |          |
| Provision for Tax                          | 6000     |          |
| Grant Amortised                            | (10)     |          |
| Loss on Sale of Assets                     | 48       |          |
| Depreciation on Assets                     | 24,000   |          |
| Profit on SOI                              | (120)    |          |
| Interest Income                            | (3000)   |          |
| Interest Expense                           | 12000    |          |
| Increase in W. capital                     | (67,290) |          |



|                                |                |              |
|--------------------------------|----------------|--------------|
| Tax Paid                       | (5100)         | (3472)       |
|                                | <u>174</u>     |              |
| (FIA : Sale of Assets (222-48) |                |              |
| Sale of Invest. (333/8+120)    | 33,438         |              |
| Interest Income                | 3,000          |              |
| Purchase of F. Assets          | (22092)        |              |
| Construction Exp.              | <u>(41688)</u> | (27168)      |
| (FFA : Grant Received          | 18             |              |
| Dividend Paid                  | (10202)        |              |
| Interest Paid                  | (13042)        |              |
| Bank Loans                     | <u>55866</u>   | <u>32640</u> |
|                                | 0+I+F          | 2,000        |
| Add : opening Balance          |                | <u>6000</u>  |
| Closing Balance                |                | <u>8000</u>  |

Note on PBT : If PBT is used under (FOA then we will ignore adjustment of Prov. For Tax. It means that we will consider Tax Paid Directly.

| <u>PAT</u>                                                                     |      | VS | <u>PBT</u> |      |
|--------------------------------------------------------------------------------|------|----|------------|------|
| Net                                                                            | xxxx |    | NP         | xxxx |
| -PFT                                                                           | +    |    | Tax Paid   | (-)  |
| Tax Paid                                                                       | -    |    |            |      |
| *No Adjustment will be considered for PFT Because Profit is already before Tax |      |    |            |      |

Q.4, Q.30, Q.31, Q.35 H.w

→ Doubt Session



\*Part 7\*Point 9 : Adjustment for "Extra-ordinary Items" \*V.V.Imp

As per the Provisions of AS-3, Disclosure of Extra-ordinary cash Flow is to be made separately on the face of **Cash flow Statement** under **respective heading of OI, IA or FA**. The following steps should be followed for Adjustment of Extra-ordinary Activities in CFS :-

Step I : Calculate Net Profit before Adjustment of E.O. Items

|                                        |                    |
|----------------------------------------|--------------------|
| Change in Reserves                     | xxxx               |
| Change in P&L                          | xxxx               |
| Proposed Dividend (cy)                 | <u>xxxx</u>        |
| Net Profit after Tax                   | xxxx               |
| <b>Provision for Tax</b>               | <u><b>xxxx</b></u> |
| <b>PBT</b>                             | <b>xxxx</b>        |
| <b>Reversal</b>                        |                    |
| Extra-ordinary Items written in P&L    | xxxx ±             |
| [Loss: Add back, Gain : Deduct]        |                    |
| <b>PBT before adjusting E.O. Items</b> | <u><b>xxxx</b></u> |

Step II : Present the E.O. Activities in Cash Flow Separately

|                                                      |                      |
|------------------------------------------------------|----------------------|
| <u><b>CFOA : PBT before Adjusting E.O. Items</b></u> | <b>xxxx</b>          |
| <u>*Extra-ordinary Items : Inflows</u>               | xxxx                 |
| Outflows                                             | (xxxx)               |
| <b>Tax Paid</b>                                      | <u><b>(xxxx)</b></u> |

**CFA :** Normal Investing Activities

|                                        |               |
|----------------------------------------|---------------|
| <u>*Extra-ordinary Items : Inflows</u> | xxxx          |
| Outflows                               | <u>(xxxx)</u> |





|                                                                                         |             |           |
|-----------------------------------------------------------------------------------------|-------------|-----------|
| <u>CFFA</u> : Normal Financing Activities                                               |             |           |
|                                                                                         |             |           |
| *Extra-ordinary Items : Inflows                                                         | xxxx        |           |
| Outflows                                                                                | (xxxx)      |           |
|                                                                                         |             |           |
| <u>Examples on Extra-ordinary Items :-</u>                                              |             |           |
| OA : i) Loss of Stock due to fire, flood, Earthquake                                    |             |           |
| ii) Compensation Received from Insurance Company for Loss of Stock                      |             |           |
| iii) Compensation Paid or Received for court cases on disputes with Customers/ Supplier |             |           |
| iv) VRS Paid to Employees [Voluntary Separation Payment]                                |             |           |
| IA : Compensation Paid/ Received for Loss of Assets                                     |             |           |
| FA : Refund of Grants etc.                                                              |             |           |
|                                                                                         |             |           |
| Q. 17: (20 Marks)                                                                       |             |           |
| <u>Cash flow Statement</u>                                                              |             |           |
| <u>Particular</u>                                                                       | <u>₹</u>    | <u>₹</u>  |
| <u>CFOA</u> : Net Profit before Tax before                                              | 20,00,000   |           |
| E.O. Items                                                                              |             |           |
| Depreciation on F. Assets                                                               | 5,00,000    |           |
| Amortisation of Discount on Deb.                                                        | 30,000      |           |
| Interest on Debentures Paid                                                             | 3,50,000    |           |
| Profit on Sale of Investment                                                            | (20,000)    |           |
| Interest Received                                                                       | (60,000)    |           |
| <u>Working capital Adjust</u>                                                           |             |           |
| Increase in Stock                                                                       | (118000)    |           |
| Increase in Debtors                                                                     | (5100)      |           |
| Decrease in B/R                                                                         | 10,000      |           |
| Decrease in B/P                                                                         | (5000)      |           |
| Increase in creditor                                                                    | 5300        |           |
| Increase in O/S Exp.                                                                    | 6800        |           |
| <u>Extra-ordinary Items.</u>                                                            |             |           |
| Compensation Received                                                                   | 90,000      |           |
| Tax Paid                                                                                | (10,50,000) | 17,34,000 |
|                                                                                         |             |           |



|                                   |                   |                  |
|-----------------------------------|-------------------|------------------|
| <u>(FIA)</u> : Sale of Investment | 3,20,000          |                  |
| Interest Received                 | <u>60,000</u>     | 380000           |
| <u>(FFA)</u> : Interest Paid      | (3,50,000)        |                  |
| Redemption of PSC                 | (15,00,000)       |                  |
| Premium on Redemption of PSC      | (75,000)          |                  |
| Issue of Shares                   | 5,00,000          |                  |
| Premium on Issue                  | 1,00,000          |                  |
| Dividend Paid on PSC (15Lx10%)    | (1,50,000)        |                  |
| Dividend Paid on ESC : Py         | (5,00,000)        |                  |
| Interim                           | <u>(3,00,000)</u> | <u>(2275000)</u> |
|                                   | 0+I+F             | (160000)         |
| Add : Opening Balance             |                   | <u>196300</u>    |
| Closing Balance                   |                   | <u>35300</u>     |
| Q.49, Q.48 - H.W                  |                   |                  |
| Q. 14 : *V.V.Imp (20 Marks)       |                   |                  |
| <u>Cash Flow Statement</u>        |                   |                  |
| <u>Particular</u>                 | <u>₹</u>          | <u>₹</u>         |
| (FOA) : Change in Reserves        | NIL               |                  |
| Change in P&L                     | 20,000            |                  |
| Proposed Dividend (cy)            | <u>90,000</u>     |                  |
| Net Profit                        | 1,10,000          |                  |
| Provision for Tax (Given)         | <u>1,35,000</u>   |                  |
| PBT                               | 245000            |                  |
| Preliminary Exp. written off      | 15,000            |                  |
| Profit on Sale of P&M             | (40,000)          |                  |
| Depreciation on P&M (W.N#2)       | 1,35,000          |                  |
| Profit on sale of Investment      | (20,000)          |                  |
| <u>Working Capital Adjust :</u>   |                   |                  |
| Increase in Creditors             | 15000             |                  |
| Decrease in B/P                   | (10000)           |                  |
| Increase in o/s Exp.              | 10,000            |                  |
| Increase in Stock                 | (5000)            |                  |
| Decrease in B/R                   | 5000              |                  |



|                                    |                       |                 |          |
|------------------------------------|-----------------------|-----------------|----------|
| Increase in Debtors                | (45000)               |                 |          |
| <u>Extra-ordinary Item:</u>        |                       |                 |          |
| V.S cost Payments (W.N#6)          | (110000)              |                 |          |
| Tax Paid (W.N#5)                   | (100000)              | 95,000          |          |
| (FIA : Sale of Land                | 1,50,000              |                 |          |
| Sale of P&M                        | 90,000                |                 |          |
| Purchase of P&M                    | (350000)              |                 |          |
| Investment Sold                    | 70,000                |                 |          |
| Dividend Received                  | 5,000                 |                 |          |
| Investment Purchase (W.N#4)        | (25000)               | (60000)         |          |
| (FFA : Issue of Debentures (W.N#3) | 1,00,000              |                 |          |
| Dividend Paid (Py)                 | (60,000)              |                 |          |
| Issue of Equity Shares             | 1,00,000              |                 |          |
| Redemption of PSC                  | (2,00,000)            | (60000)         |          |
|                                    | O+I+F                 | (25000)         |          |
|                                    | Add : Opening Balance | 90000           |          |
|                                    | Closing Balance       | 65000           |          |
| W.N#1                              |                       |                 |          |
| Land & Building A/c                |                       |                 |          |
| To Bal b/d                         | 2,00,000              | By Bank (SP)    | 1,50,000 |
| To Profit on Sale                  | 30,000                |                 |          |
| To Profit on Revaluation           | 70,000                | By Bal c/d      | 1,50,000 |
| (Bal. fig)                         | 3,00,000              |                 | 3,00,00  |
| W.N#2                              |                       |                 |          |
| P&M A/c                            |                       |                 |          |
| To Bal b/d                         | 5,00,000              | By Bank         | 90,000   |
| To PL (90,000-50,000)              | 40,000                | By Depreciation | 135000   |
| To Debentures                      | 1,00,000              | (Bal. Fig)      |          |
| To Cash (4.5-1)                    | 3,50,000              | By Bal c/d      | 765000   |
|                                    | 9,90,000              |                 | 9,90,000 |
| (500000 - 50000 + 450000) x 15%    |                       |                 |          |



|                               |                 |               |                 |
|-------------------------------|-----------------|---------------|-----------------|
| <b>W.N#3</b>                  |                 |               |                 |
| <b>Debentures A/c</b>         |                 |               |                 |
|                               |                 | By Bal b/d    | -               |
|                               |                 | By P&M A/c    | 1,00,000        |
| To Bal c/d                    | <u>2,00,000</u> | By Bank       | <u>100000</u>   |
|                               |                 | (Bal.fig)     |                 |
|                               | <u>2,00,000</u> |               | <u>2,00,00</u>  |
| <b>W.N#4</b>                  |                 |               |                 |
| <b>Investment A/c</b>         |                 |               |                 |
| To Bal b/d                    | 80,000          | By Bank       | 70,000          |
| To PL (70,000-50,000)         | 20,000          | By Pre-acq.   | 5,000           |
|                               |                 | Dividend      |                 |
| To Cash (Bal. fig)            | <u>25000</u>    | By Bal c/d    | <u>50,000</u>   |
|                               | <u>125000</u>   |               | <u>125000</u>   |
| <b>W.N#5</b>                  |                 |               |                 |
| <b>Provision for Tax A/c</b>  |                 |               |                 |
| To Cash (Bal. Fig)            | 1,00,000        | By Bal b/d    | 60,000          |
| To Bal c/d                    | <u>95000</u>    | By P&L        | <u>135000</u>   |
|                               | <u>195000</u>   |               | <u>19500</u>    |
| <b>W.N#6</b>                  |                 |               |                 |
| <b>V.S. Cost A/c      B/S</b> |                 |               |                 |
| To Bal b/d                    | 65,000          | By G. Res.    | 50,000          |
|                               |                 | (written off) |                 |
| To Cash (New:Bal)             | <u>1,10,000</u> | By Bal c/d    | <u>125000</u>   |
|                               | <u>175000</u>   |               | <u>175000</u>   |
| <b>W.N#7</b>                  |                 |               |                 |
| <b>G. Res. A/c</b>            |                 |               |                 |
| To V.S. Cost A/c              | 50,000          | By Bal b/d    | 2,50,000        |
| To CRR                        | 100000          |               |                 |
| To Bal c/d                    | <u>100000</u>   |               |                 |
|                               | <u>2,50,000</u> |               | <u>2,50,000</u> |



Q. 3 :

CFOA

|             |          |
|-------------|----------|
| Net Profits | 1,30,000 |
|-------------|----------|

Working Capital Adjustments:

|                            |        |
|----------------------------|--------|
| Decrease in Debtors        | 3000   |
| Increase in B/R            | (2500) |
| Increase in creditors      | 5000   |
| Increase in B/P            | 5200   |
| Increase in o/s Exp.       | 200    |
| Decrease in Prepaid Exp.   | 100    |
| Increase in Accrued Income | (150)  |
| Decrease in Advance Income | (50)   |

CFOA

Q.47, Q.45 - H.w

\*Part 8\*Point 10: Provision for Depreciation \*V.V.Imp

Provision for Depreciation

OR

Depreciation Fund

OR

Accumulated Dep.

OR

Reserve for Depreciation

OR

Depreciation

If Given in B/s, we will  
Follow Presentation as  
Prescribed in Point 10

We will Prepare fixed Asset  
A/c and Provision for Dep.  
A/c separately.

i) Sale/ Purchase of fixed Asset  
Will be recorded in fixed  
Asset A/c



ii) Depreciation will be recorded  
in PFD A/c

### Example

|                    | <u>2021</u>   | <u>2022</u>    |
|--------------------|---------------|----------------|
| Fixed Asset : Cost | 40,000        | 60,000         |
| Dep.               | <u>(8000)</u> | <u>(12000)</u> |
| WDV                | <u>32000</u>  | <u>48000</u>   |

### Solution

| Fixed Assets A/c (Cost) |        |            |               |
|-------------------------|--------|------------|---------------|
| To Bal b/d              | 40,000 |            |               |
| To Cash (Bal. fig)      | 20,000 | By Bal c/d | <u>60,000</u> |

| PFD A/c |              |                    |      |
|---------|--------------|--------------------|------|
|         |              | By Bal b/d         | 8000 |
| To Bal  | <u>12000</u> | By Dep. (Bal. fig) | 4000 |

### Example :

|              | <u>2022</u>   | <u>2023</u>   |
|--------------|---------------|---------------|
| Fixed Assets | 2,00,000      | 2,50,000      |
| PFD          | <u>40,000</u> | <u>60,000</u> |
| WDV          | <u>160000</u> | <u>190000</u> |

### Additional Information :

F. Assets Sold during the year : Cost 20,000  
PFD 8,000  
SP 14,000

### Solution

| Fixed Assets A/c [Cost] |               |                 |               |
|-------------------------|---------------|-----------------|---------------|
| To Bal b/d              | 2,00,000      | By Disposal A/c | 20,000        |
|                         |               | (Sold)          |               |
| To Cash (Bal)           | <u>7000</u>   | By Bal c/d      | <u>250000</u> |
|                         | <u>270000</u> |                 | <u>270000</u> |





|                                                      |               |                  |              |
|------------------------------------------------------|---------------|------------------|--------------|
| PFD A/c                                              |               |                  |              |
| To Disposal A/c (Sold)                               | 8000          | By Bal b/d       | 40,000       |
|                                                      |               |                  |              |
| To Bal c/d                                           | <u>60,000</u> | By Dep. (Bal)    | <u>28000</u> |
|                                                      | <u>68000</u>  |                  | <u>68000</u> |
| Disposal of Assets A/c                               |               |                  |              |
| To FA                                                | 20,000        | By PFD           | 8000         |
|                                                      |               |                  |              |
| To PL (Bal)                                          | <u>2000</u>   | By Bank          | <u>14000</u> |
| Example :                                            |               |                  |              |
|                                                      | <u>2022</u>   | <u>2023</u>      |              |
| P&M                                                  | 60,000        | 70,000           |              |
| PFD                                                  | 20000         | 22000            |              |
| WDV                                                  | 40,000        | 48000            |              |
| Additional : Sold Assets : Cost 10000      SP = 5000 |               |                  |              |
|                                                      | PFD 2000      |                  |              |
| FA A/c                                               |               |                  |              |
| To Bal                                               | 60000         | By Disposal A/c  | 10000        |
| To Cash (Bal)                                        | <u>20000</u>  | By Bal           | <u>7000</u>  |
|                                                      | <u>80000</u>  |                  | <u>80000</u> |
| PFD A/c                                              |               |                  |              |
| To Disposal                                          | 2000          | By Bal           | 20000        |
| To Bal                                               | <u>22000</u>  | By Dep.          | <u>4000</u>  |
|                                                      | <u>24000</u>  |                  | <u>24000</u> |
| Disposal of FA                                       |               |                  |              |
| To FA                                                | 10000         | By PFD           | 2000         |
|                                                      |               | By Bank          | 5000         |
|                                                      |               | By PL (Bal. fig) | 3000         |



Q. 10 : \*V.V.Imp

Cash Flow Statement

| <u>Particular</u>                     | <u>₹</u> | <u>₹</u> |
|---------------------------------------|----------|----------|
| <u>CFOA</u> : Net Profit (after Tax)  | 16,000   |          |
| Provision for Tax                     | 7,000    |          |
| Profit on Sale of Investment          | (12000)  |          |
| Loss on Sale of P&M (W.N#4)           | 3,000    |          |
| Depreciation on F. Assets (W.N#3)     | 37,000   |          |
| Interest Income                       | (6000)   |          |
| Interest Expense                      | 23,000   |          |
| <u>Working Capital Adjustment:</u>    |          |          |
| Increase in Stock                     | (34000)  |          |
| Decrease in Debtors                   | 8,000    |          |
| Decrease in Prepared Exp.             | 4,000    |          |
| Increase in Creditors                 | 7,000    |          |
| Increase in A/L                       | 3,000    |          |
| Tax Paid (W.N#6)                      | (9,000)  | 47,000   |
| <u>CFIA</u> : Purchase of Investments | (78,000) |          |
| Sale of Investment                    | 1,02,000 |          |
| Purchase of P&M                       | (120000) |          |
| Sale of Plant                         | 5,000    |          |
| Interest Income                       | 6,000    | (85000)  |
| <u>CFFA</u> : Redemption of Bonds     | (50,000) |          |
| Issue of Shares                       | 1,50,000 |          |
| Interest Paid                         | (23000)  |          |
| Dividend Paid                         | (8000)   | 69,000   |
|                                       |          | <hr/>    |
| O+I+F                                 |          | 31000    |
| Add : Opening Balance                 |          | 15000    |
| Closing Balance                       |          | 46000    |



|                                |                 |                        |                 |
|--------------------------------|-----------------|------------------------|-----------------|
| <b>W.N#1</b>                   |                 |                        |                 |
| <b>Investment A/c</b>          |                 |                        |                 |
| To Bal b/d                     | 1,27,000        | By Bank (SP)           | 1,02,000        |
| To Bank                        | 78,000          |                        |                 |
| To Profit on Sale              | <u>12,000</u>   | By Bal c/d             | <u>1,15,000</u> |
| (Bal)                          | <u>2,17,000</u> |                        | <u>2,17,000</u> |
| <b>W.N#2</b>                   |                 |                        |                 |
| <b>Plant A/C (Cost)</b>        |                 |                        |                 |
| To Bal b/d                     | 5,05,000        | By Disposal of P&M A/c | 10,000          |
| To Bank                        | 1,20,000        |                        |                 |
| To Bonds A/c                   | <u>1,00,000</u> | By Bal c/d             | <u>7,15,000</u> |
|                                | <u>7,25,000</u> |                        | <u>7,25,000</u> |
| <b>W.N#3</b>                   |                 |                        |                 |
| <b>PFD A/c</b>                 |                 |                        |                 |
| To Disposal of P&M             | 2,000           | By Bal b/d             | 68,000          |
| To Bal c/d                     | <u>103,000</u>  | By Depreciation        | <u>37,000</u>   |
|                                | <u>105,000</u>  | (Bal. Fig)             | <u>105,000</u>  |
| <b>W.N#4</b>                   |                 |                        |                 |
| <b>Disposal of P&amp;M A/c</b> |                 |                        |                 |
| To P&M A/c                     | 10,000          | By PFD A/c             | 2000            |
|                                |                 | By Bank (SP)           | 5000            |
|                                |                 | By PL (Loss: Bal)      | <u>3000</u>     |
| <b>W.N#5</b>                   |                 |                        |                 |
| <b>Bonds A/c</b>               |                 |                        |                 |
| To Bank (Redemption)           | 50,000          | By Bal b/d             | 2,45,000        |
| To Bal c/d                     | <u>295,000</u>  | By P&M A/c             | <u>1,00,000</u> |
|                                | <u>345,000</u>  |                        | <u>345,000</u>  |



W.N#6

PFT A/c

|                    |              |            |              |
|--------------------|--------------|------------|--------------|
| To Cash (Bal. Fig) | 9,000        | By Bal b/d | 5,000        |
| To Bal c/d         | <u>3000</u>  | By P&L     | <u>7,000</u> |
|                    | <u>12000</u> |            | <u>12000</u> |

Q. 13 \*V.V.Imp

Cash Flow Statement

| <u>Particular</u>                       | <u>₹</u>        | <u>₹</u>                    |
|-----------------------------------------|-----------------|-----------------------------|
| <u>(FOA) : Change in Reserves</u>       | -               |                             |
| Change in PL                            | 7000            |                             |
| Dividend (cy) (250000x12%)              | 30,000          |                             |
| Net Profit                              | 37,000          |                             |
| Loss on Sale of Machinery (W.N#3)       | 2,000           |                             |
| Depreciation on Machinery (W.N#2)       | 12,000          |                             |
| Machinery written off (W.N#1)           | 7,000           |                             |
| Profit on Redemption of Deb.            | (800)           |                             |
| <u>Working Capital Adjustment</u>       |                 |                             |
| Stock                                   | (14000)         |                             |
| Debtors                                 | 4000            |                             |
| Prepared                                | (1000)          |                             |
| Creditors                               | (7000)          |                             |
| O/s Exp.                                | 9000            |                             |
| Tax Paid (W.N#4)                        | <u>(15000)</u>  | 33200                       |
| <u>(FIA) : Purchase of Machinery</u>    | (30,000)        |                             |
| Sale of Machinery                       | <u>5,000</u>    | (25000)                     |
| <u>(FFA) : Redemption of Debentures</u> | (19,200)        |                             |
| (20000 x 96)                            |                 |                             |
| 100                                     |                 |                             |
| Dividend Paid (250000x12%)              | <u>(30,000)</u> | (49200)                     |
|                                         |                 | <u>                    </u> |



|                                                                                          |               |                                 |                |
|------------------------------------------------------------------------------------------|---------------|---------------------------------|----------------|
|                                                                                          |               | <i>O+I+F</i>                    | (41,000)       |
| <i>Add : Opening Balance</i>                                                             |               |                                 | <u>191,000</u> |
| <i>Closing Balance</i>                                                                   |               |                                 | 150,000        |
| W.N#1                                                                                    |               |                                 |                |
| <i>P&amp;M A/c</i>                                                                       |               |                                 |                |
| <i>To Bal b/d</i>                                                                        | 82,000        | <i>By Disposal A/c</i>          | 15000          |
|                                                                                          |               | <i>By P&amp;L (written Off)</i> | 7,000          |
| <i>To Cash/ Bank</i>                                                                     | 30,000        | <i>(Bal. fig )</i>              |                |
|                                                                                          | <u>112000</u> | <i>By Bal c/d</i>               | <u>90,000</u>  |
|                                                                                          |               |                                 | <u>112000</u>  |
| W.N#2                                                                                    |               |                                 |                |
| <i>Dep. Fund A/c</i>                                                                     |               |                                 |                |
| <i>To Disposal A/c</i>                                                                   | 8,000         | <i>By Bal b/d</i>               | 40,000         |
| <i>To Bal c/d</i>                                                                        | <u>44000</u>  | <i>By Dep. (Bal. fig)</i>       | <u>12000</u>   |
|                                                                                          | <u>52000</u>  |                                 | <u>52000</u>   |
| W.N#3                                                                                    |               |                                 |                |
| <i>Disposal A/c</i>                                                                      |               |                                 |                |
| <i>To P&amp;M A/c</i>                                                                    | 15,000        | <i>By Dep. Fund A/c</i>         | 8000           |
|                                                                                          |               | <i>By Bank</i>                  | 5000           |
|                                                                                          |               | <i>By PL (Loss) (Bal. fig)</i>  | <u>2000</u>    |
| W.N#4                                                                                    |               |                                 |                |
| <i>PFT A/c</i>                                                                           |               |                                 |                |
| <i>To Cash (Bal. fig)</i>                                                                | 15000         | <i>By Bal b/d</i>               | -              |
| <i>To Bal c/d</i>                                                                        | -             | <i>By Cont. Res.</i>            | 15000          |
| Q.32, Q.33, Q.37, Q.41 - H.w                                                             |               |                                 |                |
| <i>*Part 9*</i>                                                                          |               |                                 |                |
| Point 11: Items related with Debtors/Creditors in P&L A/c                                |               |                                 |                |
| (i.e., Discount allowed, Discount received, Purchase Return, Sale Return, Bad Debts etc. |               |                                 |                |



If any information in relation to debtors/creditors is Given in P&L A/c as specified in above Point then we will ignore such information while Preparing CFA because we will assume that the Specified Items are already adjusted in opening & Closing Balances of Debtors and creditors A/c under working capital Adjustments. It means that there will be no Adjustment for above items in Net Profits.

Q.18 (16 Marks)

Cash Flow Statement

|                                     | ₹         | ₹         |
|-------------------------------------|-----------|-----------|
| <b>CFA:</b>                         |           |           |
| Net Profit                          | 2240000   |           |
| Depreciation on P&M a/c             | 180000    |           |
|                                     |           |           |
| <b>W. Cap Adjust:</b>               |           |           |
| Increase in Debtors (Net)           | (400000)  |           |
| Decrease in Stock                   | 90000     |           |
| Increase in Prepaid Exp             | (30000)   |           |
| Decrease in Creditors               | (60000)   |           |
| Decrease in O/s Exp                 | (60000)   | 1960000   |
|                                     |           |           |
| <b>CFIA</b>                         |           |           |
| Purchase of P&M (4070000 – 2730000) | (1340000) | (1340000) |
|                                     |           |           |
| <b>CFFA:</b>                        |           |           |
| Payment of Dividends (W.N #1)       | (1050000) |           |
| Issue of Debentures                 | 900000    |           |
| Receiving of Loan                   | 150000    | Nil       |
|                                     |           |           |
| <b>O+I+F</b>                        |           | 620000    |
| <b>C + CE Add: OB</b>               |           | 2700000   |
| <b>C + CE CB</b>                    |           | 3320000   |





|                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                 |                     |                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
| W.N #1 Dividend Payable A/c                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                 |                     |                |
| To Bank (Bal fig)                                                                                                                                                                                                                                                                                                          | 1050000                                                                                                                                                                                                         | By Bal b/d          | 150000         |
| To Bal c/d                                                                                                                                                                                                                                                                                                                 | 300000                                                                                                                                                                                                          | By P&L A/c/ R.E A/c | 1200000        |
|                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                 | (Declared)          |                |
|                                                                                                                                                                                                                                                                                                                            | <u>1350000</u>                                                                                                                                                                                                  |                     | <u>1350000</u> |
| <u>Point 12: Treatment of Premium on Redemption of Pref. S. Capital &amp; Debentures</u>                                                                                                                                                                                                                                   |                                                                                                                                                                                                                 |                     |                |
| If Premium on Redemption of PSC or Debentures is Given in question then there will be different Treatment for Both Information. The Following Presentation will be considered                                                                                                                                              |                                                                                                                                                                                                                 |                     |                |
| <u>CFOA</u>                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                 |                     |                |
| Changes in Reserves                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                 | xxxx                |                |
| Changes in R.E /PL                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                 | xxxx                |                |
| Dividends (CY)                                                                                                                                                                                                                                                                                                             | <div style="display: inline-block; vertical-align: middle;"> <div style="display: inline-block; vertical-align: middle;">ESC</div> <div style="display: inline-block; vertical-align: middle;">PSC</div> </div> | xxxx                |                |
| *Prem on Redemption of PSC                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                 | <u>xxxx</u>         |                |
| NP                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                 | xxxx                |                |
| Provision for Tax                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                 | xxxx                |                |
| **Premium on Redemption of Debentures                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                 | <u>xxxx</u>         |                |
| *It is Considered as an Appropriation of Profit because It is Paid to Shareholders/ Owners of Company. If Net Profit is not Given only then It is considerable in CFOA. <u>In Q.17, NP is Given due to which we have ignored it in solution.</u> <u>In Q.19 Net Profit is missing due to which, we have considered it.</u> |                                                                                                                                                                                                                 |                     |                |
| **It is always considered whether Profit is Given or Not given because It is Charge against Profit and It is always debited in P&L. <u>It is Considered as a Non Operating Item.</u>                                                                                                                                       |                                                                                                                                                                                                                 |                     |                |



### Point 13: Rectification of Mistakes

If any mistake is Specified in Given B/s then we will Prepare CFS after rectifying the Given mistakes. It means that CFS will always be prepared on the basis of Correct Information.

Q.19

#### Cash Flow Statement

|                                       | ₹        | ₹        |
|---------------------------------------|----------|----------|
| <u>CFOA:</u>                          |          |          |
| ↗ (240000 + 24000)                    |          |          |
| Changes in PL (300000 - 264000)       | 36000    |          |
| Changes in G Res                      | 120000   |          |
| Dividends : CY                        | 340000   |          |
| Premium on Red. Of PSC                | 6000     |          |
| NP                                    | 502000   |          |
| Provision for Taxes                   | 144000   |          |
| Loss on sale of F. Assets (WN #3)     | 20000    |          |
| F. Asset Written off (WN #3)          | 16000    |          |
| Depreciation on F. Assets             | 360000   |          |
| Premium on Red. Of Debentures         | 6000     |          |
| Preliminary Exp Written off           | 40000    |          |
| <u>W.C Adjust:</u>                    |          |          |
| Increase in C. Assets                 | (176000) |          |
| (1310000 - 1134000) (1110000 + 24000) |          |          |
| Increase in CL                        | 40000    |          |
| Tax Paid                              | (120000) | 832000   |
| <u>CFIA:</u>                          |          |          |
| Sale of Fixed Assets                  | 100000   |          |
| Purchase of Fixed Assets (W.N #1)     | (856000) |          |
| Sale of Investments                   | 120000   | (636000) |
| [(400000 - 320000) + 40000]           |          |          |
| ↘ Cost ↗ Profit                       |          |          |



|                              |                |                   |                |
|------------------------------|----------------|-------------------|----------------|
| <u>CFFA:</u>                 |                |                   |                |
| Redemption of Debentures     | (120000)       |                   |                |
| Premium on Redemption of Deb | (6000)         |                   |                |
| Redemption of PSC            | (120000)       |                   |                |
| Premium on Redemption of PSC | (6000)         |                   |                |
| Issue of Shares              | 400000         |                   |                |
| Dividend Paid (PY)           | (344000)       | (196000)          |                |
| (360000 - 16000)             |                |                   |                |
|                              | O+I+F          |                   | NIL            |
|                              | C + CE Add: OB |                   | <u>10000</u>   |
|                              | C + CE CB      |                   | <u>10000</u>   |
| W.N #1 Fixed Assets A/c      |                |                   |                |
| To Bal b/d                   | 3200000        | By Disposal A/c   | 200000         |
|                              |                | (Sold)            |                |
| To Bank (Bal fig)            | 856000         | By Disposal A/c   | 56000          |
|                              |                | (Written off)     |                |
|                              |                | By Bal c/d        | 3800000        |
|                              | <u>4056000</u> |                   | <u>4056000</u> |
| W.N #2 PFD A/c               |                |                   |                |
| To Disposal A/c (Sold)       | 80000          | By Bal b/d        | 920000         |
| To Disposal A/c              | 40000          | By Depreciation   | 360000         |
| (Written off)                |                | (Given)           |                |
| To Bal c/d                   | 1160000        |                   |                |
|                              | <u>1280000</u> |                   | <u>1280000</u> |
| W.N #3 Disposal of FA A/c    |                |                   |                |
| To F. Assets A/c             | 200000         | By PFD A/c        | 80000          |
|                              |                | By Bank (SP)      | 100000         |
|                              |                | By PL (Loss: Bal) | <u>20000</u>   |
| To F. Assets A/c             | 56000          | By PFD A/c        | 40000          |
| (Written off)                |                | By PL (Bal)       | 16000          |
|                              |                | (Written off)     |                |
| Q.1, Q.5 - H.W               |                |                   |                |



\*Part 10\*

Q.34 \*V.V. Imp

Cash flow Statement

|                                             | ₹       | ₹       |
|---------------------------------------------|---------|---------|
| <u>CFOA:</u>                                |         |         |
| Changes in Reserves (Transfer from Res)     | (5000)  |         |
| Changes in P&L "Appropriations"             | 2350    |         |
| Bonus Shares Issued                         | 25000   |         |
| Dividends (CY) : Pref Dividend (80000 x .1) | 8000    |         |
| Interim Dividend on ESC                     | 4000    |         |
| Proposed Dividend (CY)                      | 24000   |         |
| Premium on Redemption of PSC                | 2000    |         |
| Net Profit                                  | 60350   |         |
| Revaluation Profit credited in P&L          | (3000)  |         |
| Loss on Sale of Fixed Asset (W.N #4)        | 950     |         |
| Depreciation on FA (WN #3)                  | 13260   |         |
| W.C Adj: 1) Increase in Stock               | (6000)  |         |
| 2) Decrease in Debtors                      | 1300    |         |
| [(88000 - 1700) - 85000]                    |         |         |
| 3) Decrease in Creditors                    | (8900)  | 57960   |
| <u>CFIA:</u>                                |         |         |
| Sale of Fixed Assets                        | 250     |         |
| Purchase of Investments                     | (15000) |         |
| Purchase of Asset (WN 2)                    | (14960) | (29710) |
| <u>CFFA</u>                                 |         |         |
| Issue of Shares (W.N #1)                    | 20000   |         |
| Pref Dividend Paid                          | (8000)  |         |
| Equity Dividend Paid                        | (4000)  |         |
| Dividend on ESC (PY)                        | (12000) |         |
| Redemption of PSC (20000 + 10%)             | (22000) |         |
| Receiving of Loans                          | 40000   |         |
| Repayment of Bank OD                        | (22000) | (8000)  |



|                                      |               |                   |               |
|--------------------------------------|---------------|-------------------|---------------|
|                                      |               | O+I+F             | 20250         |
| C + CE Add: OB                       |               |                   | <u>11750</u>  |
| C + CE CB                            |               |                   | <u>32000</u>  |
| *Bank OD is always treated as a STL. |               |                   |               |
| W.N #1 E. S Capital A/c              |               |                   |               |
|                                      |               | By Bal B/d        | 75000         |
|                                      |               | By Bonus Shares   | 25000         |
| To Bal c/d                           | 120000        | By Bank (Bal fig) | 20000         |
|                                      | <u>120000</u> |                   | <u>120000</u> |
| W.N #2 Plant A/c                     |               |                   |               |
| To Bal b/d                           | 240070        | By Disposal A/c   | 6000          |
| To P&L A/c (Revaluation)             | 3000          |                   |               |
| To Debtors                           | 1700          |                   |               |
| To Cash (Bal fig)                    | 14960         | By Bal B/d        | 253730        |
|                                      | <u>259730</u> |                   | <u>259730</u> |
| W.N #3 PFD A/c                       |               |                   |               |
| To Disposal                          | 4800          | By Bal b/d        | 90020         |
| To Bal c/d                           | 98480         | By Dep (Bal fig)  | 13260         |
|                                      | <u>103280</u> |                   | <u>103280</u> |
| W.N #4 Disposal A/c                  |               |                   |               |
| To F. Assets                         | 6000          | By PFD A/c        | 4800          |
|                                      |               | By Bank           | 250           |
|                                      |               | By P&L (Loss)     |               |
|                                      |               | (bal fig)         | 950           |



### Point 14: Treatment of "Advance Tax"

If it is Given in B/s

"We will Prepare PFI & Advance Tax A/c Separately"

Example:

|               | <u>2020</u> | <u>2021</u> |
|---------------|-------------|-------------|
| Prov. for Tax | 200,000     | 220,000     |
| Advance Tax   | 160,000     | 120,000     |

Solution

#### PFT A/c

|                 |               |                  |               |
|-----------------|---------------|------------------|---------------|
| To A. Tax       | 160000        | By Bal b/d       | 200000        |
| To Cash (2-1.6) | 40000         | By P&L (Bal fig) | 220000        |
| To Bal c/d      | 220000        |                  |               |
|                 | <u>420000</u> |                  | <u>420000</u> |

#### Advance Tax A/c

|               |               |            |               |
|---------------|---------------|------------|---------------|
| To Bal b/d    | 160000        | By PFT     | 160000        |
| To Cash (Bal) | 120000        | By Bal c/d | 120000        |
|               | <u>280000</u> |            | <u>280000</u> |

### CFOA

|                             |           |
|-----------------------------|-----------|
| Provision for Tax           | 220,000   |
| Tax Paid (40,000 + 120,000) | (160,000) |

Example:

|               | <u>2021</u> | <u>2022</u> |
|---------------|-------------|-------------|
| Prov. for Tax | 400,000     | 500,000     |
| Advance Tax   | 410,000     | 520,000     |

Solution





| PFT A/c                |               |                  |               |
|------------------------|---------------|------------------|---------------|
| To A. Tax              | 410000        | By Bal b/d       | 400000        |
|                        |               | By Cash (Refund) | 10000         |
|                        |               | [4L - 4.10L)     |               |
| To Bal c/d             | 500000        | By PL (Bal)      | 500000        |
|                        | <u>910000</u> |                  | <u>910000</u> |
| Advance Tax A/c        |               |                  |               |
| To Bal b/d             | 410000        | By PFT           | 410000        |
| To Cash (Bal)          | 520000        |                  |               |
|                        |               | By Bal c/d       | 520000        |
|                        | <u>930000</u> |                  | <u>930000</u> |
| CFOA                   |               |                  |               |
| Prov for Tax           | 500,000       |                  |               |
| Tax Paid               | (520,000)     |                  |               |
| Refund of Tax          | 10,000        |                  |               |
| Q.12 *Imp              |               |                  |               |
| CFOA                   |               |                  |               |
| Net Profit (After Tax) | 510           |                  |               |
| Provision for Tax      | 200           |                  |               |
| Depreciation           | 100           |                  |               |
| Interest Exp           | 60            |                  |               |
| Interest Income        | (100)         |                  |               |
| Increase in Debtors    | (150)         |                  |               |
| Increase in Stock      | (20)          |                  |               |
| Increase in Creditors  | 20            |                  |               |
| Increase in Wages      | 10            |                  |               |
| Increase in Expense    | 10            |                  |               |
| Tax Paid               | <u>(195)</u>  |                  |               |
|                        | CFOA          |                  | <u>445</u>    |
|                        |               |                  |               |
|                        |               |                  |               |
|                        |               |                  |               |



|                                  |            |             |            |
|----------------------------------|------------|-------------|------------|
| WN #1 PFT A/c                    |            |             |            |
| To A. Tax                        | 180        | By Bal b/d  | 180        |
|                                  |            | By PL (Bal) | 200        |
| To Bal c/d                       | 200        |             |            |
|                                  | <u>380</u> |             | <u>380</u> |
| W.N #2 Advance Tax A/c           |            |             |            |
| To Bal b/d                       | 180        | By PFT      | 180        |
| To Bank (Bal)                    | 195        |             |            |
|                                  |            | By Bal c/d  | 195        |
|                                  | <u>375</u> |             | <u>375</u> |
| Q.16                             |            |             |            |
| Cash flow Statement              |            |             |            |
|                                  | ₹          | ₹           |            |
| <u>CFOA:-</u>                    |            |             |            |
| Changes in Res. (W.N #5)         | 48         |             |            |
| Changes in PL                    | 20         |             |            |
| P. Dividend (CY)                 | <u>240</u> |             |            |
| Net Profit                       | 308        |             |            |
| Provision for Tax (W.N #4)       | 90         |             |            |
| Loss on Sale of Assets (WN #3)   | 1.40       |             |            |
| Depreciation on Assets (WN #2)   | 400.40     |             |            |
| Increase in Stock                | (200)      |             |            |
| Increase in Debtors              | (130)      |             |            |
| Increase in Creditors            | 40         |             |            |
|                                  |            |             |            |
| Tax Paid in CY                   | (78)       | 431.80      |            |
| <u>CFIA :</u>                    |            |             |            |
| Sale of Fixed Assets             | 0.2        |             |            |
| Purchase of Fixed Assets (WN #1) | (402)      |             |            |
| Purchase of Investment           | (100)      | (501.80)    |            |
|                                  |            |             |            |
|                                  |            |             |            |
|                                  |            |             |            |



|                             |                |              |        |
|-----------------------------|----------------|--------------|--------|
| CFFA:                       |                |              |        |
| Issue of Shares             |                | 200          |        |
| Premium on Issue            |                | 20           |        |
| Issue of Debentures         |                | 50           |        |
| Increase in Cash Credit     |                | 30           |        |
| Dividend Paid               |                | (150)        | 150    |
|                             | O+I+F          |              | 80     |
|                             | C + CE Add: OB |              | 50     |
|                             | C + CE CB      |              | 130    |
| W.N #1 F. Assets A/c (Cost) |                |              |        |
| To Bal b/d                  | 1600           | By Disposal  | 2      |
| To Cash (Bal)               | 402            | (Sold)       |        |
|                             |                | By Bal c/d   | 2000   |
|                             | 2002           |              | 2002   |
| W.N #2 PFD A/c              |                |              |        |
| To Disposal                 | .4             | By Bal b/d   | 320    |
| To Bal c/d                  | 720            | By Dep (Bal) | 400.40 |
|                             | 720.40         |              | 720.40 |
| W.N #3 Disposal A/c         |                |              |        |
| To FA                       | 2              | By PFD       | .4     |
|                             |                | By Bank      | .2     |
|                             |                | By PL (Loss) | 1.4    |
|                             | 2              |              | 2      |
| W.N #4 PFT A/c              |                |              |        |
| To Bank (70 + 8)            | 78             | By Bal b/d   | 10     |
| To GR (10 - 8)              | 2              | By P&L (Bal) | 90     |
| To Bal c/d                  | 20             |              |        |
|                             | 100            |              | 100    |
|                             |                |              |        |
|                             |                |              |        |
|                             |                |              |        |
|                             |                |              |        |



|                         |            |                      |            |
|-------------------------|------------|----------------------|------------|
| W.N #5 General Res. A/c |            |                      |            |
|                         |            | By Bal b/d           | 700        |
|                         |            | By PL A/c (Transfer) | 48         |
| To Bal c/d              | 750        | By PFT A/c           | 2          |
|                         | <u>750</u> |                      | <u>750</u> |

\*Part II\*

Part 15: Payment of Hire Purchase Installment

**H.P Installment**

Cash Price

Interest Payment

It will be deducted from  
Investing Activities  
assuming Amount Paid for  
Assets Acquired

**CFIA = -**

It will be disclosed under  
Financing Activities

**CFOA = +**  
**CFFA = -**

Point 16: Foreign Exchange Fluctuations under AS-11

If any Exchange Gain/Loss has been transferred to P&L A/c on B/s date for true & fair Presentation of Foreign Currency Monetary Items then It will be considered as Non Cash Expense or Gain under CFOA.

CFOA

|               |                     |        |
|---------------|---------------------|--------|
| Net Profit    |                     | xxxx   |
| Exchange Loss | Due to Presentation | + xxxx |
| Exchange Gain | of Monetary Items   | - xxxx |



### Point 17: Cash Flow Statement for Banking & NBFC

#### Financial Institution

As per the Provisions of AS-3, Banking & NBFC Companies shall consider Interest Income & Interest Exp. as Operating Activities due to

#### Financial Nature of Business.

### Point 18: Investments in Subsidiaries Associates or Joint Ventures

As per the Provisions of AS-3, Investments made or sold in Subsidiaries Associates or J.V shall be considered as a Part of Investing Activities as we Treat Normal Investments under Investing Activities.

### Point 19: TDS on Incomes

If TDS is deducted on Interest Income/ Dividend Income then we will show "Net Amount Received" Under Investing Activities. The following Presentation will be applied:-

|                              | CFDA   |                 | CFIA |
|------------------------------|--------|-----------------|------|
| Net Profit                   | xxxx   | Income Received | xxxx |
| Int/ Dividend Income (Gross) | (xxxx) | (Net of TDS)    |      |

### Q.38 \*V.V.Imp (Different Type of Question)

#### Cash Flow Statement (Direct Method)

|                                  | ₹       | ₹ |
|----------------------------------|---------|---|
| CFDA:                            |         |   |
| Collection from Debtors (W.N #1) | 30150   |   |
| Payment to Creditors (W.N #3)    | (26690) |   |
| Adm. Exp Paid                    | (910)   |   |



|                                 |              |                   |              |
|---------------------------------|--------------|-------------------|--------------|
| Extra-Ordinary Activities:      |              |                   |              |
| Compensation Received           | 140          |                   |              |
|                                 |              |                   |              |
| Tax Paid (W.N #9)               | (860)        | 1830              |              |
|                                 |              |                   |              |
| CFIA:                           |              |                   |              |
| Sale of Fixed Assets            | 20           |                   |              |
| Purchase of F. Assets           | (350)        |                   |              |
| Interest Received (W.N #8)      | 200          |                   |              |
| Dividend Received (200 – 40)    | 160          | 30                |              |
|                                 |              |                   |              |
| CFFA:                           |              |                   |              |
| Interest Paid (W.N #7)          | (270)        |                   |              |
| Issue of Shares                 | 250          |                   |              |
| Receiving of Loans              | 250          |                   |              |
| Loan Repaid (W.N #10)           | (180)        |                   |              |
| Dividend Paid                   | (1200)       | (1150)            |              |
|                                 |              |                   |              |
|                                 | O+I+F        |                   | 710          |
|                                 | C + CE       | Add: OB           | <u>160</u>   |
|                                 | C + CE       | CB                | <u>870</u>   |
|                                 |              |                   |              |
| W.N #1 Debtors A/c              |              |                   |              |
| To Bal b/d                      | 1200         | By Cash (Bal fig) | 30150        |
| To Sales                        | 30650        | By Bal c/d        | 1700         |
|                                 | <u>31850</u> |                   | <u>31850</u> |
|                                 |              |                   |              |
| W.N #2 Calculation of Purchases |              |                   |              |
|                                 |              |                   |              |
| $COGS = OS + P - CS$            |              |                   |              |
| $26000 = 1950 + P - 900$        |              |                   |              |
| $26000 + 900 - 1950 = P$        |              |                   |              |
| $P = 24950$                     |              |                   |              |
|                                 |              |                   |              |
|                                 |              |                   |              |
|                                 |              |                   |              |





|                                |              |                 |              |
|--------------------------------|--------------|-----------------|--------------|
| W.N #3 Creditors A/c           |              |                 |              |
| To Cash (Bal fig)              | 26690        | By Bal b/d      | 1890         |
|                                |              | By Purchases    |              |
| To Bal c/d                     | 150          | (W.N #2)        | 24950        |
|                                | <u>26840</u> |                 | <u>26840</u> |
| W.N #4 F. Assets A/c           |              |                 |              |
| To Bal b/d                     | 1910         | By Disposal A/c | 80           |
| To Bank                        | 350          |                 |              |
|                                |              | By Bal c/d      | 2180         |
|                                | <u>2260</u>  |                 | <u>2260</u>  |
| W.N #5 Prov. For Dep A/c       |              |                 |              |
| To disposal                    | 60           | By Bal b/d      | 1060         |
|                                |              | By Depreciation | 450          |
| To Bal c/d                     | 1450         |                 |              |
|                                | <u>1510</u>  |                 | <u>1510</u>  |
| W.N #6 Disposal A/c            |              |                 |              |
| To FA                          | 80           | By PFD          | 60           |
|                                |              | By Bank         | 20           |
| W.N #7 Interest o/s A/c        |              |                 |              |
| To Cash (Bal fig)              | 270          | By Bal b/d      | 100          |
| To Bal c/d                     | 230          | By PL a/c       | 400          |
|                                | <u>500</u>   | (Exp)           | <u>500</u>   |
| W.N #8 Interest Receivable A/c |              |                 |              |
| To Bal b/d                     | -            | By Cash (Bal)   | 200          |
| To PL                          | 300          | By Bal c/d      | 100          |
| W.N #9 Provisions for Tax A/c  |              |                 |              |
| To Cash (Bal)                  | 860          | By Bal b/d      | 1000         |
|                                |              | By PL           | 260          |
| To Bal c/d                     | 400          | (300 - 40)      |              |
|                                | <u>1260</u>  |                 | <u>1260</u>  |



W.N #10 L.T Loan A/c

|               |             |            |             |
|---------------|-------------|------------|-------------|
| To Cash (Bal) | 180         | By Bal b/d | 1040        |
|               |             | By Bank    | 250         |
| To Bal        | 1110        |            |             |
|               | <u>1290</u> |            | <u>1290</u> |

Q.24

As per the Provisions of AS-3, Presentation of all transactions (Cash Flows) is required to be Separately in CFS. So we cannot net off Sale And Purchase of Assets.

\*Part 12\*

Q.1, Q.3, Q.5, Q.15, Q.21, Q.24, Q.25, Q.28, Q.33, Q.35, Q.36, Q.37, Q.41  
(Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

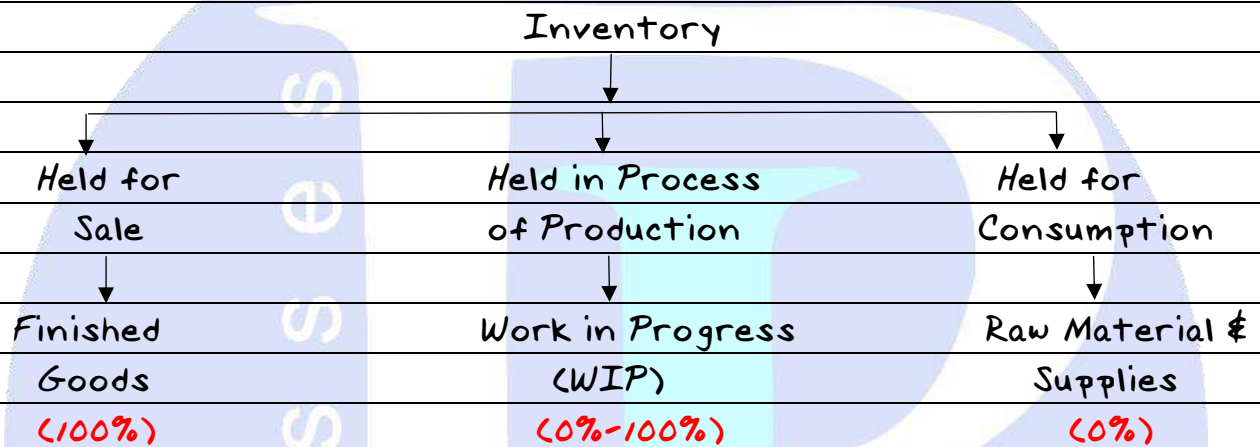


## Chapter-11 Accounting Standard 2 \*Imp

### Valuation of Inventories

#### \*Part 1\*

#### Concept 1 : Meaning of Inventory



Note on supplies: As per the Provision of AS-2, Supplies are also held for consumption like Raw Materials. There Supplies are also known as Consumable Stores and these Supplies may be in the form of Nut, Bolt, Oils, Loose, Tools etc." There Supplies can be covered under AS-2 for valuation Purpose only if these held for Regular use in all Production Deptt. "

#### Exception

If any supply is held for use in a specific Production Deptt. then It will be considered as a part of Cost of such Related PPE under AS-10.

#### Concept 2 : Items out of Scope of AS-2 -> Stocks \*Imp

As per the Provision, AS-2 Can be applied on all types of Inventories but the following Inventories are out of scope of AS-2 :-



I. Mineral oils, ores, Natural Gases or other Non -Regenerative Resources [ Ind AS 106 ]

II. Agriculture Activities ( i.e., crops, live stocks etc. ) [ Ind AS 41 ]

III. Valuation of Construction Contracts ( AS-7 )

[Note: If any Raw Material is held by Contractor then It can be valued as per AS-2 i.e., Cement, Bricks, Marble Stone etc.]

IV. Stock of Shares or Debentures or other Securities held by an Investment Company/ Stock Broker

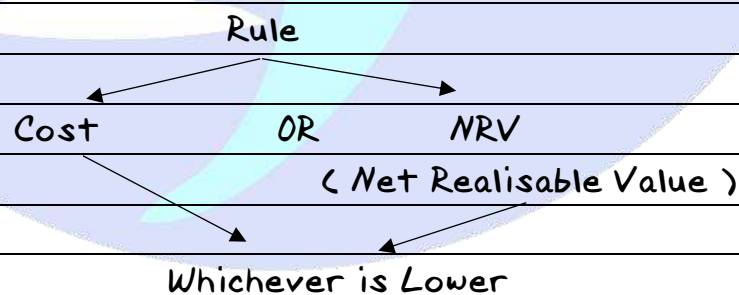
(Note : We will Apply AS-13 for Valuation of such Stock assuming Short Term Investment.)



V. Specific Supplies which are held for Specific Production Deptt.

### Concept 3 : Valuation Rules

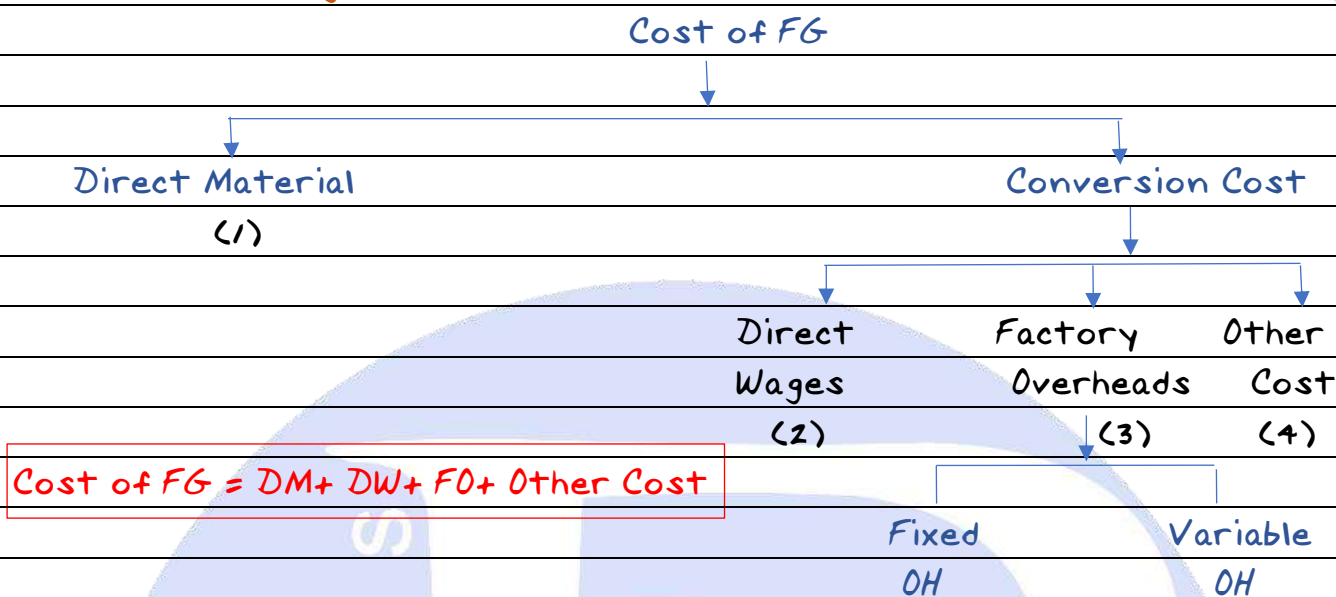
#### Unit I : Valuation of FG



[\* Higher value is always ignored as a matter of Prudence ]



## PART A : Meaning of Cost



### I Cost of Direct Material

As per the Provisions of AS-2, Cost of Raw Material can be computed with the help of following Statement :-

#### Statement Showing cost of RM

|                                                     |                     |
|-----------------------------------------------------|---------------------|
| Purchase Price                                      | xxxx                |
| Trade Discount                                      | <u>xxxx</u>         |
| Purchase Price after Trade Discount                 | xxxx                |
| Add : Taxes & duties (i.e., GST, Import Duty etc. ) | xxxx                |
| Add : Freight Inward                                | xxxx                |
| Add : Loading/ Unloading Charges                    | xxxx                |
| Add : Transit Insurance                             | xxxx                |
| Add : Any other Expense which is                    | <u>xxxx</u>         |
| Directly incurred for Acquisition                   |                     |
| Of R.M.                                             | T. Cost <u>xxxx</u> |



\*Notes : 1 If any Tax or Duty is refundable or adjustable then It will not be considered in cost of RM. It can also be said that Non Refundable/ Non Adjustable Taxes can only be considered in Cost of RM.

2 The Amount of Cash Discounts is not Considerable for Computation of cost of RM, because cash Discount is transferred in to P&L.

**Q. 39**      Calculation of cost of R.M.

|                                               |                   |
|-----------------------------------------------|-------------------|
| Purchase Price                                | ₹ 12,5,000        |
| Trade Discount @ 2%                           | (₹ 5000)          |
| <b>Purchase Price (Net of Trade Discount)</b> | <b>1,20,000</b>   |
| Import Duty (Non Refundable)                  | 15,000            |
| Ocean Freight                                 | 8,000             |
| Wearing agent Charges                         | <u>4,000</u>      |
| <b>T. Cost</b>                                | <b>₹ 1,47,000</b> |

Note : Warehouse Rent & Watchman Salary are not related with Acquisition Of RM.

\*Part 2\*

**II** Calculation Direct Wages

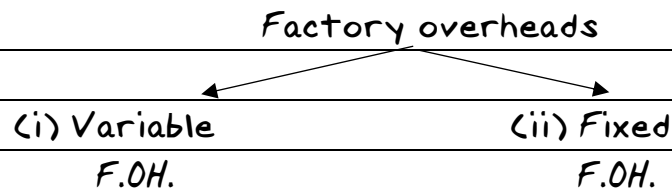
As per the Provisions of AS-2, The Amount of D. wages will be taken directly from Factory Records i.e., Pay Roll Sheets or wage Payment Register. It can also be said that Direct wages are considered on the basis of Actual figures as per Factory Records.

Direct Wages = "Actual Payment as per Pay Roll Sheets or Wages Payment Register"





### III Calculation of Factory overheads



(i) Variable overheads: As per the Provisions of AS-2, Variable overheads are those Expenses which are related with Number of units under Actual Production. If Actual Production is increased then these Expenses also increase or vice versa.

|                                                                                        |
|----------------------------------------------------------------------------------------|
| $V.OH = \frac{\text{No. of Units Actually Produced} \times \text{Overheads Per unit}}$ |
|----------------------------------------------------------------------------------------|

**\*Imp**

(ii) Fixed overheads: As per the Provisions of AS-2, The Amount of Fixed Overheads is not related with Number of Units of Actual Production. The Amount of F.OH. remains Fixed irrespective of Actual Production. The Following steps shall be applied to find out the amount of fixed overheads which are to be included in cost of Inventory :-

Step I : Calculate Recovery Rate per Unit

$$\text{Recovery Rate P.U.} = \frac{\text{Fixed overheads (₹)}}{\text{Normal output (Unit)}}$$

↓  
Expected Max. Production Capacity of Factors

Step II : Calculate Fixed overheads to be included in cost of Inventory

$$\text{Cost (Unit)} = \text{Actual Production (Unit)} \times \text{Recovery Rate P.U.}$$

Step III : Un Recovered = Total Fixed – Recovered

OH                      OH                      OH

↓  
To be written off in P&L A/c



E.g.

i) Fixed OH = ₹2,00,000 ii) Normal output = 5000 Unit iii) Actual = 4800 Units

Calculate Recovered & Un Recovered overheads.

Solution :

$$\text{I Recovery Rate (P.U.)} = \frac{\text{₹ 2,00,000}}{50000 \text{ U}} = 40/-$$

$$\text{II Recovered OH} = 4800 \text{ Units} \times 40 = 1,92,000 \text{ Cost}$$

$$\text{III Un Recovered OH} = 200 \text{ Unit} \times 40 = 8000 \text{ P\&L}$$

Exception to above Rule

( If Actual output becomes more than Normal output )

In the Given case, Recovery Rate Per Unit shall not be based on Normal Output, but the following steps shall be applied to avoid over Capitalisation of Fixed OH :-

$$\text{Recovery Rate Per Unit} = \frac{\text{Fixed overheads (Rs)}}{\text{Actual output (Unit)}}$$

(Note : There will be no Unrecovered OH in the Given case due to Excess Production)

$$\text{Summary : Recovery Rate} = \frac{\text{Fixed OH (₹)}}{\text{P.U. Normal or Actual Output Output}}$$

Higher



Q.5 \*Imp

Statement Showing Treatment of fixed OH

|                                                                                                                                                                                                                                                                                                                     | Case I               | Case II                | Case III                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|------------------------|---------------------------|
| Fixed overheads                                                                                                                                                                                                                                                                                                     | ₹ 5,00,000           | ₹ 5,00,000             | ₹ 5,00,000                |
| Normal Production                                                                                                                                                                                                                                                                                                   | 50,000 U             | 50,000 U               | 50,000 U                  |
| Actual Production                                                                                                                                                                                                                                                                                                   | 42,000 U             | 50,000 U               | 60,000 U                  |
| Recovery Rate (P.U)                                                                                                                                                                                                                                                                                                 | 10                   | 10                     | 8.33                      |
| <div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 2px; margin-right: 10px;"> <u>F. OH</u><br/>NP Or AP         </div> <div style="text-align: center;">  <p>Higher</p> </div> </div> |                      |                        |                           |
| Fixed OH to be included in cost of FG                                                                                                                                                                                                                                                                               | 420000<br>(42000x10) | 5,00,000<br>(50000x10) | 5,00,000<br>(100000x8.33) |
| Unrecovered                                                                                                                                                                                                                                                                                                         | 80000<br>(80000x10)  | -                      | -                         |

IV Other Cost (if any)

If any other cost is incurred by the Entity to Produce the Goods as per requirement of its customers then such Extra Expenses shall be considered as a Part of cost of FG.

PART B : Meaning of NRV

(Net Realisable Value)

NRV = Selling Price – Expected of Cost

(Expected)

Disposal



Expenses which are required to sell the Goods  
(i.e., Commission, Advert etc.)



Rule : Cost or NRV whichever is Lower

↓  
If NRV becomes less than cost of then the Entity  
should Provide for decline in value

↓  
Profit & Loss Dr xxxx  
To Prov. For Inventory xxxx  
(Being Decline in value Provided)

↓  
If NRV becomes higher than cost of FG there will  
be no Entry because Valuation will be made at cost only

Q. 40 \*Imp Calculation of Cost of Inventory

|             |                                                                     |            |
|-------------|---------------------------------------------------------------------|------------|
| D. Material | (100x 2000 U)                                                       | ₹ 2,00,000 |
| D. Wages    | (20x 2000 U)                                                        | ₹ 40,000   |
| Variable OH | (10x 2000 U)                                                        | ₹ 20,000   |
| Fixed OH    | $\frac{10,00,000}{100000 \text{ Units}} = 10 \times 2000 \text{ U}$ | ₹ 20,000   |
|             | T. Cost                                                             | ₹ 2,80,000 |

Calculation of Cost Inventory

|               |                                                               |             |
|---------------|---------------------------------------------------------------|-------------|
| Raw Material  | (10,000 U x 500)                                              | ₹ 50,00,000 |
| Wages         | (10,000 U x 250)                                              | ₹ 25,00,000 |
| Production OH | $(\frac{₹ 20,00,000}{1,00,000 \text{ U}} = 20 \times 10,000)$ | ₹ 2,00,000  |
|               | T. Cost                                                       | ₹ 77,00,000 |

H.W => Q.2, Q.22, Q. 24, Q.26, Q.52

Q25 Calculation of Cost of Inventory

|              |                       |       |
|--------------|-----------------------|-------|
| Raw material | (100000U X 500)       | ₹ 50L |
| Wages        | (100000U X 250)       | ₹ 25L |
| Production   | (₹20 Lacs = 20X10000) | ₹ 2L  |
|              | 1 Lacs                |       |
|              | T Cost                | ₹ 77L |



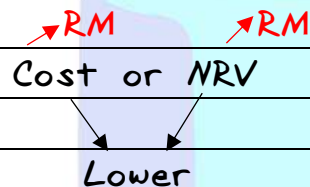
\*Part 3\*Unit II : Valuation of Raw materials

(including supplies)

As per the provisions of AS-2, Raw Material is always held for consumption, but not for sale. So we should value Raw Materials "at Cost only"

Exception

If valuation of Finished Goods is made at "NRV" by the Entity then we will test valuation for Raw Materials on the basis of Valuation Rule as Follows :-



Note : It can be said that value Rule for RM can be applied only if FG are valued at NRV otherwise RM will be disclosed at cost only .

\*Imp Q29 [Valuation of RM]

a) In the Given case, we will value Finished Goods at cost because Cost Per Unit is ₹ 250 and Selling Price is ₹ 275. It indicates that there is no Loss at the time of valuation of FG. So, we should value Raw material directly at cost without considering any Valuation.

Raw Material = 1000 Units x 120 = ₹1,20,000

b) In the Given case, valuation of Finished Goods will be made at NRV because cost is ₹250 Per Unit, but NRV is ₹ 230 Per Unit which is Less than Cost Per Unit. It indicates that Production Process of the Entity is showing Loss. So, we should value the raw material as per Valuation Rule as Follows :-



(i) Cost of RM ( 1000 U x 120 ) 1,20,000

Or

(ii) NRV of RM ( 1000 U x 110 ) 11,0,000

Whichever is Lower

110000

Q. 20

In the Given, question, It is clearly specified that Finished Goods are Expected to be sold at below Cost. It means that NRV of FG is Expected to be less than its cost . So, we should value the Raw material as per Valuation Rule as follows :-

1) Cost of RM (10,000 U x 400 P.U.) 40,00,000

Or

2) NRV of RM (10,000 U x 300 P.U. ) 30,00,000

Whichever is Lower

30,00,00

Note : The Company should provide ₹ 10,00,000 for decline in Value of Raw material in its P&L A/c.

Q No. 18 H.W (Similar to 29)

Unit III : Valuation of WIP

( Work in Progress )

As per the Provisions of AS-2, Valuation of WIP will be made at Cost or \*NRV whichever is Lower. The Calculation of "NRV" for the Purpose of Valuation of WIP will be made as Follows :-

\*NRV = Selling Price – Expected Cost of Disposal – " Expected cost to be  
(FG) (i.e., Comm., Advt. etc.) incurred to complete  
the Production"





Q. 5/ \*Imp (i) Valuation of WIP

|                     |       |
|---------------------|-------|
| Cost of WIP (Given) | ₹ 530 |
|---------------------|-------|

OR

|                     |     |
|---------------------|-----|
| NRV : Selling Price | 750 |
|---------------------|-----|

|            |      |
|------------|------|
| Comm. @ 4% | (30) |
|------------|------|

|                    |       |
|--------------------|-------|
| Further cost (3/0) | ₹ 4/0 |
|--------------------|-------|

to be incurred

|                    |       |
|--------------------|-------|
| Whichever is Lower | ₹ 4/0 |
|--------------------|-------|

|                                                                           |
|---------------------------------------------------------------------------|
| Note : The Company should Provide for ₹ 120 for decline in value of Stock |
|---------------------------------------------------------------------------|

(ii) The Company should not continue its Production Process because there is Loss in Production Loss.

Q.17 \*VVImpStatement Showing Calculation of Correct Closing Stock

|                          |           |
|--------------------------|-----------|
| C. Stock at Cost (Given) | ₹9,56,700 |
|--------------------------|-----------|

Adjustments to be made due to overvaluation :-(i) Valuation of Shirts :

|                                 |            |
|---------------------------------|------------|
| Cost of Shirts (350 U x ₹ 380 ) | ₹ 1,33,000 |
|---------------------------------|------------|

|                                   |              |
|-----------------------------------|--------------|
| NRV of Shirts ( 350 U x ₹ 356.25) | ₹ 124,687.50 |
|-----------------------------------|--------------|

↓  
[(750x50%)-5%]

|               |           |              |
|---------------|-----------|--------------|
| Overvaluation | ₹ 83/2.50 | ( ₹ 83/2.50) |
|---------------|-----------|--------------|

(ii) Valuation of Trousers:

|                      |          |
|----------------------|----------|
| Cost (700 U x ₹ 520) | ₹ 364000 |
|----------------------|----------|

|                            |          |
|----------------------------|----------|
| NRV [ (700 U x 950)- 3800] | ₹ 661200 |
|----------------------------|----------|



| Overvaluation                                                                                                                                                                                                   | Nil             | <u>Nil</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------|
|                                                                                                                                                                                                                 | Correct Value   | 948387.50  |
| Q.50 -> H.W                                                                                                                                                                                                     |                 |            |
| Q. 36 *** <u>V.V.Imp</u>                                                                                                                                                                                        |                 |            |
| <u>Valuation of FG</u>                                                                                                                                                                                          |                 |            |
| As per AS-2, Valuation of FG is to be made at Cost or NRV whichever is Lower. In the Given case, Cost Per Unit is ₹ 320, but Selling Price is ₹ 300. So, Valuation of FG is to be made @ 300 P.U. as Follows :- |                 |            |
| (1) Cost of F.G. (1500 Units @ 320)                                                                                                                                                                             | 4,80,000        |            |
| Or                                                                                                                                                                                                              |                 |            |
| (2) NRV of F.G. (1500 Units @ 300)                                                                                                                                                                              | 450000          |            |
| Whichever is Lower                                                                                                                                                                                              | <u>₹ 450000</u> |            |
| <u>Valuation of RM</u>                                                                                                                                                                                          |                 |            |
| In the Given case, we should Apply Valuation Rule for RM because valuation of FG is made at NRV.                                                                                                                |                 |            |
| The following valuation may be considered:                                                                                                                                                                      |                 |            |
| i) Cost Of RM (600 U x 120)                                                                                                                                                                                     | ₹ 72000         |            |
| ii) NRV of RM (600 U x 90)                                                                                                                                                                                      | ₹ 54000         |            |
| Whichever is Lower                                                                                                                                                                                              | <u>54000</u>    |            |
| <u>Valuation of WIP</u>                                                                                                                                                                                         |                 |            |
| i) Cost of WIP ( 500 U@ 260)                                                                                                                                                                                    | 130000          |            |
| Or                                                                                                                                                                                                              |                 |            |
| ii) NRV of WIP ( 500 U@ 240)                                                                                                                                                                                    | 120000          |            |
|                                                                                                                                                                                                                 | ↓               |            |
|                                                                                                                                                                                                                 | (300-60)        |            |
| Whichever is Lower                                                                                                                                                                                              | <u>120000</u>   |            |



Total Inventory = 54000 + 120000 + 450000 = 624000

H.W. → Q.56, Q.55, Q.37, Q.16

\*Part 4\*

Q.27 \*Imp

Calculation of Cost of Materials

|                                   |               |
|-----------------------------------|---------------|
| Purchase Price (500 units @150/-) | 75,000        |
| Trade Discount @10%               | <u>(7500)</u> |
| Net Cost                          | 67,500        |
| Add: Sales Tax @5%                | 3375          |
| Add: Transport                    | 1000          |
| Add: Handling Charges             | <u>500</u>    |
| T. Cost                           | <u>72375</u>  |

\*Excise duty is Refundable, So we have not considered it in cost

\*\* At Present, GST is in Existence due to which Sales Tax & Excise are not relevant in question.

Q.28 \*VVImp

Calculation of Cost for C. Stock; 200,000 Units

|                                                                                |                    |
|--------------------------------------------------------------------------------|--------------------|
| Direct Material (100 x 200,000 U)                                              | ₹200,00,000        |
| Direct Wages (50 x 200,000 U)                                                  | ₹100,00,000        |
| Direct Exp. (2 x 200,000 U)                                                    | ₹400,000           |
| <u>Production Overheads:-</u>                                                  |                    |
| i) Variable = $\frac{20,00,000 \times 60\%}{10,00,000 \text{ U}}$ = (1.2 x 2L) | ₹240,000           |
| ii) Fixed = $\frac{20,00,000 \times 40\%}{10,00,000 \text{ U}}$ = (.8 x 2L)    | ₹160,000           |
| (AP or NP Whichever is higher)                                                 |                    |
| T. Cost                                                                        | <u>3,08,00,000</u> |



## Q.34 \*V.V.Imp (Valuation of FG &amp; RM)

I Valuation of Finished Goods (Product :Y)i) Calculation of Cost Per Unit:

|          |               |
|----------|---------------|
| Material | 220 P.U       |
| Wages    | 60 P.U        |
| D. Exp   | 40 P.U        |
| Fixed OH | <u>10 P.U</u> |

(₹200,000)

20000 Units

T. Cost 330 P.UII Valuation of Product Y:Case I : If NRV is ₹400 P.U

T. Cost (1200 Units x 330) ₹396000

OR

NRV (1200 Units x 400) Rs480,000

Whichever is Lower ₹396,000

Case II: If NRV is ₹300 P.U

T. Cost (1200 Units x 330) ₹396000

OR

NRV (1200 Units x 300) ₹360,000

Whichever is Lower ₹360,000

II Valuation of Raw Material (x)i) Calculation of Cost Per Unit :

|                                |      |
|--------------------------------|------|
| Purchase Price (including GST) | 200  |
| GST Credit                     | (10) |
| Transportation                 | 20   |



|                    |            |
|--------------------|------------|
| Loading/ Unloading | <u>10</u>  |
| Cost P.U           | <u>220</u> |

### ii) Valuation of RM :-

Case I : In the Given case, Valuation of FG has been made at cost which indicates that there is Loss on FG. So, Valuation of RM will be made directly at cost as follows :-

$$C \text{ Stock} = 500 \text{ Units} \times 220 = ₹110,000$$

Case II: In the Given Case, Valuation of FG has been made at NRV which indicates that FG are at Loss. So valuation of RM should be made by the Valuation Rule :-

|                      |                                                     |
|----------------------|-----------------------------------------------------|
| Cost (220 P.U x 500) | 110000                                              |
| OR                   |                                                     |
| NRV (150 x 500)      | 75000                                               |
| Whichever is Lower   | <span style="border: 1px solid black;">75000</span> |

Q.47

### Valuation of Closing Stock

|                                   |                    |
|-----------------------------------|--------------------|
| Direct Material (100,000 U x 100) | ₹100,00,000        |
| Direct Wages                      | ₹10,00,000         |
| Direct Expenses                   | ₹100,000           |
| Fixed OH (₹100,000 - ₹40625)      | <u>₹49,375</u>     |
| T. Cost                           | <u>₹111,49,375</u> |

$$\text{Cost P.U} = \frac{₹111,49,375}{100,000 \text{ U} - 15\%} = 131.17 \text{ P.U}$$

100,000 U - 15%

(Input - Normal Loss)

|                                    |        |
|------------------------------------|--------|
| Valuation : Cost (5000 U x 131.17) | 655850 |
|------------------------------------|--------|

OR

|                    |                                                      |
|--------------------|------------------------------------------------------|
| NRV (5000U x 105)  | 525000                                               |
| Whichever is Lower | <span style="border: 1px solid black;">525000</span> |



Q.48 \* Imp (Common Sense)

Calculation of C. Stock

$$\text{Sales} = \text{COGS} + \text{Profit}$$

$$\text{Sales} - \text{Profit} = \text{COGS}$$

$$\text{Sales} - \text{profit} = \text{OS} + \text{P} - \text{CS}$$

$$438750 - 20\% = 50000 + 350000 + 10000 - \text{CS}$$

$$351000 = 410000 - \text{CS}$$

$$\text{CS} = 59000$$

Concept 4 : Treatment of Abnormal Loss \* Imp

As per the Provisions of AS-2, Cost of Abnormal Loss should be written off in P&L A/c. We cannot allocate Cost of Abnormal Goods over the Normal Production. The following steps should be applied to calculate Abnormal Loss Units & Cost for Abnormal Loss:-

Step I : Units under Abnormal Loss

$$\text{Input} - \% \text{ of Normal Loss} = \text{Expected Output} - \text{Actual Output} = +$$

↓  
If it becomes Less than Expected Output

Step II: Cost Per unit (Good Unit)

$$\text{CPU} = \frac{\text{Total Cost}}{\text{Input} - \% \text{ of Normal Loss}}$$

Step III : Cost for Abnormal Loss

Step I x Step II = To be written off in P&L a/c

Q.8 \* Imp

Calculation of Units under Abnormal Loss





|                  |                |
|------------------|----------------|
| Total units      | 16000          |
| Normal Loss @ 2% | <u>(320)</u>   |
| Expected Units   | 15680          |
| Actual Units     | <u>(15500)</u> |
| Abnormal Loss    | <u>180</u>     |

$$\text{C. Stock} = 15500 - 13600 = 1900 \text{ Units}$$

(Actual) (Consumed)

### Calculation of Cost Per unit

|                                         |                  |
|-----------------------------------------|------------------|
| Purchase Price Net of GST (16000 x 150) | 24,00,000        |
| Transportation                          | <u>140,160</u>   |
| TC                                      | <u>25,40,160</u> |

$$\text{CPU} = \frac{\text{₹}2540160}{16000 - 2\%} = 162$$

i) Cost for Abnormal Loss = 180 U x 162 = 29160

ii) C. Stock = 1900 Units x 162 = 307800

Q.9

i) Abnormal Loss (Units) = 300 Units - (5000 x 5%) = 50 Unit

ii) Cost Per Unit =  $\frac{\text{₹}50,00,000 (5000 \times 1000)}{5000 - 5\%} = 1052.63$

iii) A Loss = 1052.63 x 50 = 52631.50

iv) Cost in FG = 1052.63 x 4700 = 4947361

Q33-> H.W

\*Part 5\*

### Concept 5 : Allocation of Joint Cost \*Imp

→ "Joint Cost"

If Common Input Cost is incurred for multiple outputs in a Joint Process then Allocation of Joint Cost over the multiple outputs will be required for the Separate valuation of each Product. As per the Provisions of AS-2, Allocation of Joint cost over the multiple outputs



shall be made in the ratio of "Sales value at Separation Point" of each output.

|                                 |   |                                                      |   |                                          |
|---------------------------------|---|------------------------------------------------------|---|------------------------------------------|
| Sales Value at Separation Point | = | Quantity Produced of each output at Separation Point | x | Sales value Per Unit at Separation Point |
|---------------------------------|---|------------------------------------------------------|---|------------------------------------------|

Q.6

Statement Showing Allocation of Joint Cost

| <u>Products</u> | <u>Sales value at Separation Point</u> | <u>Share in T. Cost</u>       |           |
|-----------------|----------------------------------------|-------------------------------|-----------|
|                 |                                        | <u>(Ratio of Sales value)</u> |           |
| L               | $10000 \times 13 = 130,000$            | 78000                         | (130/952) |
| M               | $12000 \times 17 = 204,000$            | 122400                        | (204/952) |
| N               | $14000 \times 19 = 266,000$            | 159600                        | (266/952) |
| P               | $16000 \times 22 = 352,000$            | 211200                        | (352/952) |
|                 | 952,000                                | 571200                        |           |

Calculation of Cost of C. Stock

| <u>Product</u> | <u>Cost P.U</u>               | <u>C. Stock</u> | <u>C. Stock</u> |
|----------------|-------------------------------|-----------------|-----------------|
|                |                               | <u>(Units)</u>  | <u>(₹)</u>      |
| L              | $78000/10000 \text{ U} = 7.8$ | 1625 Units      | 12675           |
| M              | $122400/12000 = 10.2$         | 400 Units       | 4080            |
| N              | $159600/14000 = 11.4$         | -               | -               |
| P              | $211200/16000 = 13.2$         | 1550 Units      | 20460           |



### Concept 6: Treatment of "By Products" \*VVImp

→ "Worse Products"

As per the Provisions of AS-2, It may be Possible that Some By Product is produced in a Joint Process along with main Products. In the Given Case, we will compute "NRV" for such By Product and the computed NRV will be deducted from "Joint Cost" before making its allocation over the finished Goods.

- i) "Net Joint Cost" = Total Joint Cost – NRV of "By Product"
- ii) "Allocate Net Joint Cost over outputs in Sales Ratio at Separation Point."

#### Q.7 \*Imp (8-10 Marks)

##### Calculation of Net Joint Cost

|              |         |
|--------------|---------|
| Raw Material | 160,000 |
| Wages        | 82,000  |
| V.OH         | 58,000  |
| F.OH         | 40,000  |
| T. Cost      | 340,000 |

|                                       |          |
|---------------------------------------|----------|
| i) NRV of By Product                  | (30,000) |
| [(1600 Units x 25) – 4000 – 6000]     |          |
| ii) Sale of Scrap (Normal Loss units) | (6000)   |
| Net J. Cost                           | 304,000  |

\*We have ignored ₹5000 which is Profit on By Product because It is already included in NRV of By Product.

##### Statement Showing Allocation of J.C

| Output | Sales Value at Separation Point | Share in Net Joint Cost |
|--------|---------------------------------|-------------------------|
| MP1    | 6250 x 80 = 500,000             | 202,667                 |
| MP2    | 5000 x 50 = 250,000             | 101,333                 |



|                                                                                                                   |                                             |                |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------------|
|                                                                                                                   | <u>750,000</u>                              | <u>304,000</u> |
|                                                                                                                   |                                             |                |
| C. Stock (MP1)                                                                                                    | $= \frac{202667}{6250} \times 800 = 25941$  |                |
| C. Stock (MP2)                                                                                                    | $= \frac{101333}{5000} \times 200 = 4053$   |                |
|                                                                                                                   |                                             |                |
| <u>Concept 7: Items to be Excluded While computing Cost of Finished Goods</u>                                     |                                             |                |
|                                                                                                                   |                                             |                |
| As per the Provisions of AS-2, the following Expenses are not considerable while computing Cost of Inventories :- |                                             |                |
|                                                                                                                   |                                             |                |
| i) Administration Overheads                                                                                       | These Exp. are to be written off in P&L A/c |                |
| ii) Selling Overheads                                                                                             |                                             |                |
| iii) Abnormal Losses                                                                                              |                                             |                |
| iv) Storage Cost                                                                                                  |                                             |                |
| v) Interest Cost                                                                                                  |                                             |                |
| (Subject to Exception under As-16)                                                                                |                                             |                |
|                                                                                                                   |                                             |                |
| Q.54 (Discussed in class) H.W-> Q.10, Q.43, Q.45, Q.57                                                            |                                             |                |
|                                                                                                                   |                                             |                |
| Q.49 *VVImp                                                                                                       |                                             |                |
| <u>Calculation of Total Cost for Actual Production</u>                                                            |                                             |                |
|                                                                                                                   |                                             |                |
| Raw Material Consumed                                                                                             |                                             | 102000         |
| (1100 U + 10000U - 900U) @ 10 P.U                                                                                 |                                             |                |
| Labour                                                                                                            |                                             | 76500          |
| Fixed Overheads                                                                                                   |                                             | <u>51000</u>   |
| (₹75000/15000U = 5 P.U x *10200 Units)                                                                            |                                             |                |
| ↓                                                                                                                 | ↓                                           |                |
| Normal Capacity                                                                                                   | Actual Production                           |                |
|                                                                                                                   | TC                                          | <u>229500</u>  |
|                                                                                                                   |                                             |                |
| *Actual Production (FG) = Sales + CS - OS                                                                         |                                             |                |
| $= 10,000 + 1200 - 1000 = 10200$                                                                                  |                                             |                |



Valuation of Stock

i) Finished Goods (1200 Units)

|                            |       |
|----------------------------|-------|
| Cost (229500 x 1200/10200) | 27000 |
|----------------------------|-------|

OR

|                     |       |
|---------------------|-------|
| NRV (1200 U x 20/-) | 24000 |
|---------------------|-------|

|                    |       |
|--------------------|-------|
| Whichever is Lower | 24000 |
|--------------------|-------|

ii) Raw material (FG have been Valued at NRV)

|                       |       |
|-----------------------|-------|
| Cost (900 U x 10 P.U) | 90000 |
|-----------------------|-------|

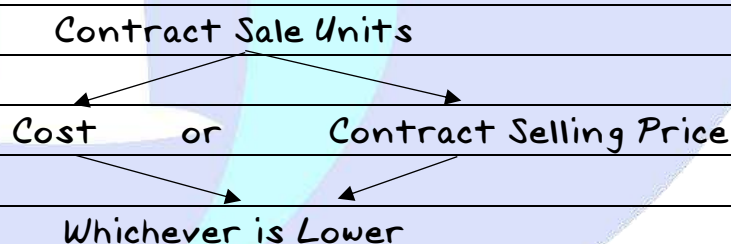
OR

|                       |      |
|-----------------------|------|
| NRV (900 U x 9.5 P.U) | 8550 |
|-----------------------|------|

|                    |      |
|--------------------|------|
| Whichever is Lower | 8550 |
|--------------------|------|

\*Part 6\*Concept 8: Valuation of "Contract Sale Units" \*Imp

As per the Provisions of AS-2, It may be Possible that there are some units in closing stock which are held under contract Sale. In the Given Case, Valuation of such stock should not be made on the basis of normal NRV, but the following Rule may be considered :-



Q.4/ ( Contract Sale Units )

Valuation of C. Stocki) Valuation of Contract Sale Units

|                         |         |
|-------------------------|---------|
| Cost (6000 Units @ 150) | 900,000 |
|-------------------------|---------|

OR



|                                 |                |
|---------------------------------|----------------|
| CSP (6000 Units @ 200)          | 12,00,000      |
| Whichever is Lower              | 900,000        |
| ii) Valuation of Normal Units : |                |
| Cost (4000 Units @150)          | 600,000        |
| OR                              |                |
| NRV (4000 Units @90)            | 360,000        |
| Whichever is Lower              | <u>360,000</u> |
| Total Stock                     | <u>960,000</u> |

\*The company should Provide for ₹240,000 due to decline in value of Stock

### Q.3 \*V.V.Imp

As per the Provisions of AS-2, Valuation of Stock under Contract Sale should be made at cost or Contract Price whichever is Lower. We cannot book the realisable value of goods until Goods are Actually sold and delivered to customer as a matter of Prudence.

In the Given Case, company has valued its stock at realisable value which is held for Export under some contracts. It clearly indicates that company has booked profit on sale even goods are Pending for Delivery.

Conclusion: The company has not followed the rule of Prudence. The Valuation of Specified Goods is incorrect.

### Concept 9: Valuation of "Empty Bottles" \*VVImp

(Empty Bottles: Bars, clubs, Pubs, hotels, etc.)

As Per the Provisions of AS-2, Valuation of Empty Bottles will be made at nominal value of ₹1. These bottles are normally collected by the Specified Entities without incurring any Extra Cost.

It is Guided by ICAI otherwise valuation should have been made at NIL Value due to Zero cost

Q.23, Q.15, Q.1, Q.31, Q.46, Q.53

(Discussed in Class)

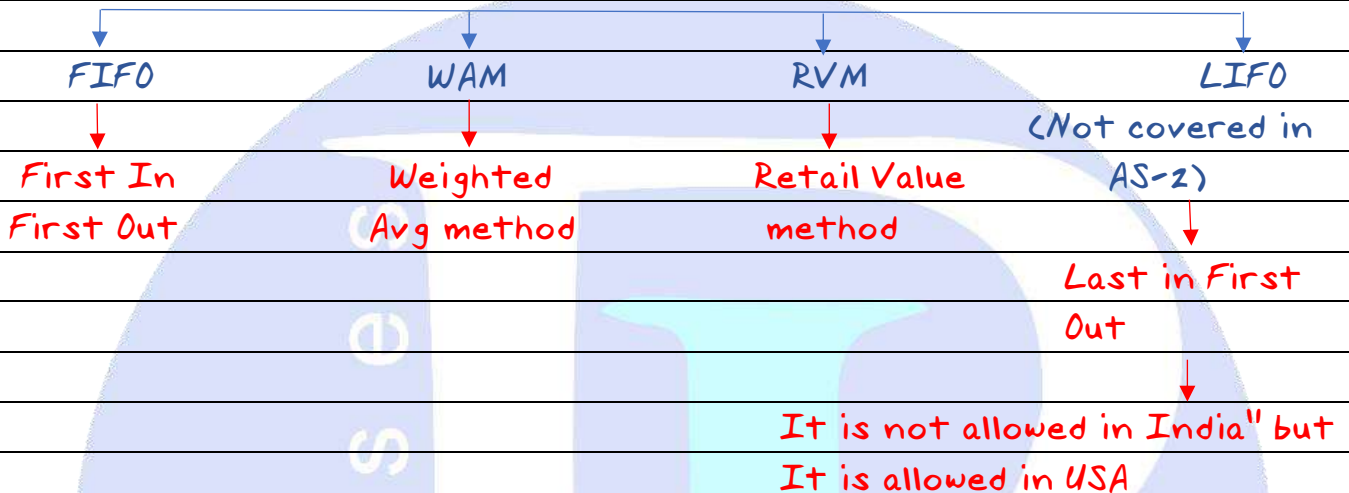
Homework- Q.42 & Q.44





\*Part 7\*Concept 10: Costing Formulas

## Formulas



Q.11, Q.13 (Discussed in Class)

I FIFO

Under FIFO, It is always assumed that the Entity will hold C. Stock out Of Latest Purchased Lot. It means that Goods are sold out of purchases but Lot wise. We will use Cost Per Unit for the valuation of C. Stock from the Latest Lot.

II WAM

Under WAM, we will calculate "Average Cost Per Unit" for Computing Cost Of Closing Stock as follows:-

$$\text{I A. Cost Per unit} = \frac{\text{Total Cost}}{\text{Total Units}} = \text{CPU}$$

$$\text{II C. Stock cost} = \text{Units in C. S} \times \text{CPU}$$



Note: Any method (FIFO or WAM) can be applied by the Entity as costing formulas, but the Entity will apply the selected formula on consistent basis. If Costing formula is changed in subsequent years then It will be taken as change in Policy.

Q.11

### Calculation of C. Stock in Units

|                                 |                   |
|---------------------------------|-------------------|
| Total Units Purchased (10 + 20) | 30 units          |
| Total Units Sold (6 + 14)       | <u>(20 Units)</u> |
| C. Stock                        | <u>10 Units</u>   |

### Calculation of Cost for Closing Stock

I. FIFO : Under FIFO, We will Take closing stock from Last Lot of Purchases which was made on 9<sup>th</sup> April @75 P.U. So, the cost of closing stock will be as follows:-

$$\text{Cost} = 10 \text{ Units} \times 75 \text{ P.U} = 750/-$$

II. WAM: Under WAM, we compute Average cost Per unit as follows:-

$$\text{Avg Cost P.U} = \frac{(10U \times 70) + (20U \times 75)}{30 \text{ Units}} = 73.33$$

$$\text{Cost for C. Stock} = 10U \times 73.33 = 733.33$$

Q.13 (FIFO)

### I Calculation of Cost of C. Stock (FIFO)

FIFO: Under FIFO, we take C. Stock from Latest Lot of Purchases. We have C. Stock of 130,000 Litres out of 100,000 Litres which were Purchased on 30<sup>th</sup> June and remaining 30,000 from the Lot which was Purchased on 1<sup>st</sup> June.

$$\begin{aligned} \text{Cost} &= 100,000 \text{ Litres} \times 15.15 = 15,15,000 \\ &30,000 \text{ Litres} \times 14.25 = \underline{427,500} \end{aligned}$$



|                                                                                                                                                                                                                                                                                             |                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Total                                                                                                                                                                                                                                                                                       | <u>19,42,500</u>                            |
| <u>II Calculation of COGS</u>                                                                                                                                                                                                                                                               |                                             |
| Opening Stock (100,000 L x 15)                                                                                                                                                                                                                                                              | 15,00,000                                   |
| Purchases [{200,000L x 14.25} + (100,000 L x 15.15)]                                                                                                                                                                                                                                        | 43,65,000                                   |
| C. Stock                                                                                                                                                                                                                                                                                    | <u>(19,42,500)</u>                          |
| COGS                                                                                                                                                                                                                                                                                        | <u>39,22,500</u>                            |
| <u>III Calculation of Profit</u>                                                                                                                                                                                                                                                            |                                             |
| Profit = Sales – COGS – Exp                                                                                                                                                                                                                                                                 |                                             |
| = 4725000 – 3922500 – 125000                                                                                                                                                                                                                                                                |                                             |
| = 677500                                                                                                                                                                                                                                                                                    |                                             |
| <u>III Retail Value Method *VVImp</u>                                                                                                                                                                                                                                                       |                                             |
| As per the Provisions of AS-2, Physical valuation may not be possible for Departmental Stores or Multi Brand stores (i.e, Big Bazar, Shopper Stop, Pantaloons, zara etc). The valuation of C. Stock for such Entities may done by Retail Value Method. The following steps may be applied:- |                                             |
| <u>Step I : Calculate C. Stock at Retail Value</u>                                                                                                                                                                                                                                          |                                             |
| Opening Stock at Retail value                                                                                                                                                                                                                                                               | xxxx                                        |
| Purchases at Retail value                                                                                                                                                                                                                                                                   | xxxx                                        |
| Sales at Retail value                                                                                                                                                                                                                                                                       | <u>(xxxx)</u>                               |
| C. Stock at RV                                                                                                                                                                                                                                                                              | <u>xxxx</u>                                 |
| <u>Step II : Calculate Cost for C. Stock at RV</u>                                                                                                                                                                                                                                          |                                             |
| <u>FIFO</u>                                                                                                                                                                                                                                                                                 | <u>WAM</u>                                  |
| <u>Cost of Purchases</u> x C. Stock at                                                                                                                                                                                                                                                      | <u>Total cost (OS + P) x C. Stock at RV</u> |
| RV of Purchases RV                                                                                                                                                                                                                                                                          | <u>Total RV (OS + P)</u>                    |



**Example**

|           | <u>Cost</u> | <u>Retail Value</u> |
|-----------|-------------|---------------------|
| O. Stock  | 10,000      | 12,000              |
| Purchases | 100,000     | 150,000             |
| Sales     | -           | 152,000             |

Calculate cost for C. Stock

**Solution**

$$\text{I C. Stock at Retail Value} = 12,000 + 150,000 - 152,000 \\ = 10,000$$

**II Cost for C. Stock :**

| <u>FIFO</u>                             | <u>WAM</u>                                                                             |
|-----------------------------------------|----------------------------------------------------------------------------------------|
| $\frac{100,000}{150,000} \times 10,000$ | $\frac{110,000 \text{ (TC)}}{162,000 \text{ (TRV)}} \times 10,000 \text{ (C.S at RV)}$ |
| $= 6667$                                | $= 6790$                                                                               |

Q.14 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-12 Accounting Standard 17

### Segment Reporting

#### \*Part I\*

#### AS-17: Segment Reporting

(Ind AS-108: Operating Segment)

Contents: a) Applicability & Nature  
 b) Types of Segments & their meaning  
 c) Reportable Segments **\*V.V.Imp**  
 d) Primary & Secondary Segments  
 e) Important Definitions  
 f) Disclosures

#### I Applicability & Nature

Applicable : 1.4.2001 Onwards

Nature : Mandatory for Non SMC & Level I Enterprises only

(Note: It means that AS-17 is fully Exempted for SMC Level II & Level III)

#### II Types of Segments

Segments

Business Segment

Geographical Segment

#### Meaning of Business Segment:

As per the Provisions of AS-17, Business Segment is a different Product/Service of the enterprise. The following conditions should be satisfied to Classify a segment under the heading of Business segment:-



- It should be a distinguishable component (different) of the Enterprise
- Its Risks & Returns should also be different from others.

### Meaning of Geographical Segment:

As per the Provisions of AS-17, Geographical Segment is an area in which the company is selling its Products & Services which is different from other Areas. The following conditions should be satisfied to classify a Segment under the heading of Geographical Segment:-

- It should be different from other Areas.
- Its Risk & Reward should be different from Other Areas.

### III Identification of Segments

As per the provisions of AS-17, Identification of Segments may be very difficult for an Enterprise. So the following factors may be considered to Identify the segments:-

| <u>Business Segment</u>                      | <u>Geographical Segment</u> |
|----------------------------------------------|-----------------------------|
| -The nature of <u>Product &amp; Services</u> | -Political Environment      |
| -The nature of <u>Production Process</u>     | (Punjab, Haryana etc)       |
| -The method of <u>delivery/</u>              | -National boundaries        |
| <u>Distribution</u>                          | (Nepal, Srilanka etc)       |
| -Regulatory Environment                      | -Location of Customers etc  |
| (IRDA, RBI etc)                              |                             |

Note: We can also use the Internal Report which is Prepared for Top Level management for their decision making "To Identify the Segments".





### IV Reportable Segments (6-8 Marks) \*V.V. Imp

As per the Provisions of AS-17, All identified Segment are not required to be disclosed in segment Report but Reportable Segment are reported only.

If any segment is to be classified as Reportable segment then the following Tests should be passed (any one Test):-

→ Sales

Test 1 : If segment Revenue is 10% or more of Total Revenue from External or Internal Sales.

Example:-

| <u>Segment</u>       | <u>A</u>     | <u>B</u>      | <u>C</u>      | <u>D</u>      | <u>E</u>      | <u>Total</u>  |
|----------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| External Sales       | 20000        | 200000        | 400000        | -             | -             | 620000        |
| Internal Sales       | 30000        | =             | =             | 200000        | 100000        | 330000        |
| <b>Total Revenue</b> | <b>50000</b> | <b>200000</b> | <b>400000</b> | <b>200000</b> | <b>100000</b> | <b>950000</b> |
| % Share              | 5.26%        | 21.05%        | 42.10%        | 21.05%        | 10.52%        | 100%          |
| Status               | UR           | R             | R             | R             | R             |               |

All Segments are Reportable Except A because its Revenue is Less than 10% of Total Revenue.

OR

Test 2 : If Segment Result is 10% or more of Total Segment Result (total Segment Result in Profit or Losses whichever is higher)

Example:-

| <u>Segments</u>     | <u>A</u>      | <u>B</u>      | <u>C</u>     | <u>D</u>       | <u>E</u>       | <u>Total</u>    |
|---------------------|---------------|---------------|--------------|----------------|----------------|-----------------|
| Net Profit          | 200000        | 100000        | 60000        | (40000)        | (80000)        | 240000          |
| <b>Total Profit</b> | <b>200000</b> | <b>100000</b> | <b>60000</b> | <b>-</b>       | <b>-</b>       | <b>360000</b>   |
| <b>Total loss</b>   | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>(40000)</b> | <b>(80000)</b> | <b>(120000)</b> |
| Whichever is        |               |               |              |                |                |                 |
| Higher = 360000     |               |               |              |                |                |                 |
| % of Segment        | 55.56%        | 27.78%        | 16.67%       | 11.11%         | 22.22%         |                 |
| Result              |               |               |              |                |                |                 |
| <b>Status</b>       | <b>R</b>      | <b>R</b>      | <b>R</b>     | <b>R</b>       | <b>R</b>       |                 |



All Segments are Reportable

OR

Test 3: If Segment Assets are 10% or more of Total Segment Assets.

Additional Conditions to be Satisfied:-

Additional Condition I:- \*Imp

As per the Provisions of AS-17, Reportable Segments should cover disclosure of 75% of Total External Sales otherwise Additional Segments shall be identified and reported even if those segments do not satisfy conditions of 10% limits.

Additional Condition II:-

If any Segment remains Unreportable in current year but It was Reportable in Previous year then we should report such segment in Current year Report for comparison Purpose.

Additional condition III:-

If any Segment becomes Reportable in current year but It was Unreportable in Previous year then we should revise the Segment Report for Previous year for Comparison Purpose.

Additional condition IV:-

If management of the Enterprise wants to disclose an unreportable segment as Reportable Segment then It is allowed. It can also be said that AS-17 defines minimum disclosure but management can Extend it.

Q.1

The decision of company regarding Reportable Segments (H,I,J) is not correct because these segments are covering 65% of Total Revenue but minimum disclosure is to be made 75% of Total Revenue.

Conclusion : So the company should identify more segments to cover up disclosure of 75% of total External Sales.



Q.2

Statement showing Identification of Reportable Segments

| <u>Segment</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> | <u>Total</u> |
|----------------|----------|----------|----------|----------|----------|--------------|
| Segment        |          |          |          |          |          |              |
| Revenue        | 150      | 200      | 200      | 50       | 300      | 900          |
| % Share        | 16.67%   | 22.22%   | 22.22%   | 5.56%    | 33.33%   |              |
| Status         | R        | R        | R        | UR       | R        |              |

OR

| <u>Segment</u>        |        |      |        |       |        |      |
|-----------------------|--------|------|--------|-------|--------|------|
| <u>Results:-</u>      |        |      |        |       |        |      |
| Seg. Profits          | 50     | -    | 80     | 10    | -      | 140  |
| Seg. Loss             | -      | (70) | -      | -     | (25)   | (95) |
| Whichever is Higher:- | 140    |      |        |       |        |      |
| % Share               | 35.71% | 50%  | 57.14% | 7.14% | 17.86% |      |
| Status                | R      | R    | R      | UR    | R      |      |

OR

| <u>Segment</u> |        |        |        |       |        |     |
|----------------|--------|--------|--------|-------|--------|-----|
| Assets         | 40     | 65     | 140    | 20    | 35     | 300 |
| % Share        | 13.33% | 21.67% | 46.67% | 6.67% | 11.67% |     |
| Status         | R      | R      | R      | UR    | R      |     |

Reportable Segment : A, B, C, E

Unreportable Segment : D

Q.3

Statement showing Identification of Reportable Segments

| <u>Segments</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>Total</u> |
|-----------------|----------|----------|----------|--------------|
| Revenue         | 9600     | 300      | 100      | 10000        |
| % Share         | 96%      | 3%       | 1%       |              |
| Status          | R        | UR       | UR       |              |

OR



|                                                                                |            |            |           |           |          |          |           |          |            |
|--------------------------------------------------------------------------------|------------|------------|-----------|-----------|----------|----------|-----------|----------|------------|
| Segment Result                                                                 | 1750       | 180        | 70        | 2000      |          |          |           |          |            |
| % Share                                                                        | 87.5%      | 9%         | 3.5%      |           |          |          |           |          |            |
| Status                                                                         | R          | UR         | UR        |           |          |          |           |          |            |
| OR                                                                             |            |            |           |           |          |          |           |          |            |
| Segment Assets                                                                 | 4100       | 450        | 450       | 5000      |          |          |           |          |            |
| % Share                                                                        | 82%        | 9%         | 9%        |           |          |          |           |          |            |
| Status                                                                         | R          | UR         | UR        |           |          |          |           |          |            |
| Segment A is Reportable but other Segments (B & C) <u>remain Unreportable.</u> |            |            |           |           |          |          |           |          |            |
| Q.4                                                                            |            |            |           |           |          |          |           |          |            |
| Statement showing Reportable Segments                                          |            |            |           |           |          |          |           |          |            |
| Particular                                                                     | A          | B          | C         | D         | E        | F        | G         | H        | Total      |
| <u>Sales</u>                                                                   |            |            |           |           |          |          |           |          |            |
| External                                                                       | -          | 510        | 30        | 20        | 30       | 100      | 40        | 70       | 800        |
| Internal                                                                       | <u>200</u> | <u>120</u> | <u>60</u> | <u>10</u> | <u>-</u> | <u>-</u> | <u>10</u> | <u>-</u> | <u>400</u> |
| Total Rev.                                                                     | 200        | 630        | 90        | 30        | 30       | 100      | 50        | 70       | 1200       |
| Share (In %)                                                                   | 16.67      | 52.5       | 7.5       | 2.5       | 2.5      | 8.33     | 4.17      | 5.83     |            |
| Status                                                                         | R          | R          | UR        | UR        | UR       | UR       | UR        | UR       |            |
| OR                                                                             |            |            |           |           |          |          |           |          |            |
| Segment                                                                        |            |            |           |           |          |          |           |          |            |
| Results:-                                                                      |            |            |           |           |          |          |           |          |            |
| Profits                                                                        | 10         | -          | 30        | -         | 16       | -        | 10        | 14       | 80         |
| Losses                                                                         | -          | (180)      | -         | (10)      | -        | (10)     | -         | -        | 200        |
| Whichever is Higher = 200                                                      |            |            |           |           |          |          |           |          |            |
| % Share                                                                        | 5%         | 90%        | 15%       | 5%        | 8%       | 5%       | 5%        | 7%       |            |
| Status                                                                         | R          | R          | R         | UR        | UR       | UR       | UR        | UR       |            |
| OR                                                                             |            |            |           |           |          |          |           |          |            |
| Segment                                                                        |            |            |           |           |          |          |           |          |            |
| Assets                                                                         | 45         | 141        | 15        | 33        | 9        | 15       | 15        | 27       | 300        |
| % Share                                                                        | 15%        | 47%        | 5%        | 11%       | 3%       | 5%       | 5%        | 9%       |            |
| Status                                                                         | R          | R          | R         | R         | UR       | UR       | UR        | UR       |            |



Comments: i) Reportable Segments on the basis of 10% Limits = A, B, C, D  
 ii) Segment E is also a Reportable Segment for Current year even if It's Status is Unreportable as per conditions. We will do this only for comparison Purpose between Performance of 2 different financial years.

iii) Verification of 75% of External Revenue :-

$$\text{External Rev (800)} \times 75\% = 600$$

Revenue from Reportable Segments :-

|   |     |       |
|---|-----|-------|
| A | NIL |       |
| B | 510 |       |
| C | 30  |       |
| D | 20  |       |
| E | 30  | = 590 |

- Additional Segments to be identified to cover up 75% of External Sales.

\*Part 2\*

Q.5 \*Imp

Statement Showing Reportable Segments

| <u>Segment</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> | <u>F</u> | <u>Total</u> |
|----------------|----------|----------|----------|----------|----------|----------|--------------|
| Revenue        | 150      | 310      | 40       | 30       | 40       | 30       | 600          |
| % Share        | 25%      | 51.67%   | 6.67%    | 5%       | 6.67%    | 5%       |              |
| Status         | R        | R        | UR       | UR       | UR       | UR       |              |

OR

Results:

|        |    |      |   |   |     |    |       |
|--------|----|------|---|---|-----|----|-------|
| Profit | 25 | -    | 5 | 5 | -   | 15 | 50    |
| Loss   | -  | (95) | - | - | (5) | -  | (100) |

Whichever is  
Higher = (100)

|         |     |     |    |    |    |     |  |
|---------|-----|-----|----|----|----|-----|--|
| % Share | 25% | 95% | 5% | 5% | 5% | 15% |  |
| Status  | R   | R   | UR | UR | UR | R   |  |

OR





|         |     |     |     |     |     |    |     |
|---------|-----|-----|-----|-----|-----|----|-----|
| Assets  | 20  | 40  | 15  | 10  | 10  | 5  | 100 |
| % Share | 20% | 40% | 15% | 10% | 10% | 5% |     |
| Status  | R   | R   | R   | R   | R   | UR |     |

Comment: The view of finance director of Garg Ltd. is totally incorrect because segment A, B, C, D & E are Reportable as per the Conditions.

### V Primary & Secondary Segments

As per the Provisions of AS-17, the company should Prepare its first Report of Primary Segment and secondary Report for Secondary Segment. *The identification of Primary or Secondary segment should be made on the basis of following Explanation :-*

| <u>Situation</u>                                      | <u>Primary</u>           | <u>Secondary</u>         |
|-------------------------------------------------------|--------------------------|--------------------------|
| a) If *dominant Source of a company is its "Products" | Business                 | Geographical             |
| b) If *dominant source of a company is "Area"         | Geographical             | Business                 |
| c) If Both are *Dominant for the Company              | Business                 | Geographical             |
| d) If both are not *dominant for Company              | Business or Geographical | Business or Geographical |
|                                                       | (Any)                    | (Any)                    |

\*Dominant Source will be decided by the company/Management

### V Disclosures Required under AS-17

#### (Notes to A/c's)

a) Disclosures required for Primary Segments:-

i) Revenue from External Sales

ii) Revenue from Inter Segment Sales (Internal Sales)



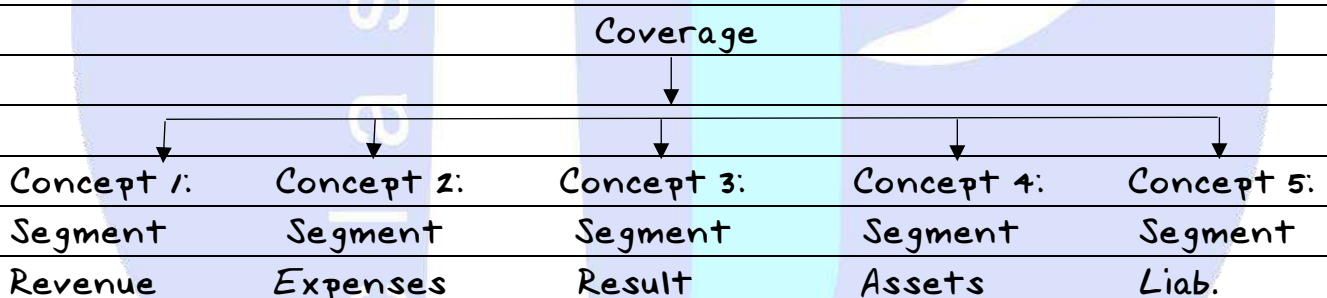


- iii) Segment Results (Profit/ Loss)
- iv) Cost to acquire tangible & Intangible Assets
- v) Depreciation & Amortisation
- vi) Carrying Amount of Tangible & I. Assets (iv – v)
- vii) Non Cash Expenses other than Dep & Amortisation
- viii) Reconciliation of Segment Revenue & Segment Result
- ix) Reconciliation of Segment Assets & Segment Liabilities

#### b) Disclosures for Secondary Segment :-

- i) Revenue from External Sales
- ii) Cost to acquire the tangible & I. Assets
- iii) Carrying Amount of T. Assets & I. Assets

### VII Important Definitions to be considered while Preparing Segment Report



#### a) Meaning of Segment Revenue

Segment Revenue includes:-

- i) External Sales
- ii) Internal Sales
- iii) Share in common Incomes on some Reasonable Basis

But It Excludes:-

- i) Extra-ordinary Items
- ii) \*Interest or Dividend Income on Investments or Advances
- iii) \*Profit on sale of Investments



*\*Note: The Excluded Items relating to Investment may be considered under Segment Revenue if nature of Business of Company is Financial.*

### b) Meaning of Segment Expenses

Segment Expenses include:

- i) Expenses Relating to External Sales
- ii) Expenses Relating to Internal Sales
- iii) Share in Common Expenses on Some Reasonable Basis

But it Excludes:-

- i) Extra-ordinary Items
- ii) \*Interest Expenses on Loans
- iii) \*Loss on Sale of Investments
- iv) Income Tax
- v) Un-allocable Expenses

\*Exception : Financial Nature of Business

### c) Meaning of Segment Result

Segment Result = Segment Revenue – Segment Expenses

### d) Meaning of Segment Assets

Segment Assets include:

- i) Assets directly used for the Segment
- ii) Reasonable Share in common Assets  
(i.e., C. Assets, T. Assets, I. Assets etc)
- iii) All Assets should be after deducting Provisions  
(i.e., Debtors Less PFDD, F. Assets Less PFD etc)



It Excludes:-

- i) Income Tax Assets (Deferred Tax Assets, Advance Tax, TDS etc)
- ii) \*Investments & Advances
- iii) Unallocable Assets of Head Office

\*If nature of Business is financial then Investments & Advances may be considered as Segment Assets.

### e) Meaning of Segment Liabilities

Segment Liability shall include:-

- i) Directly Related to Segment
- ii) Share in Common Liability if Possible

It Excludes:

- i) Income Tax Liabilities (Current tax, Deferred Tax liab, etc)
- ii) \*Borrowings
- iii) Un-allocable Liabilities of H. office

\*Exception : Financial nature of Business

Q.7 [12 Marks]

Segment Report for V Ltd.

Primary Report

(Business Segment)



| <u>Particular</u>         | <u>A</u>    | <u>B</u>    | <u>C</u>    | <u>Internal</u> | <u>Total</u> |
|---------------------------|-------------|-------------|-------------|-----------------|--------------|
| A. Internal Sales         | 3050        | 30          | -           | 3080            | -            |
| External Sales:           |             |             |             |                 |              |
| Local                     | 60          | -           | -           | -               | 60           |
| Export                    | <u>4090</u> | <u>200</u>  | <u>180</u>  | <u>-</u>        | <u>4470</u>  |
| Segment Revenue           | 7200        | 230         | 180         | 3080            | 4530         |
|                           |             |             |             |                 |              |
| B Segment Result          | 160         | 20          | (8)         | -               | 172          |
| Re-allocated Cost         | <u>(48)</u> | <u>(24)</u> | <u>(24)</u> | <u>-</u>        | <u>(96)</u>  |
| From HO                   |             |             |             |                 |              |
|                           | 112         | (4)         | (32)        | -               | 76           |
| Interest Exp.             | <u>-</u>    | <u>-</u>    | <u>-</u>    | <u>-</u>        | <u>(10)</u>  |
| Company/ HO Profit        | <u>-</u>    | <u>-</u>    | <u>-</u>    | <u>-</u>        | <u>66</u>    |
|                           |             |             |             |                 |              |
| <b>C Segments Assets:</b> |             |             |             |                 |              |
| F. Assets                 | 200         | 40          | 120         | -               | 360          |
| N. C Assets               | <u>120</u>  | <u>40</u>   | <u>90</u>   | <u>-</u>        | <u>250</u>   |
|                           | <u>320</u>  | <u>80</u>   | <u>210</u>  |                 | <u>610</u>   |
|                           |             |             |             |                 |              |
| D. Un-allocated Asset     |             |             |             |                 |              |
| Of H.O : F.A              | -           | -           | -           |                 | 50           |
| N.C.A                     | <u>-</u>    | <u>-</u>    | <u>-</u>    |                 | <u>48</u>    |
|                           |             |             |             |                 | <u>98</u>    |
|                           |             |             |             |                 |              |
| E. Segment Liab.          | 20          | 10          | 120         | -               | 150          |
| F. Unallocated Liab of    |             |             |             |                 |              |
| H.O                       | -           | -           | -           | -               | 38           |

Secondary Report(Geographical Assets)

|               | <u>Home</u> | <u>Export Sale</u> | <u>Europe</u> | <u>USA</u> |
|---------------|-------------|--------------------|---------------|------------|
| External Sale | 60          | 4090               | 200           | 180        |



Q.6

Segment Report for Kristen Ltd

| <u>Particular</u>      | <u>Alpha</u> | <u>Beeta</u> | <u>Inter</u><br><u>Segment</u> | <u>Total</u>  |
|------------------------|--------------|--------------|--------------------------------|---------------|
| A. External Sales      | 27050        | 3280         | -                              | 30330         |
| Internal Sales         | <u>50</u>    | <u>-</u>     | <u>50</u>                      | <u>-</u>      |
| Segment Revenue        | <u>27100</u> | <u>3280</u>  | <u>(50)</u>                    | <u>30330</u>  |
| B. Segment Results     | 4640         | (197)        | -                              | 4443          |
| Dividend Income        | -            | -            | -                              | 285           |
| Interest Exp.          | -            | -            | -                              | (35)          |
| Tax Provisions         | <u>-</u>     | <u>-</u>     | <u>-</u>                       | <u>(1675)</u> |
| Corporate Profits      | -            | -            | -                              | 3018          |
| C. Segment Assets      | 19450        | 2700         | -                              | 22150         |
| Un Allocated H.O       |              |              |                                |               |
| Assets                 | -            | -            | -                              | 6550          |
| D. Segment Liabilities | 3430         | 770          | -                              | 4200          |
| Unallocated H.O        | -            | -            | -                              | 2200          |
| Liabilities            |              |              |                                |               |
| E. Non Cash Exp.       | 114          | 16           | -                              | 130           |
| (Other than Dep)       |              |              |                                |               |
| F Depreciation         | 110          | 15           | -                              | 125           |
| G Capital Exp          | 1300         | 16           | -                              | 1316          |
|                        |              |              |                                |               |
|                        |              |              |                                |               |
|                        |              |              |                                |               |
|                        |              |              |                                |               |
|                        |              |              |                                |               |
|                        |              |              |                                |               |
|                        |              |              |                                |               |



Q.9 \*ImpSegment Report for Cheer Ltd.

| <u>Particular</u> | <u>Food</u>   | <u>Plastic</u> | <u>Health</u> | <u>Other</u> | <u>Inter Segment</u> | <u>Total</u>  |
|-------------------|---------------|----------------|---------------|--------------|----------------------|---------------|
| External Sale     | 5595          | 553            | 324           | 155          | -                    | 6627          |
| (Bal)             |               |                |               |              |                      |               |
| Internal Sale     | <u>55</u>     | <u>72</u>      | <u>21</u>     | <u>7</u>     | <u>155</u>           | <u>=</u>      |
| Total Revenue     | 5650          | 625            | 345           | 162          | (155)                | 6627          |
| Segment Exp.      | <u>(3335)</u> | <u>(425)</u>   | <u>(222)</u>  | <u>(200)</u> | <u>(122) bal</u>     | <u>(4060)</u> |
| Segment Result    | 2315          | 200            | 123           | (38)         | (33)                 | 2567          |
|                   |               |                |               |              | (Given)              |               |
| Corporate Exp     | -             | -              | -             | -            | -                    | (562)         |
| Interest Exp      | -             | -              | -             | -            | -                    | (65)          |
| Invest Income     | <u>=</u>      | <u>=</u>       | <u>=</u>      | <u>=</u>     | <u>=</u>             | <u>132</u>    |
| Corporate Result  | <u>=</u>      | <u>=</u>       | <u>=</u>      | <u>=</u>     | <u>=</u>             | <u>2072</u>   |
| Segment Asset     | 7320          | 1320           | 1050          | 665          | -                    | 10355         |
| Corporate Assets  |               |                |               |              |                      |               |
| (Un-allocable)    | -             | -              | -             | -            | -                    | 722           |

**Note:** As per the Provisions of AS-17, Inter Segment Sale, Inter Segment Expense and Inter Segment Profit or Loss should be Eliminated while Preparing Segment Report.

Additional Points to be considered as per Expert Advisory Options:-

**EAO 1:** If any company has one Business segment or one Geographical Segment then such company does not require to Prepare segment Report even if such company is a Non SMC. The Final A/c's Prepared by such company should be considered as Segment Report due to Existence of Single Segment.





EAo2 : If any Interest on Bank Overdraft is Given then we should not consider it as Segment Expense.

EAo 3: We should apply same Accounting Policies while Preparing Segment Report which have been used by the Enterprise while Preparing Financial Statements. It can also be said that Accounting Policies should be same in Segment Report & Financial Statements.

EAo 4: If any Interest has been capitalised to the cost of Inventories Or other Assets as per AS-16 then such Interest may be Considered indirectly as a part of Segment Expenses.

\*Part 3\*

Test your Knowledge

Q.12 , Q.8 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-13 Accounting Standard 24

### Discontinuing operation

#### \*Part I\*

Contents :

- a) Applicability & Nature
- b) Meaning of Discontinuing operation
- c) Out of Scope
- d) Initial Disclosure Event
- e) Disclosures
- f) Updation of Disclosures

#### I Applicability & Nature

Applicability : 1.4.2004 onward

Nature : Mandatory for all

#### II Meaning of Discontinuing operation

As per the Provisions of Para 3 of AS-24, An operation can be Classified as a Discontinuing operation only if the Following 3 Condition have been Satisfied :-

Condition I : It should be a Business segment or Geographical segment

+

Condition II : It should have Operational and Financial impact on Business

+

Condition III : It should be disposed off by :-

- i) Single Transaction Agreement to another Enterprise or
- ii) Piecemeal Sale as per formal Plan announced by company or
- iii) Permanent Lock out/ Abandonment

( Note : There should not be an alternate use of resources of band segment )



**Example:**

A Company deals in Tea, Steel and Real Estate business. The Company decided to class steel division and announced a Plan for disposal of this Division. Can we consider it as a discontinuing operation?

**Solution:** Yes, It is a discontinuing operation.

**Example:**

A Publishing Company Stopped Publishing the books and started using its resources in Publishing weekly magazines is it a D. operation?

**Solution :** No, It is not a discontinuing operation but It is Change in Product line.

### III Out of Scope

As per the Provisions of AS-24, the following cases are not covered under the definition of discontinuing operation :-

- a) Change in Product line
- b) Change in location of Business
- c) Shifting of Assets from one location to the other
- d) Alternative use of Resources etc.

### IV . Initial Disclosure Event

As per the Provisions of AS-24 Disclosures of this statement shall be made only if Initial Disclosure event has taken place.

#### Initial Disclosure Event

a)

or

b)

A Single Transaction Agreement has been Entered into with other Enterprise

A formal Plan has been made and Announced by company to Public

Whichever is Earlier



Notes to A/c's, PL

Cash flow statement, B/s

## V Disclosures to be made in Notes to A/c's after Initial Disclosure Event

- i) Description of Discontinuing operation : Notes to A/c's  
(i.e., Business segment, Geographical segment )
- ii) Date of Initial Disclosure event : Notes to A/c's
- iii) Nature of Initial Disclosure event : Notes to A/c's
- iv) Expected time to Complete the discontinuance : Notes to A/c's
- v) Carrying Amount of Total Assets to be Sold : Notes to A/c's  
    ↳ Book Value
- vi) Carrying Amount of Total Liabilities to be Settlement: Notes to A/c's
- vii) Income and Expenses which are related with : On the face of PL  
Discontinuing Operations Statement
- viii) Cash Flows relating to Operating, Investing & Financing Activities : Cash flow statement
- ix) Profit or Loss on Sale of Assets and related Tax : Notes to A/c's

## VI Updation of Disclosures

As per the Provisions of AS-24, the Enterprise should update the disclosure each year until the whole operation is not disposed off.



\*Part 2\*

Q 2 :

As per the Provisions of AS-24, Initial Disclosure Event is the time from which an Entity starts making Disclosures for Discontinuing Operation. It may be identified as Follows :-

(i) There should an announcement for Disposal of a segment with formal Plan OR

(ii) A Contract has been entered into for Disposal of a Segment  
Whichever is Earlier

In the given case, there is no formal announcement for Steel division as well as there is no contract for steel division in 2001.

On the basis of above facts, there will be no disclosure under AS-24 in 2001 as no Initial disclosure Event has taken place.

Q 4 :

As per the Provisions of AS-24, Discontinuing operation may be a Business segment or Geographical segment, But It never affect Entity Concept.

In the Given case, Company has Classified its one division as Discontinuing operation. It does not mean that company will not continue its business in future.

So the financial Statement should be prepared separately for Continuing and Discontinuing Operations.



Q 5 :

1<sup>st</sup> Part : ——— Write Definition of ———  
D.O.

2<sup>nd</sup> Part : In the Given Case, the company is going to close its Eastern Division which can be considered as a Geographical Segment. The Given segment also have its operation affect because It contributes 15-35% in Total Revenue. Further, It will be Sold in Piecemeal Transactions.

3<sup>rd</sup> Part : On the basis of above facts, the given case can be classified as a Discontinuing operation.

Q 6 :

1<sup>st</sup> Part : ——— Write Definition of ———  
D.O.

2<sup>nd</sup> Part : In the Given case, company has sold its Investment in other Entity. The Sale of Investment does not meet the definition of Discontinuing operation.

3<sup>rd</sup> Part : On the basis of above facts, the given case cannot be Classified as Discontinuing operation.

Q.7. H.W, Q.9. H.W, Q.8. H.W

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal





## Chapter-14 Schedule III \*VVImp

### \*Part I\*

### Schedule III : Companies Act 2013

#### Schedule III

Division A

CA Inter

Division A is Relevant for the Companies which are following Accounting Standards as per AS Rules

We will discuss it in CA INTER in Detail

Division B

CA Final

Division B is Relevant for the Companies which are following "IND AS" as per IND AS Rules

We will not discuss it in CA INTER

### Explanation on Division A

### Part I : General Instructions

As per the Rules, the following General Instructions shall be considered while Preparing Financial Statement of Company under "DIVISION A" :-

I Whenever there will be any Contradiction between Schedule III Presentation & Accounting Standards then Requirement under Accounting Standards Shall Prevail. We can Delete, Insert or Rename any heading in Schedule III if It is required by AS Rules. It can also be said that Formats under Schedule III are flexible.



**II** The Disclosure requirements in Schedule III DIVISION A are minimum and these requirements are in addition to Disclosure Requirements under AS Rules. It can also be said that Schedule III requirements do not replace AS Requirements.

**III** As per Schedule III requirements, Financial Statements of a Company shall be Presented with Previous year Information for Comparison Purpose.

Exception : Newly Incorporated Company is Exempted from the above instruction in its First year.

**IV** As per Schedule III, All figures in B/S and P&L shall be cross referenced by Appropriate Notes for understanding the Given Figures.

Note : Excessive references should be avoided so that there should not be any misunderstanding on Financial Statements.

**V** The Figures in Financial statements should be rounded off on the basis of following category of Companies :-

| <u>Total Income (sale + other income)</u>                   | <u>Rounding Off</u>                       |
|-------------------------------------------------------------|-------------------------------------------|
| <b>I</b> If Total Income of Company is Less than 100 Crores | Nearest Hundred, thousand, Lacs, Millions |
| <b>II</b> If Total Income of Company is 100 Crores or more  | Nearest Lacs, millions, crores            |

### Part II : Balance Sheet

Name of Company : .....

For the Period Ended : .....



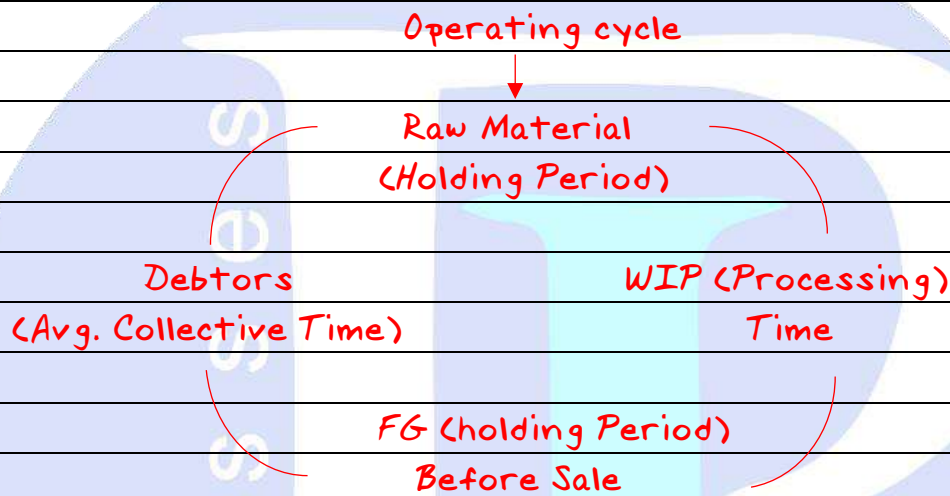
|                                                         | <u>Notes</u> | <u>C.Y.</u> | <u>P.Y.</u> |
|---------------------------------------------------------|--------------|-------------|-------------|
| <u>Equity &amp; Liabilities</u>                         |              |             |             |
| <u>A. Shareholder's Fund</u>                            |              |             |             |
| i) Share capital                                        | 1            |             |             |
| ii) Reserves                                            | 2            |             |             |
| iii) Share Warrants                                     | 3            |             |             |
| <u>B. Share Application Money Pending for Allotment</u> | 4            |             |             |
| <u>C. Non current Liabilities</u>                       | 5 *Imp       |             |             |
| (1) Long Term Borrowings                                |              |             |             |
| (2) Deferred Tax Liabilities (Net)                      |              |             |             |
| (3) other Non current Liabilities                       |              |             |             |
| (4) Long Term Provisions                                |              |             |             |
| <u>D. Current Liabilities</u>                           | 6 *Imp       |             |             |
| (1) Short Term Borrowings                               |              |             |             |
| (2) Trade Payables :                                    |              |             |             |
| (2A) Micro & Small Entities                             |              |             |             |
| (2B) other than Micro & Small Entities                  |              |             |             |
| (3) Other current Liab.                                 |              |             |             |
| (4) Short Term Provisions                               |              | XXXX        | XXXX        |
| <u>Assets</u>                                           |              |             |             |
| <u>E. Non current Assets</u>                            |              |             |             |
| (1) Property, Plant & Equipment                         | 7            |             |             |
| (2) Intangible Assets                                   | 7            |             |             |
| (3) Capital WIP                                         | 8            |             |             |
| (4) Intangible under Development                        | 8            |             |             |
| (5) Non current Investments                             | 9            |             |             |
| (6) Deferred Tax Assets (Net)                           | AS-22        |             |             |
| (7) Long Term Loans & Advances                          | 10           |             |             |
| (8) Other Non current Assets                            | 10           |             |             |
| <u>F. Current Assets</u>                                |              |             |             |
| (1) Current Investment                                  | 9            |             |             |
| (2) Inventories                                         | 11           |             |             |
| (3) Trade Receivable                                    | 11           |             |             |



|                                 |    |             |             |
|---------------------------------|----|-------------|-------------|
| (4) Cash & Cash Equivalents     | // |             |             |
| (5) Short Term Loans & Advances |    |             |             |
| (6) Other C. Assets             |    |             |             |
|                                 |    | <u>xxxx</u> | <u>xxxx</u> |

### Concepts for Understanding of B/S

#### Concept 1 : Meaning of Operating Cycle



|                                                                         |             |
|-------------------------------------------------------------------------|-------------|
| <u>Operating Cycle</u> : Raw Material Holding Period before Consumption | xxxx        |
| Time Period in Processing                                               | xxxx        |
| Finished Goods Holding Period                                           | xxxx        |
| Avg. Collection time from debtor after Sale                             | <u>xxxx</u> |
| O. Cycle                                                                | <u>xxxx</u> |

Additional Points : 1) If operating cycle of an Entity can not be determined due to any reasons then It will be assumed 12 months by default .

2) While computing O. Cycle, We will not deduct any Grace Period which is Given by the creditor for Raw Materials. It means that we are computing Gross O.C.



\*Part 2\*

**Concept 2: Meaning of Current Assets & Current Liab. "Definition"**

As per the Provisions, the Following conditions are to be satisfied to classify An Asset or Liability under the heading of "current" :-

[ Any Condition out of following 4 conditions is required]

Condition I : If Any Assets or Liability is Expected to be Realised or settled within 12 months from the reporting Date/ B/s Date.

[ i.e., current Investment, Short Term Borrowing, Prov. For Tax etc.]

OR

Condition II: If Any Asset or Liability is Expected to be Realised or Settled within the Period of Operating Cycle.

(i.e., Trade Receivables, Trade Payables, Stocks etc.)

**Important Note**

If Operating Cycle Period is Less than 12 Months then classification of Current Items will be made according to Condition I. In case, operating Cycle Period becomes higher than 12 Months then Classification of Current Items will be made according to Operating Cycle Period.

Summary: 12M or operating cycle, whichever is higher, is Considered

OR

Condition III : If Any or Liability is held for Trade

(i.e., option contracts, future contracts, forward contracts etc.)

OR

Condition IV : Cash & Cash Equivalents

( Cash, Bank Balance, Marketable Securities etc.)





### Concept 3 : Meaning of NCA & NCL

If Any Asset or Liab. can not be Classified as Current Asset Or Current Liab. then It will be Classified as Non current Asset or Non Current Liab.

### Notes on Explanation on B/S

#### Note 1 : Share Capital

As per the requirements in Schedule III, the following disclosures are required under the heading of Share Capital :-

These are relevant for Practical questions.

- (i) Authorised Share Capital for Equity Shares and Preference Shares separately with Numbers & Amount
- (ii) Issued, Subscribed & Paid up Capital (Fully Paid up and Partly Paid up)
- (iii) Par value Per Share for each type of Share

Face value

- (iv) Reconciliation Statement between operating balance & Closing Balance of Share capital

[i.e., Details of N. Issue, Bonus Issue, Buy Back etc.]

- (v) Name of Shareholder who holds more than 5% of Total Shares in Company

- (vi) Promoter's Details as follows

| Name of Promoter | Shares with Promoter | % in Total Shares | Changes in % during C. y. |
|------------------|----------------------|-------------------|---------------------------|
|------------------|----------------------|-------------------|---------------------------|

- (vii) Calls in Arrear (if any) [To be deducted from paid up Capital]

- (viii) Share forfeiture A/c (if any) [To be added to Paid up Capital]

- (ix) Details of Shares which are held by Holding Company (if any)

- (x) If Company has Promised Equity Shares in conversion of any Security (Deb/P&L) then Details of Such Convertible Securities should be Given in descending order from the Point of view





Conversion Date (farthest First)

### Note 2 : Reserves

#### Statement Showing calculation of Reserves

|                                     |                  |             |
|-------------------------------------|------------------|-------------|
| Security Premium                    |                  | xxxx        |
| General Reserve (OB + Transfer: cy) |                  | xxxx        |
| Capital Reserve                     |                  | xxxx        |
| Capital Redemption Reserve          |                  | xxxx        |
| Deb. Redem Reserve                  |                  | xxxx        |
| <u>P&amp;L A/c : *Imp</u>           |                  |             |
| Operating Balance                   | xxxx (Py: B/S)   |             |
| Add : Net Profit (Cy)               | <u>xxxx</u>      |             |
|                                     | Xxxx             |             |
| Less: Transfer Res.                 | (xxxx) (GR etc.) |             |
| Less : Dividend Paid                | (xxxx)           | xxxx        |
| in cy                               |                  |             |
| Any other Reserve                   |                  | <u>xxxx</u> |
|                                     | Total            | <u>xxxx</u> |

- Notes : 1) As per the Rules, Company Can not Prepare its P&L Appropriation Separately. It will show all appropriation under the heading of Reserve.
- 2) Net Profit is added, but Losses shall be deducted from Opening Balance in P&L.

### \*Part 3\*

### Notes 3 : Share Warrants

(Net relevant for Practical questions)

As per the Rules, Share warrants are issued by the Companies to its Investors as a Promise of Issuance of Equity Shares by Conversion of warrants into Shares. The warrant holder will not have any voting Right or Dividend Right till Conversion of Warrants into Shares. The



Conversion Ratio is always decided at the time of issue of warrants which indicate that warrant holder will receive fixed Number of Shares without having any impact of change in Market Price of Shares. The Warrant holder will have one more option to get back the invested Money that warrants can be surrendered for Cash if holder is not interested in Conversion.

#### Note 4 : Share Application Money Pending For Allotment

If Any Allotment is Pending on B/S date which is Expected in next Financial year, but Application money has been received then It will be disclosed outside Shareholders Funds under Separate heading. After Allotment of Shares, it will be shown under the heading of Share Capital.

#### Note 5 : Non-current Liabilities

| Non-current Liab.                                                    |                          |                                                           |                                                                         |
|----------------------------------------------------------------------|--------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------|
| Long Term Borrowings                                                 | Deferred Tax Liabilities | Other NCL                                                 | Long Term Provisions                                                    |
| * (Expected to be Paid after 12M)                                    | (Refer AS-22)            | Trade Payable<br>(If Any : Expected to be paid after 12M) | (*Expected to be paid after 12M)                                        |
| *i) Debenture/Bond                                                   |                          |                                                           | *i) Provision for Gratuity or any other Retirement Benefit of Employees |
| *ii) Term Loans :                                                    |                          |                                                           | ii) Any other Provision which is Expected to be paid after 12 Month     |
| i) Banks                                                             |                          |                                                           |                                                                         |
| ii) Other (NBFC)                                                     |                          |                                                           |                                                                         |
| *iii) Loans from Related Parties<br>(i.e., Holding, Subsidiary etc.) |                          |                                                           |                                                                         |
| *iv) Deposits                                                        |                          |                                                           |                                                                         |
| *v) Finance Lease/<br>Hire Purchase<br>Liabilities                   |                          |                                                           |                                                                         |



vi) Other (if any)



Additional disclosures:-

a) The Entity will

disclose all the Borrowings  
under the Following heading

i) Secured

ii) Unsecured

b) The Entity will Provide

the Redemption Details

For all Borrowing in

"Descending order"

( Farthest first )

c) If any Borrowing has

been raised against

Director Guarantee then

Separate note will be

Given

Note 6 : Current Liabilities

(Expected to be Settled within 12 Months)

### Current Liabilities

| *Imp ↓                                                          | ↓                                        | ↓                                           | *Imp ↓                                    | ↓ |
|-----------------------------------------------------------------|------------------------------------------|---------------------------------------------|-------------------------------------------|---|
| Short Term Borrowings                                           | Trade Payable                            | Other current Liab.                         | Short Term Provisions                     |   |
| ↓                                                               | ↓                                        | ↓                                           | ↓                                         |   |
| i) Borrowings Repayable on Demand:                              | i) MSME *With ii) Others Ageing Schedule | i) o/s Expenses ii) o/s Interest on LTB/STB | i) Prov. For Tax ii) Prov. For Employees: |   |
| a) Bank overdrafts                                              |                                          | iii) Advance Income                         | i. Bonus                                  |   |
| b) Cash credits etc.                                            |                                          | iv) HP/ finance lease Payments              | ii. Leave                                 |   |
| ii) Current Maturities Of Long Term Debt. (i.e., If Debentures, |                                          | (Expected to be Paid within 12M)            | Encash-ment etc.                          |   |



|                                                                               |                  |                                           |                                  |               |       |
|-------------------------------------------------------------------------------|------------------|-------------------------------------------|----------------------------------|---------------|-------|
| Bonds, Term Loans or other Loans are due for payment Whether full or in Part) |                  | v) Unpaid/Overdue matured Loans /Deposits | iii) Prov. For compensation etc. |               |       |
|                                                                               |                  | vi) Others (if any)                       |                                  |               |       |
| ii) Loans from Related Parties                                                |                  | upto 12M                                  |                                  |               |       |
| iv) Deposits                                                                  |                  |                                           |                                  |               |       |
| v) Other (if any)                                                             |                  |                                           |                                  |               |       |
| *Ageing Schedule for Trade Payables<br>(Creditors & Bills Payable)            |                  |                                           |                                  |               |       |
| Particulars                                                                   | Less than 1 year | 1-2 years                                 | 2-3 Years                        | Above 3 Years | Total |
| I MSME :                                                                      |                  |                                           |                                  |               |       |
| Disputed                                                                      | xxxx             | xxxx                                      | xxxx                             | xxxx          | xxxx  |
| Undisputed                                                                    | xxxx             | xxxx                                      | xxxx                             | xxxx          | xxxx  |
| II Others :                                                                   |                  |                                           |                                  |               |       |
| Disputed                                                                      | xxxx             | xxxx                                      | xxxx                             | xxxx          | xxxx  |
| Undisputed                                                                    | xxxx             | xxxx                                      | xxxx                             | xxxx          | xxxx  |
|                                                                               | xxxx             | xxxx                                      | xxxx                             | xxxx          | xxxx  |
| *Part 4*                                                                      |                  |                                           |                                  |               |       |
| Note 7 : PPE & I. Assets                                                      |                  |                                           |                                  |               |       |
| ↓                                                                             | ↓                |                                           |                                  |               |       |
| Tangible Fixed Assets (AS 10)                                                 | (AS -26)         |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |
|                                                                               |                  |                                           |                                  |               |       |



| Fixed Assets                                                                                                                                                                                                   |                  |                 |                  |               |              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|------------------|---------------|--------------|
| ↓                                                                                                                                                                                                              |                  |                 | ↓                |               |              |
| PPE                                                                                                                                                                                                            |                  |                 | I. Assets        |               |              |
| ↓                                                                                                                                                                                                              |                  |                 | ↓                |               |              |
| Notes to A/c's                                                                                                                                                                                                 |                  |                 | Notes to A/c's   |               |              |
| ↓                                                                                                                                                                                                              |                  |                 | ↓                |               |              |
| Land                                                                                                                                                                                                           | xxxx             |                 | Patents          | xxxx          |              |
| Building                                                                                                                                                                                                       | xxxx             |                 | Trade marks      | xxxx          |              |
| P&M                                                                                                                                                                                                            | xxxx             |                 | Copy Rights      | xxxx          |              |
| Furniture                                                                                                                                                                                                      | xxxx             |                 | licences         | xxxx          |              |
| Computers                                                                                                                                                                                                      | xxxx             |                 | Mining Rights    | xxxx          |              |
| Vehicles                                                                                                                                                                                                       | xxxx             |                 | Franchise        | xxxx          |              |
| Other Assets                                                                                                                                                                                                   | xxxx             |                 | Other Intangible | xxxx          |              |
| Total                                                                                                                                                                                                          | xxxx             |                 | Total            | xxxx          |              |
| Note : The Company will Provide a reconciliation statement between Opening and closing Balance for PPE & I. Assets showing Acquisition, disposals, Depreciation / Amortisation, Revaluations, Impairment Loss. |                  |                 |                  |               |              |
| <u>Note 8 : Capital WIP &amp; Intangible under Development</u>                                                                                                                                                 |                  |                 |                  |               |              |
| <u>A. Capital WIP</u><br>(Capital WIP : Projects under Construction)<br>(i.e., Building, Power Plant, Factory etc.)                                                                                            |                  |                 |                  |               |              |
| I Ageing schedule                                                                                                                                                                                              |                  |                 |                  |               |              |
| <u>Projects</u>                                                                                                                                                                                                | <u>Less than</u> | <u>1-2 year</u> | <u>2-3 year</u>  | <u>Above</u>  | <u>Total</u> |
|                                                                                                                                                                                                                | <u>1 year</u>    |                 |                  | <u>3 year</u> |              |
| I Under Construction                                                                                                                                                                                           |                  |                 |                  |               |              |
| II Temporarily Suspended                                                                                                                                                                                       |                  |                 |                  |               |              |



II Ageing Schedule for those Project which are overdue from the Point Of view of Completion date or Budgeted Cost has been exceeded as Follows :-

|            | <u>Less than</u><br><u>1 year</u> | <u>1-2 year</u> | <u>2-3 year</u> | <u>Above</u><br><u>3 year</u> | <u>Total</u> |
|------------|-----------------------------------|-----------------|-----------------|-------------------------------|--------------|
| Project I  |                                   |                 |                 |                               |              |
| Project II |                                   |                 |                 |                               |              |

B : Intangible under Developments

( Intangible under Trial Runs )

I Ageing Schedule

|                          | <u>Less than</u><br><u>1 year</u> | <u>1-2 year</u> | <u>2-3 year</u> | <u>Above</u><br><u>3 year</u> | <u>Total</u> |
|--------------------------|-----------------------------------|-----------------|-----------------|-------------------------------|--------------|
| a) I.A under Development |                                   |                 |                 |                               |              |
| b) Temporarily Suspended |                                   |                 |                 |                               |              |

II Ageing Schedule for I. Assets under development shall also be Given which are overdue for completion or Actual Trial cost has Exceeded the Budgeted Trial Cost as Follows :-

|          | <u>Less than</u><br><u>1 year</u> | <u>1-2 year</u> | <u>2-3 year</u> | <u>More</u><br><u>than 3</u> | <u>Total</u> |
|----------|-----------------------------------|-----------------|-----------------|------------------------------|--------------|
| Assets 1 |                                   |                 |                 |                              |              |
| Assets 2 |                                   |                 |                 |                              |              |





Note 9 : Investments

## Investments

Non current Invest.

Current Investments

The following Disclosures are required in Notes to A/c for NCI and CI Separately :-

I Details of Investment :

|                                   |             |
|-----------------------------------|-------------|
| i) Investment in Equity Shares    | xxxx        |
| ii) Investment in Pref. Shares    | xxxx        |
| iii) Investment in Debentures     | xxxx        |
| iv) Investment in Bonds           | xxxx        |
| v) Investment in Gold/ Silver     | xxxx        |
| vi) Investment in Properties      | xxxx        |
| vii) Investment in fixed Deposits | xxxx        |
| viii) other Investments           | <u>xxxx</u> |
|                                   | <u>xxxx</u> |

Listed

Unlisted

II Break up in quoted & Unquoted  
( Shares, Debentures, Bonds)

III Valuation method for Investment

IV If any Investment has been written off due to decline in Market Value then reporting for such Investment will be made



Note 10 : NCA

NCA

Long Term Loans  
Or Advances

Other NCA

Capital Advances xxxx

(Advances made for Assets)

Loans to Related Parties xxxx

Others

xxxx

xxxx

xxxx

Long Term

xxxx

Trade Receivables

Others

xxxx

xxxx

Refer

Ageing Schedule

(Current Assets : TR)

Note 11 : Current Assets

Current Assets

Inventories

Trade

Receivables

Cash &amp; Cash

Equivalents

Short Term

Loans &  
Advances

Other

Assets

i) Raw

Material xxxx

i) Debtors xxxx

ii) B/R xxxx

\*Refer Ageing

Schedule

i) Cash in hand

ii) Bank Balance

iii) Cheques in

hand

iv) Drafts on

hand

v) Marketable

Securities

i) Loan to

Related

Parties

ii) Other

i) Prepaid

exp

ii) Income

Receivables

(Rent, Int

Dividend

etc)

iii) Others



\*Ageing Schedule for T.R.

|                     | <u>Less</u> | <u>6-12</u>  | <u>1-2</u>  | <u>2-3</u>  | <u>Above</u>  | <u>Total</u> |
|---------------------|-------------|--------------|-------------|-------------|---------------|--------------|
|                     | <u>Than</u> | <u>Month</u> | <u>year</u> | <u>year</u> | <u>3 Year</u> |              |
|                     | <u>6M</u>   |              |             |             |               |              |
| <u>Disputed :</u>   |             |              |             |             |               |              |
| a) Good             |             |              |             |             |               |              |
| b) Doubtful         |             |              |             |             |               |              |
| <u>Undisputed :</u> |             |              |             |             |               |              |
| a) Good             |             |              |             |             |               |              |
| b) Doubtful         |             |              |             |             |               |              |

Other Regulatory Requirement Related to B/S :-

I Immovable Property Not Held in Company's Name

As per the Provisions, It may be Possible that An Immovable Property of a Company is not held in Company's Name. It may be held in the name of Director, Promoter or their relative. If such a situation Prevails then the following Disclosures are to be made :-

| Cost                       |                       |                                                     |                  |                            |                                             |
|----------------------------|-----------------------|-----------------------------------------------------|------------------|----------------------------|---------------------------------------------|
| Description of I. Property | Carrying Amt. (Gross) | Name of Person in Whose Name Property is Registered | Status of Person | Since (Registra-tion Date) | Reason For Not Holding I.P. in Company Name |
| Land & Building (Location) | xxxx                  | Mr. Parveen Jindal                                  | Director         | 2010                       | Notes :-                                    |

II Revaluation of Assets (PPE) :-

If Revaluation of Assets has been made during the year then Company has to disclose the facts that valuation has done by "Certified Valuer"



### III Loans to Directors, Promoters, KMP

If company has Given Loans to its Promoter, Director Or KMP then It has to disclose the following Statement :-

| <u>Loans Given</u> | <u>Amt.</u> | <u>% as to total Loans</u> |
|--------------------|-------------|----------------------------|
| i) To Promoter     | xxxx        | %                          |
| ii) To Director    | xxxx        | %                          |
| iii) To KMP        | xxxx        | %                          |
|                    | xxxx        | %                          |

### IV Benami Properties Proceeding :-

If Any Proceeding is Pending or has been initiated against Company under Benami Property Act 1988 then the following disclosures are required :-

I Details of Such Property (including year of Acquisition)

II Amount there of

III Name of Beneficiaries

IV If Such Property is in B/S then mark it in B/S

V If It is not Show in B/S then State the reasons

\*Part 5\*

### V Wilful Defaulter :- \*Imp

If any Bank or NBFC has declared company as wilful Defaulter then the following disclosures are required :-

I Date of Declaration as wilful Defaulter

II Nature of Default

III Amount of Default

→ Black listed

### VI Struck off Companies (Section 248 or Section 560) :-

If company has undertaken any Transaction with Struck off Companies then the following schedule shall be Prepared :-



| Name of Struck Off company   | Nature of Transaction                                       | Balance o/s with Struck off company | Relationship with Struck off Company (if any) |
|------------------------------|-------------------------------------------------------------|-------------------------------------|-----------------------------------------------|
| X Ltd., Y Ltd., Z Ltd., etc. | Sale/ Purchase Of goods, Receiving/ Rendering Services etc. | xxxx                                | Holding, Subsidiary, Associate, J.V. etc.     |

### VII Loans taken by company against security of current Assets :-

If there is difference between Quarterly Returns filed with Banks and Books of A/c regarding reporting of current Assets then Reasons should be disclosed for such difference.

### VIII Disclosure of Some Ratios:-

- i) current Ratio
- ii) Debt Equity Ratio
- iii) Debt service coverage Ratio
- iv) Net Profit Ratio
- v) Return on capital Employed
- vi) Return on Equity
- vii) Return on Investment
- viii) Tax Receivable
- ix) Trade Payable turnover Ratio
- x) Inventory turnover Ratio
- xi) Net capital turnover Ratio

### Part III : Statement of Profit & Loss

Name of Company : .....

For the Period Ending : .....



| <u>Particulars</u>          | <u>Notes</u>                                                                                                                                                                                                                                                                | <u>Current</u> | <u>Previous</u> |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
|                             |                                                                                                                                                                                                                                                                             | <u>F.Y.</u>    | <u>F.Y.</u>     |
| <u>Revenues:</u>            |                                                                                                                                                                                                                                                                             |                |                 |
| I Revenue from operations   | (Sales)                                                                                                                                                                                                                                                                     | xxxx           | xxxx            |
|                             | <div style="display: flex; justify-content: center; align-items: center;"> <div style="text-align: center;"> <math>\swarrow</math><br/>           Goods         </div> <div style="text-align: center;"> <math>\searrow</math><br/>           Service         </div> </div> |                |                 |
| II Other Incomes            | 1                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| <b>Total (A) (I+II)</b>     |                                                                                                                                                                                                                                                                             | <u>xxxx</u>    | <u>xxxx</u>     |
| Trading Business            |                                                                                                                                                                                                                                                                             |                |                 |
| <u>Expenditures:</u>        |                                                                                                                                                                                                                                                                             |                |                 |
| III Purchase of Goods/      | -                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| Consumption of Raw          | -                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| Material                    |                                                                                                                                                                                                                                                                             |                |                 |
| Manufacturing Business      |                                                                                                                                                                                                                                                                             |                |                 |
| IV Changes in Stocks        | -                                                                                                                                                                                                                                                                           | <u>± xxxx</u>  | <u>± xxxx</u>   |
| [Closing Stock              |                                                                                                                                                                                                                                                                             |                |                 |
| -Opening Stock              |                                                                                                                                                                                                                                                                             |                |                 |
| V Employees Benefit         | 2                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| Expense                     |                                                                                                                                                                                                                                                                             |                |                 |
| VI Finance Cost             | 3                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| VII Depreciation &          | 4                                                                                                                                                                                                                                                                           | xxxx           | xxxx            |
| Amortisation                |                                                                                                                                                                                                                                                                             |                |                 |
| VIII Other Expenses         | 5                                                                                                                                                                                                                                                                           | <u>xxxx</u>    | <u>xxxx</u>     |
| <b>Total (B) (III+VIII)</b> |                                                                                                                                                                                                                                                                             | <u>xxxx</u>    | <u>xxxx</u>     |
| IX Profit Before Tax,       |                                                                                                                                                                                                                                                                             | xxxx           | xxxx            |
| Before Exceptional &        |                                                                                                                                                                                                                                                                             |                |                 |
| Before Extra Ordinary       |                                                                                                                                                                                                                                                                             |                |                 |
| Items                       |                                                                                                                                                                                                                                                                             |                |                 |
| (Total A) – (Total B)       |                                                                                                                                                                                                                                                                             |                |                 |
| X Tax Exp. (Income Tax)     |                                                                                                                                                                                                                                                                             | <u>(xxxx)</u>  | <u>(xxxx)</u>   |
| [As per AS-22]              |                                                                                                                                                                                                                                                                             |                |                 |
| XI Profit after Tax, but    |                                                                                                                                                                                                                                                                             | xxxx           | xxxx            |
| before Exceptional &        |                                                                                                                                                                                                                                                                             |                |                 |
| Extra- Ordinary Items       |                                                                                                                                                                                                                                                                             |                |                 |
| XII Exceptional Items       |                                                                                                                                                                                                                                                                             | <u>± xxxx</u>  | <u>± xxxx</u>   |
| (AS-5)                      |                                                                                                                                                                                                                                                                             |                |                 |





|                                                            |   |               |               |
|------------------------------------------------------------|---|---------------|---------------|
| XIII Profit after Tax \$                                   |   | xxxx          | xxxx          |
| Exceptional Items,<br>but before Extra-<br>Ordinary Items  |   |               |               |
| XIV Extra ordinary Items<br>(AS-5)                         |   | <u>± xxxx</u> | <u>± xxxx</u> |
| XV Profit from Continuing<br>Operations                    |   | xxxx          | xxxx          |
| XVI Profit/loss from<br>Discontinuing<br>Operation (AS-24) | 6 | <u>± xxxx</u> | <u>± xxxx</u> |
| Net Income/ Net<br>Profit<br>(XV+ XVI)                     |   | <u>xxxx</u>   | <u>xxxx</u>   |
| Basic EPS (As per AS-20)                                   |   | xxxx          | xxxx          |
| Diluted EPS                                                |   | xxxx          | xxxx          |

### Notes on P&L A/c (SOPL):

#### Note 1 : Other Incomes

- (i) Interest Income
- (ii) Dividend Income
- (iii) Rental Income
- (iv) Discount Received
- (v) Net Gain or Loss on Sale of Assets (i.e., Investments etc.)

#### Note 2 : Employees Benefit Exp.

- (i) Salaries, (ii) Wages, (iii) Contribution to Provident Funds,
- (iv) Provision for Pension, Gratuity, (v) Staff welfare Exp. etc.

#### Note 3 : Finance Cost

- (i) Interest on Bonds/ Debentures
- (ii) Interest on Loans
- (iii) Interest on B.od/CC
- (iv) Exchange Gain/ Loss on Foreign currency Transactions etc.



Note 4 : Depreciation & Amortisation

- i) Dep. on PPE
- ii) Amort. Of I. Assets

Note 5 : Other Expenses

Adm. Exp., Selling Exp., Discount allowed Printing, Telephone & Electricity, Carriage Outward, Commission, Advertisement, Misc. Exp. etc.

Note 6 : Profit/ Loss From Discontinuing Operations

|                   |        |                   |
|-------------------|--------|-------------------|
| Sales from D.o.   | xxxx   |                   |
| Exp. for D.o.     | (xxxx) |                   |
| Profit            | xxxx   |                   |
| Tax Exp.          | (xxxx) |                   |
| Net P/L from D.o. | xxxx   | ⇒ Transfer to P&L |

Other Regulatory Information which is required to be disclosed :-I Significant Expenses :

A Separate Disclosure is required for all major Expenses which are of Rs. 100000 or 1% of Revenue from operation

II Crypto currency (Bit coin etc. ) :

- i) The company will report Profit or Loss on Trading in crypto currency during the year if It has traded in such virtual Currency
- ii) Closing Balance in hand of crypto currency is also required to be disclosed.

III Undisclosed Income :

If any Income is disclosed by company to Income Tax Deptt. Under Search & Survey which is not disclosed in Financial Statement then Disclosure of such Undisclosed income in books of A/c shall be reported.



\*Part 6\*

→ V.V.Imp

Question 1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 14, 15, 18, 22, 23 (Discussed in Class)

Homework- Q.2, 12, 16, 17, 19, 20, 21

Q.13

Identified Mistakes in Presentation

I The Company has not shown Share capital & Reserves under Shareholder Funds.

II The Company should not have disclosed ESOP o/s under separate heads, but It should have been included under heading of R&S.

III The company should have disclosed Share Application money under other current Liab. Because it is not clearly Specified that it is Pending for Allotment. So, It will be assumed as Returnable Amt.

IV The Presentation of DTL and DTA can not be made separately in B/S, But these A/c should be Net off and Net Amt. will be disclosed If DTL becomes higher than DTA then Net DTL will be reported or Vice versa.

V The heading of fixed Assets should be shown as PPE

VI The Amount of Capital Advance Should be disclosed under long Term & Loans & Advance Instead of Capital WIP.

VII The Debit Balance in PL should also be reported under the heading of R&S as Negative Figure.

VIII The Amount of Trade Receivable should be disclosed under the heading of Current Assets.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



## Chapter-15 Accounting Standard 14

### Amalgamation Of Companies

#### \*Part 1\*

#### Concept 1: Meaning of Business Combination

##### Business Combination

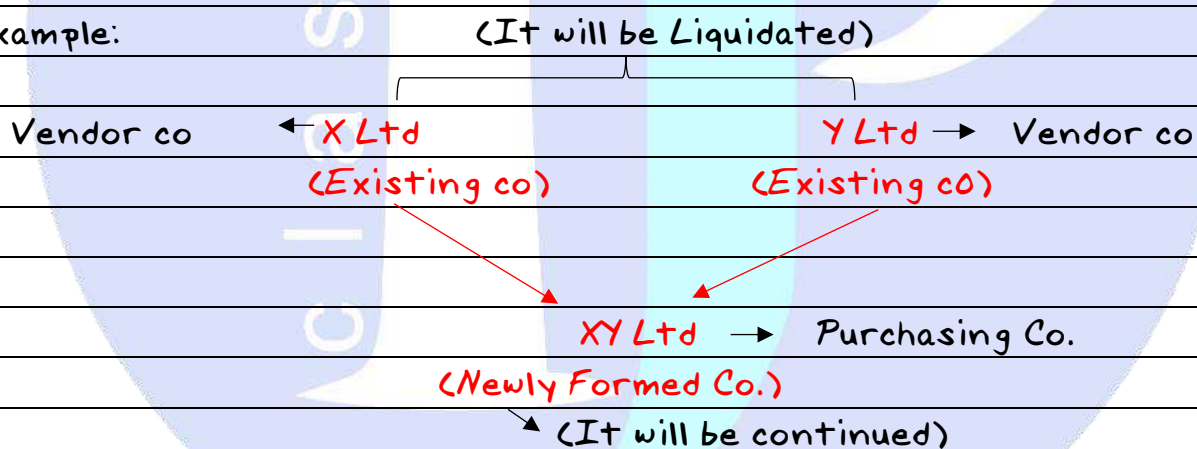
Amalgamation of  
Companies

Absorption of  
Companies

External Reconst.  
of Companies

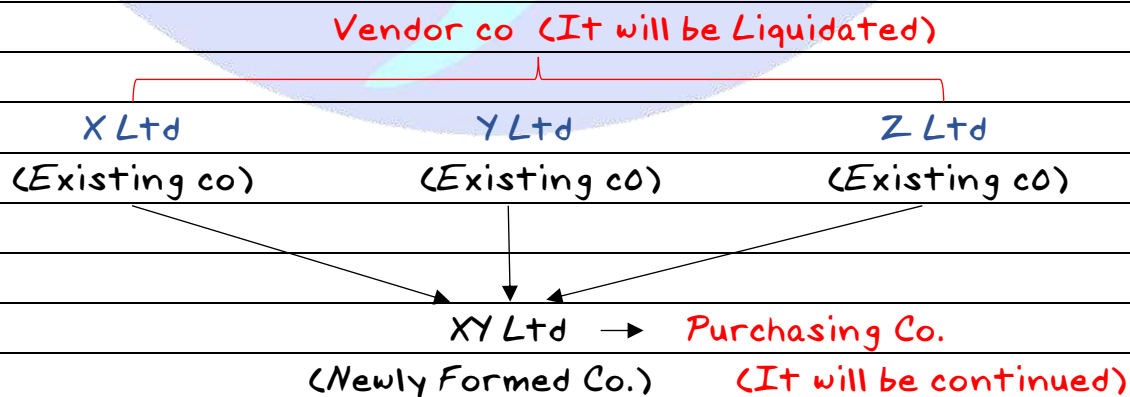
#### Meaning of Amalgamation:

Example:



OR

Example:



As per the Provisions of AS-14, Amalgamation means Liquidation of 2 or more companies & formation of One New company.

**Note:** Under Amalgamation, Companies Combine their businesses for Expansion Purpose so that Benefits can be obtained from combined Efforts.

### Meaning of Absorption:

Example: (It will continue the business) (It will be Liquidated)

Purchasing Co ← **X Ltd** (Existing co)      **Y Ltd** (Existing co) → Vendor co

X Ltd takes over the Business of Y Ltd.

OR

Example: (Continued) Vendor Co. (Liquidated)

Purchasing Co ← **X Ltd** (Existing co)      **Y Ltd** (Existing co)      **Z Ltd** (Existing co)

X Ltd takes over the Business of Y Ltd & Z Ltd.

As per the Provisions of AS-14, Absorption means "Liquidation of one or more companies but without any New formation.

**Note:** Under Absorption, An Existing company takes over the business Of other Existing company to Eliminate its Competition or for its Expansion of Business.





### Meaning of External Reconstruction:-

Example:

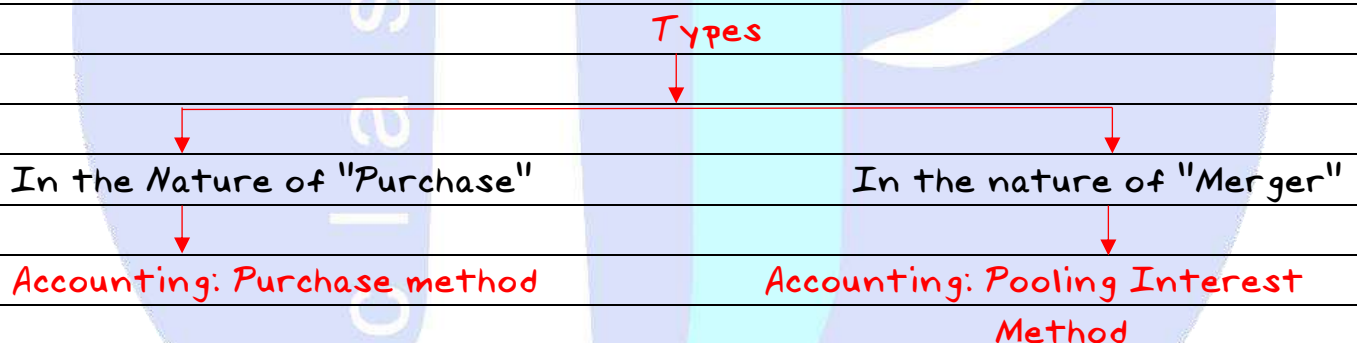
|           | (It will be Liquidated) | (It will continue the business) |
|-----------|-------------------------|---------------------------------|
| Vendor Co | ← X Ltd                 | Y Ltd → Purchasing co           |
|           | (Loss making co)        | (Newly formed co)               |

X Ltd will be transferred to Y ltd. To write off its Losses

"As per the Provisions of AS-14, there will be one new formation & one Liquidation under External Reconst."

Note: Under External Reconst, A Loss making company write off its Losses by transferring its business to newly formed company.

## Concept 2 : Types of Business combination



### Concept 3: Explanation on "Purchase Method"

As per the provisions of AS-14, the following conditions are required to be satisfied under Purchase method:-

Condition I : The Purchasing company will not take over "Share capital, Reserves & Misc. Expenditures" of vendor company because the specified A/c's are related with shareholders of Vendor Company and such claim of Shareholders shall be settled by Purchase Consideration.





Note: It can be said that P.COMPANY can take over only Assets & Liab. Of Vendor co.

Condition II: The Purchasing company will take over Assets & Liabilities of vendor company on "Selection Basis". It means that Purchasing co. is not bound to acquire all the Assets & Liab Of vendor co. Some Assets and Liab may remain Not taken Over.

Note: The Purchasing Co. will Pay only for taken over Items. The Not taken over shall be settled by V.co by itself.

Condition III: The Purchasing Company will take over Assets of Vendor company "at fair value" and Liabilities of vendor company "at Payable value"

$$\begin{array}{|c|c|c|} \hline \text{Net Assets} & = & \text{Fair Value of Assets} - \text{Payable Value of Liab} \\ \hline \text{Acquired} & & \text{taken Over} \quad \text{taken over} \\ \hline \end{array}$$

Condition IV: The Purchasing Company will Recognise "Goodwill or Capital Reserve" for difference between Purchase consideration And Net Assets acquired.

i.) If PC Exceeds N. Assets = Goodwill

ii.) If N. Assets Exceeds PC = Capital Res.

Condition V: The Purchasing Co. will Amortise the Goodwill over a Period Of 5 years on SLM Basis.

\*Part 2\*

Additional Points to be considered:

Unit I : Accounting Entries in the books of Purchasing Company

Step I : On the date of Agreement between Purchasing co. & Vendor Co.



Business Purchase a/c Dr xxxx  
 To Liquidator of vendor co. xxxx  
 (Being Business Purchased)

(Purchase Consideration)

Step II : On the date of Transfer of Assets & Liab. Form vendor co. to Purchasing Company

Assets a/c Dr xxxx (Taken over only: At Fair value)  
 Goodwill a/c Dr xxxx (Bal. fig)  
 To Liabilities xxxx (takeover only : Payable value)  
 To B. purchase xxxx (PC)  
 To Capital Res. xxxx (Bal. fig)  
 (Being Assets & liab of V.co taken over)

Step III : At the time of Payment of PC to Liquidator of V.co

Liquidator of V.co a/c Dr xxxx (PC)  
 To Bank/ Cash xxxx  
 To E.S capital xxxx (Cash or Shares)  
 (Being Payment of PC made)

Unit II : Accounting in the books of Vendor co. \*Imp.

### Realisation A/c

| Particulars                         | Rs.  | Particulars                    | Rs.  |
|-------------------------------------|------|--------------------------------|------|
| To F. Assets → Taken over           | Xxxx | By Loans → Taken over          | Xxxx |
| To Investments → Not taken over     | Xxxx | By C. Liab → Not taken over    | Xxxx |
| To C. Assets → Not taken over       | Xxxx | By Provisions → Not taken over | Xxxx |
| To Bank (NTD: Liab)                 | xxxx | By Bank (NTD: Assets)          | Xxxx |
| To Bank (Liq. Exp.)                 | Xxxx | By Purchasing co (PC)          | xxxx |
| To profit on Realisation (Bal. fig) | Xxxx | By Loss on real. (Bal fig)     | Xxxx |
|                                     | Xxxx |                                | xxxx |



|                                                                                      |      |                    |    |
|--------------------------------------------------------------------------------------|------|--------------------|----|
|                                                                                      | xxxx |                    | x  |
| Cash & Bank A/c                                                                      |      |                    |    |
| Particulars                                                                          | Rs.  | Particulars        |    |
| Bal b/d                                                                              | xxxx | By Realisation a/c | xx |
|                                                                                      |      | (NTO : Liab)       |    |
| Realisation a/c                                                                      |      | By Realisation a/c | xx |
| NTO : Assets )                                                                       | xxxx | (Liq Exp)          |    |
| Purchasing Co. (PC)                                                                  | xxxx | By Equity holders  | xx |
|                                                                                      |      | (Bal fig)          |    |
|                                                                                      | xxxx |                    | xx |
| <u>Steps for Closing the books</u>                                                   |      |                    |    |
| Step I : Transfer <u>E.S Capital A/c</u> & <u>All Reserves</u> to Equity holders A/c |      |                    |    |
| for closing these balances as follows:-                                              |      |                    |    |
| E.S Capital a/c                                                                      | Dr   | xxxx               |    |
| Reserves a/c                                                                         | Dr   | xxxx               |    |
| (S, PL, GR, SP etc.)                                                                 |      |                    |    |
| To Equity Shareholders A/c                                                           |      | xxxx               |    |
| (Closing Capital & Reserves closed)                                                  |      |                    |    |

|                     |      |                    |    |
|---------------------|------|--------------------|----|
| Realisation a/c     |      | By Realisation a/c | xx |
| To : Assets )       | xxxx | (Liq Exp)          |    |
| Purchasing Co. (PC) | xxxx | By Equity holders  | xx |
|                     |      | (Bal fig)          |    |
|                     | xxxx |                    | xx |

Steps for Closing the books

Step I : Transfer E.S Capital A/c & All Reserves to Equity holders A/c for closing these balances as follows:-

|                            |    |      |  |
|----------------------------|----|------|--|
| Capital a/c                | Dr | xxxx |  |
| Reserves a/c               | Dr | xxxx |  |
| ..., PL, GR, SP etc.)      |    |      |  |
| To Equity Shareholders A/c |    | xxxx |  |

(Closing Capital & Reserves closed)

## Steps for Closing the books

Step I: Transfer E.S Capital A/c & All Reserves to Equity holders A/c for closing these balances as follows:-

. Capital a/c Dr xxxx

Dr xxxx

..., PL, GR, SP etc.)

|                            |      |
|----------------------------|------|
| To Equity Shareholders A/c | xxxx |
|----------------------------|------|

ing Capital & Reserves closed)

Step II: Transfer "Misc. Expenditures" to Equity holders A/c because these Assets are Losses which are not saleable in market, but these can be written off only out of R\$S.

uity Shareholders a/c      Dr    xxxx

\* To Misc. Exp. xxxx

ling misc. Exp written off)



\*It can be in the form of

- i.) Discount of issue of Deb.
- ii.) U. Comm
- iii.) Deferred Adv
- iv.) Preliminary Exp etc.

**Step III: Transfer All the Assets (Except C&B), Whether taken over or Not taken over by Purchasing co., to Realisation A/c for Closing the books as follows:-**

|                 |    |      |             |
|-----------------|----|------|-------------|
| Realisation a/c | Dr | xxxx |             |
| To F. Assets    |    | xxxx | Book values |
| To Investments  |    | xxxx |             |
| To C. Assets    |    | xxxx |             |

(Being Assets A/c Closed)

Taken over

Not taken over

**Step IV : Transfer all outside liabilities to Realisation A/c for closing the balances as follows:-**

|                    |    |      |             |
|--------------------|----|------|-------------|
| Loans a/c          | Dr | xxxx | Book values |
| C. Liab a/c        | Dr | xxxx |             |
| Provisions a/c     | Dr | xxxx |             |
| To Realisation A/c |    | xxxx |             |

(Being Liab closed)

**\*Part 3\***

**Step V: Settlement of Not taken over Items :-**

i.) N.T.O Assets : Bank a/c Dr xxxx  
To Realisation A/c xxxx

(Being N.T.O Assets Sold)

ii.) N.T.O Liab : Realisation a/c Dr xxxx  
To Bank xxxx

(Being N.T.O Liab Settled)



### Step VI: Purchase consideration for T.O items on Agreement date

|                        |    |      |      |
|------------------------|----|------|------|
| Purchasing company a/c | Dr | xxxx | → PC |
| To Realisation a/c     |    | xxxx | → PC |

(Being PC made due)

### Step VII: On the date of collection of consideration

|                    |    |      |
|--------------------|----|------|
| Cash a/c           | Dr | xxxx |
| Shares in P.co a/c | Dr | xxxx |
| To Purchasing co.  |    | xxxx |

(Being collection of PC made)

### Step VIII: Transfer of Shares in P.Co to shareholders

|                    |    |      |
|--------------------|----|------|
| Equity Shareholder | Dr | xxxx |
| To Shares in P.co  |    | xxxx |

(Being Shares Transferred)

### Step IX: Payment of liquidation Exp. by vendor Co.

|                 |    |      |
|-----------------|----|------|
| Realisation a/c | Dr | xxxx |
| To Cash         |    | xxxx |

(Being liq. Exp. Paid)

### Unit III: Purchase Consideration \*V.V Imp. (Meaning & Calculation)

### Meaning of Purchase Consideration

As per the Provisions of AS-14, Purchase consideration is the amount which is paid by Purchasing Company to the Liquidator of Vendor Company for its shareholders only. It can be calculated by Different Methods as follows:-

Equity or Preference





I. Net Payment method \*Imp.

II. Net Asset method \*Imp.

III. Intrinsic Value method (we will discuss it in 5<sup>th</sup> or 6<sup>th</sup> Class)

IV Lump sum Method (Not Practical)

### Calculation of PC:

#### Method I : Net payment Method

If payment by P.co to the Shareholders of V.co is clearly mentioned in Question then we will Aggregate all the Payments to find out PC as Follows:-

#### Calculation of PC

|                 |      |
|-----------------|------|
| Payment in cash | xxxx |
|-----------------|------|

|                   |             |
|-------------------|-------------|
| Payment in Shares | <u>xxxx</u> |
|-------------------|-------------|

|                |                |
|----------------|----------------|
| (No. of Shares | x market value |
| To be issued   | Per share)     |

Xxxx → PC

If it is more than N. Assets acquired  
then we will Recognise Goodwill for the Diff.  
(Capital Res. in vice versa situation)

#### Method II: Net Asset Method

If payment of PC is missing or Incomplete in the Given question then we will find out PC by N. Assets Method as follows:-

#### Calculation of PC

|                                 |      |
|---------------------------------|------|
| Fair value of Assets Taken over | xxxx |
|---------------------------------|------|

|                                   |               |
|-----------------------------------|---------------|
| Payable value of Liab. Taken over | <u>(xxxx)</u> |
|-----------------------------------|---------------|

|                             |                  |
|-----------------------------|------------------|
| Value of N. Assets Acquired | <u>xxxx</u> - PC |
|-----------------------------|------------------|





\*There will be no Goodwill/ Capital Res. under Net Asset method because PC has been assumed equal to N. Assets taken over.

### Q.35 Calculation of PC (NPM)

|                                                        |               |
|--------------------------------------------------------|---------------|
| Payment in cash for Equity holders                     | 50,000        |
| Payment in Equity shares for Equity holders (50000x15) | 7,50,000      |
| Payment in Pref. Shares for Pref. holders (2000x100)   | <u>200000</u> |
| PC                                                     | 10,00,000     |

### Journal Entry

|                                      |                     |
|--------------------------------------|---------------------|
| Liquidator of Rena Ltd. Dr 10,00,000 |                     |
| To Cash                              | 50,000              |
| To P.S capital                       | 2,00,000            |
| To E.S capital                       | 5,00,000 (50000x10) |
| To S. Premium                        | 2,50,000 (50000x5)  |

(Being Payment of PC made)

### Unit IV : Special Point to be Considered

#### Case I : If Liquidation Exp. of Vendor Company are Paid by Purchasing Co

#### In the books of Purchasing Company

|                      |      |
|----------------------|------|
| Goodwill a/c Dr xxxx |      |
| To Cash              | xxxx |

(Being Liquidation Exp. of V.W Paid)

Notes : 1. There will be no Entry in the books of V. Co. in the Given case

2. If question remains silent then we will Always assume that

" Vendor Company will pay its Expenses ".

3. If Liquidation Exp. are Shared by P.Co. & V. Co. then both the Companies shall record their respective Share in Expenses in Books of A/c .

Goodwill Dr  
To Cash

Realisation Dr  
To Cash



Case II : If C&B Balance of vendor Co. is also taken over by Purchasing Company \*Imp.

In the Given case, Taken over Amount of C&B Balance will be transferred to Realisation A/c assuming it has been Sold to P. Co.

Note : It can also be said that we will not disclose the taken over Amount in the opening Balance of C&B A/c.

Journal : Realisation a/c Dr xxxx  
                                     To Cash                      xxxx  
                                     (Being Taken over cash balance closed)

Case III: If fair value "for Assets" & Payable value "for Liab." Is not Given in question

In the given case, we will Assume that Book values are equal to fair Value / Payable value. It can be said that P. Co. will take over Assets and Liab. Of V. Company at Book Value in the absence of Fair value For Assets & Payable values for Liab.

Exception

As per AS-26, Intangible Assets of Vendor Company cannot be recognised in the books of P. Co. at Book Value. It means that I. Assets shall be assumed Valueless in the absence of fair value.

\*Part 4\*

Case IV: If taken over Items are not clearly mentioned in the Question

In the Given case, We will Assume that Purchasing company will take Over \*All Assets (including cash) and All Outside Liab of Vendor Company.



\*Intangible Assets of V.co shall be taken over only if fair value is available otherwise these Assets shall be assumed Valueless.

Q.10 \*Imp.

Calculation of PC (NAM) → Payment in Cash

|                                    |                  |
|------------------------------------|------------------|
| Goodwill                           | 75,000           |
| Freehold Property (150,000 x 90%)  | 135,000          |
| P&M (83,000 x 90%)                 | 74,700           |
| Stock (35,000 x 90%)               | 31,500           |
| B/R (4500 x 90%)                   | 4050             |
| Debtors (27,500 x 90%)             | 24,750           |
| Debentures                         | <u>(100,000)</u> |
| <b>PC/ N. Assets</b>               | <b>245,000</b>   |
| i.) Payment in shares (1500 x 110) | <u>(165,000)</u> |
| ii.) Payment in Cash (Bal. fig)    | <u>80,000</u>    |

In the books of Indo Gulf limited

Realisation A/c

|                          |                |                        |                |
|--------------------------|----------------|------------------------|----------------|
| To F. Property           | 150,000        | By Debentures          | 100,000        |
| To P&M                   | 83,000         | By Creditors           | 30,000         |
| To Goodwill              | 50,000         | By Continental         |                |
| To Stock                 | 35,000         | Limited (PC)           | 245,000        |
| To Debtors               | 27,500         | By Loss on Realisation | 8000           |
| To B/R                   | 4050           | (Bal. fig)             |                |
| To Cash (NTD : Creditors | 30,000         |                        |                |
| To Cash (Liq. Exp)       | 3000           |                        |                |
|                          |                |                        |                |
|                          | <u>383,000</u> |                        | <u>383,000</u> |

Equity holders

|                          |                |                     |                |
|--------------------------|----------------|---------------------|----------------|
| To Shares in Continental |                | By E.S. Capital A/c | 200,000        |
| Limited                  | 165000         | By Reserves         | 50,000         |
| To Loss on realisation   | 8000           | By P&L              | 20,000         |
| To Cash (Refer C&B A/c)  | 97000          |                     |                |
|                          | <u>270,000</u> |                     | <u>270,000</u> |



Cash & Bank A/c

|                         |                |                    |                |
|-------------------------|----------------|--------------------|----------------|
| To Bal b/d              | 50,000         | By Realisation A/c | 30,000         |
| To Continental Ltd (PC) | 80,000         | (CrS)              |                |
|                         |                | By Realisation A/c | 3000           |
|                         |                | (Exp)              |                |
|                         |                | By Equity holders  | 97000          |
|                         |                | (Bal fig)          |                |
|                         | <u>130,000</u> |                    | <u>130,000</u> |

In the books of continental Ltd.

1. Business Purchase a/c Dr 245,000  
     To Liquidator of Indo - gulf 245,000  
 (Being Business Purchased)

2. Goodwill a/c Dr 75000  
 Freehold Property a/c Dr 135,000  
 P&M a/c Dr 74,700  
 Stock a/c Dr 31,500  
 Debtors a/c Dr 24,750  
 BR a/c Dr 4050  
     To Debentures 100,000  
     To B. Purchase 245,000  
 (Being Assets & Liab of Indo-Gulf taken over)

3. Liquidator of Indo- Gulf a/c Dr 245,000  
     To Cash 80,000  
     To E.S. Capital 150,000 (1500 x 100)  
     To S. Premium 15,000 (1500 x 10)  
 (Being Payment of PC Made)

Note on Payment of Taken over Liabilities

If it is specified in the question that Purchasing company is required to Pay/ discharge the taken over Liabilities then we will Pass an additional Entry in the books of P.co for such Payment as follows:-



|                          |    |      |
|--------------------------|----|------|
| Journal: Liabilities a/c | Dr | xxxx |
| To Bank                  |    | xxxx |

Q.12

Calculation of PC (NPM)

|                                         |                  |
|-----------------------------------------|------------------|
| Payment in cash                         | 300,000          |
| Payment in Shares (400,000 Shares x 10) | <u>40,00,000</u> |
| PC                                      | <u>43,00,000</u> |

In the books of Pranav Ltd.Realisation A/c

|             |                |                  |                |
|-------------|----------------|------------------|----------------|
| To L&B      | 3568200        | By Debentures    | 1000000        |
| To Goodwill | 500000         | By Creditors     | 436200         |
| To Debtors  | 398400         | By Bod           | 200000         |
| To Stock    | 785200         | By Divya limited | 4300000        |
| To P&M      | 1643900        | (PC)             |                |
|             |                | By Loss on Real. | 959500         |
|             |                | (Bal. fig)       |                |
|             | <u>6895700</u> |                  | <u>6895700</u> |

Equity holders A/c

|                         |                |                |                |
|-------------------------|----------------|----------------|----------------|
| To Unpaid Calls         | 10000          | By E.S Capital | 5000000        |
| To Shares in Divya Ltd. | 4000000        | By P&L A/c     | 269500         |
| To Loss on Realisation  | 959500         |                |                |
| To Cash (Refer C&B A/c) | 300000         |                |                |
|                         | <u>5269500</u> |                | <u>5269500</u> |

Cash & Bank A/c

|                    |               |                       |               |
|--------------------|---------------|-----------------------|---------------|
| To Divya Ltd. (PC) | 300000        | By Equity Shareholder | 300000        |
|                    |               | A/c (Bal. fig)        |               |
|                    | <u>300000</u> |                       | <u>300000</u> |





In the books of Divya Limited

Journal Entries (Not required in question)

i.) Business Purchase a/c Dr 43,00,000  
     To Liquidator of Pranav Ltd 43,00,000  
 (Being Business Purchased)

ii.) L&B a/c Dr 35,68,200  
     P&M a/c Dr 16,43,900  
     Stock a/c Dr 785,200  
     Debtors a/c Dr 358,400 (fair value)  
         To Debentures 10,00,000  
         To Creditors 436,200  
         To BOD 200,000  
         To B. Purchase 43,00,000 (PC)  
         To Cap. Reserve 419,500 (Bal. fig)  
 (Being Assets & Liab of Pranav taken over)

\*Fair value of Goodwill is not Given due to which we have not taken the Goodwill of Pranav.

iii.) Liquidator of Pranav Ltd a/c Dr 43,00,000  
     To Cash 300,000  
     To E.S Capital 40,00,000  
 (Being Payment of PC Made)

iv) Goodwill a/c Dr 140,000  
     To Bank 140,000  
 (Being liquidation Exp. of Pranav Ltd Paid)

v) Debentures a/c Dr 10,00,000  
     Creditors a/c Dr 436,200  
     BOD a/c Dr 200,000  
     To Bank 16,36,200  
 (Being Liab. Of Pranav Paid off)





vi) Capital Res. a/c      Dr 140,000  
                                     To Goodwill                                      140,000  
                                     (Being GW & Cap. Res adjusted)

Note: Whenever there is GW and Capital Res (both) at the time of Amalgamation in the books of P. Co. then we will adjust these two balances against each other to find out Net Figure.

### Balance sheet of Divya Limited

#### (after absorption)

|                                             | Notes | Rs.             |
|---------------------------------------------|-------|-----------------|
| <b>Equity &amp; Liabilities</b>             |       |                 |
| <b>A. Shareholders Fund:-</b>               |       |                 |
| Share Capital                               | 1     | 18950000        |
| Reserves                                    | 2     | 1268000         |
| <b>B Non-Current Liabilities</b>            |       |                 |
| Debentures                                  | -     | 5000000         |
| <b>C Current Liabilities</b>                |       |                 |
| Short Term Borrowings                       | 3     | 392000          |
| Trade Payables                              | -     | <u>834200</u>   |
| <b>Total A</b>                              |       | <u>26444200</u> |
| <b>Assets :</b>                             |       |                 |
| <b>D. Non-Current Assets:-</b>              |       |                 |
| PPE                                         | 4     | 19421900        |
| I. Assets (GW)                              | -     | 3000000         |
| <b>E. Current Assets:</b>                   |       |                 |
| Inventory (1792600 + 785200)                | 5     | 2577800         |
| Trade Receivable (724000 + 362100 + 358400) | 6     | <u>1444500</u>  |
|                                             |       | <u>26444200</u> |



Notes to A/cs :-1. Share Capital :-

|                                |                   |
|--------------------------------|-------------------|
| Issued Capital (Trial Balance) | 150,00,000        |
| Capital Issued in P.C          | 40,00,000         |
| Call in Arrear                 | <u>(50,000)</u>   |
| Paid up Capital                | <u>189,50,000</u> |

2. Reserves

|                                   |               |
|-----------------------------------|---------------|
| Profit & Loss balance             | 988500        |
| Capital Reserve (419500 - 140000) | <u>279500</u> |
|                                   | 1268000       |

3. STB (Bank Overdraft) :-

|                                 |                                     |
|---------------------------------|-------------------------------------|
| C & B Balance before Absorption | 1684200                             |
| Payments : i) PC                | 300,000                             |
| ii) Liq Exp                     | 140,000                             |
| iii) Liab of V.co               | <u>16,36,200</u> <u>(20,76,200)</u> |
| B.od                            | 392,000                             |

4. PPE

|                          | <u>L&amp;B</u> | <u>P&amp;M</u> | <u>Total</u>   |
|--------------------------|----------------|----------------|----------------|
| Balances (Trial Balance) | 10333000       | 3876800        | 14209800       |
| Taken over from Pranav   | <u>3568200</u> | <u>1643900</u> | <u>5212100</u> |
|                          | 13901200       | 5520700        | 19421900       |

\*Part 5\*

Case V : If Vendor Company has " Preference Share Capital" in its B/S At the time of Business Combination \*Imp.

In the Given case, Vendor company will have to Prepare "Preference Shareholders A/c" Separately. The difference between face value of PSC and Payment of PC to Pref. Holders will be considered as Profit/Loss on Redemption and It will be transferred to "Realisation A/c". The



Following format may be considered :-

Pref. holders A/c

|                         |      |                      |      |
|-------------------------|------|----------------------|------|
| To PC : Cash            | Xxxx | By P.S. Capital      | xxxx |
| Share                   | Xxxx |                      |      |
| To Real. A/c (Bal. fig) | Xxxx | By Real. A/c         | xxxx |
| (Profit on Redemption)  |      | (Loss on Redemption) |      |
|                         |      | (Bal. Fig)           |      |

Q. 9 : \*Imp.

Calculation of PC

Payment to Pref. holders :-

i) In Cash ( 4000 Shares x Rs. 10)      40,000

/

ii) In Shares ( 4000 Shares x 1 x Rs. 100)      4,00,000

/

Payment to Equity holders

i) In Cash ( 8000 Shares x Rs. 20)      1,60,000

/

ii) In Shares ( 8000 Shares x 1 x 140)      11,20,000

/

PC      17,20,000



In the books of Z Ltd (V. Co)

Realisation A/c

| <u>Particulars</u>      | <u>Rs.</u>      | <u>Particulars</u> | <u>Rs.</u>     |
|-------------------------|-----------------|--------------------|----------------|
| To Goodwill             | 200000          | By Debentures      | 200000         |
| To L&B                  | 400000          | By o/s Interest    | 12000          |
| To P&M                  | 600000          | By Creditors       | 120000         |
| To Patents              | 50000           | By W.C Liab        | 5000           |
| To Stock                | 150000          | (Provision)        |                |
| To Debtors              | 180000          | By Wye Ltd (PC)    | 1720000        |
| To Cash (NTO : Int)     | 12000           |                    |                |
| To Pref. holders (Loss) | 40000           |                    |                |
| To Cash (Liq. Exp.)     | 2500            |                    |                |
| (Paid by Z Ltd.)        |                 |                    |                |
| To Profit on Real.      | <u>4,22,500</u> |                    |                |
| (Bal .fig)              | <u>2057000</u>  |                    | <u>2057000</u> |

Equity Shareholders A/c

| <u>Particulars</u>        | <u>Rs.</u>       | <u>Particulars</u> | <u>Rs.</u>       |
|---------------------------|------------------|--------------------|------------------|
| To U. Commission          | 40000            | By E.S Capital     | 800000           |
| To Shares in wye Ltd (PC) | 1120000          | By Cap Res         | 100000           |
| To Cash (Refer (£B)       | 2,15,500         | By P&L             | 50000            |
|                           |                  | By W.C Reserve A/c | 3000             |
|                           |                  | (8000 - 5000)      |                  |
|                           |                  | By Profit on       | 4,22,500         |
|                           |                  | Realisation        |                  |
|                           | <u>13,75,000</u> |                    | <u>13,75,500</u> |

Pref. Holders A/c

| <u>Particulars</u>        | <u>Rs.</u>    | <u>Particulars</u>     | <u>Rs.</u>    |
|---------------------------|---------------|------------------------|---------------|
| To Shares in wye Ltd (PC) | 400000        | By P.S Capital         | 400000        |
| To Cash (PC)              | 40000         | By Real. A/c (Bal fig) | 40000         |
|                           |               | (Loss on Red.)         |               |
|                           | <u>440000</u> |                        | <u>440000</u> |



| <u>Cash &amp; Bank A/c</u>                    |               |                    |            |
|-----------------------------------------------|---------------|--------------------|------------|
| <u>Particulars</u>                            | <u>Rs.</u>    | <u>Particulars</u> | <u>Rs.</u> |
| To Bal b/d                                    | 70000         | By Real. A/c       | 12000      |
| To Wye Ltd (PC)                               | 200000        | (NTD : o/s Int)    |            |
|                                               |               | By Pref. holders   | 40000      |
|                                               |               | (PC)               |            |
|                                               |               | By Real. A/c (liq. | 2500       |
|                                               |               | Exp.)              |            |
|                                               |               | By Equity A/c      | 215500     |
|                                               |               | (Bal. fig)         | 270000     |
|                                               | <u>270000</u> |                    |            |
| <u>In the books of wye Ltd.</u>               |               |                    |            |
| <u>Journal Entries</u>                        |               |                    |            |
| (i) Business Purchase a/c Dr 17,20,000        |               |                    |            |
| To liquidator of L Ltd. 17,20,000             |               |                    |            |
| (Being Business Purchased)                    |               |                    |            |
| (ii) L&B a/c Dr 550,000                       |               |                    |            |
| P&M a/c Dr 650,000                            |               |                    |            |
| Patents a/c Dr 20,000                         |               |                    |            |
| Stock a/c Dr 150,000                          |               |                    |            |
| Debtors a/c Dr 180,000                        |               |                    |            |
| Goodwill a/c Dr 505,000 (Bal fig)             |               |                    |            |
| To Creditors 120,000                          |               |                    |            |
| To W.C Liab 5000                              |               |                    |            |
| To Liab of Debentures 210,000 (Payable Value) |               |                    |            |
| To B. Purchase 17,20,000                      |               |                    |            |
| (Being Assets & Liab of Z Ltd taken Over)     |               |                    |            |
| iii) Liquidator of Z Ltd a/c Dr 17,20,000     |               |                    |            |
| To Cash 200,000                               |               |                    |            |
| To P.S Capital 400,000 (4000 x 100)           |               |                    |            |
| To E.S Capital 800,000 (8000 x 100)           |               |                    |            |
| To S. Premium 320,000 (8000 x 40)             |               |                    |            |
| (Being Payment of PC Made)                    |               |                    |            |



iv) Goodwill a/c      Dr   10,000  
       To Cash                              10,000

(Being Liq. Exp Paid)

v) Liab. Of Debentures a/c   Dr   210,000  
       To 7% Debentures                      200,000 (2000 x 100)  
       To S. Premium                              10,000 (2000 x 5)

(Being Liab of Debentures Setteled)

Q.8 \*Imp.

Note: We cannot Apply Net Payment method in the Given question because No. of Equity Shares to be issued by Purchasing Company is not Specified. We cannot assume 1:1 Ratio. We can Assume Payment of P.S holders of V.co at Par because P.S holders do not have any right on R&S, but we can not assume Payment to Equity Holders at face value. (Payment to Equity holders)

### Calculation of PC (NAM)

|                               |                  |
|-------------------------------|------------------|
| Goodwill                      | 50,000           |
| L&B                           | 150,000          |
| P&M                           | 160,000          |
| Stock (175,000 – 10%)         | 157,500          |
| Debtors (100,000 – 7.5%)      | 92,500           |
| Cash                          | 20,000           |
| R.G fund                      | (20,000)         |
| Creditors                     | <u>(80,000)</u>  |
| Purchase Consideration        | 530,000          |
| i) Payment to Pref. holders   | <u>(100,000)</u> |
| ii) Payment to Equity holders | 430,000          |

No. of Shares =  $\frac{430,000}{10.50} = 40952$  Shares





In the books of Vayu Ltd.

Realisation A/c

| <u>Particulars</u> | <u>Rs.</u>     | <u>Particulars</u> | <u>Rs.</u>     |
|--------------------|----------------|--------------------|----------------|
| To Goodwill        | 25,000         | By R.G fund        | 20,000         |
| To L&B             | 150,000        | By Creditors       | 80,000         |
| To P&M             | 100,000        | By Hari Ltd (PC)   | 530,000        |
| To Stock           | 175,000        |                    |                |
| To Debtors         | 100,000        |                    |                |
| To Cash (T Over)   | 20,000         |                    |                |
| To Profit on Real. | 60,000         |                    |                |
| (Bal fig)          |                |                    |                |
|                    | <u>630,000</u> |                    | <u>630,000</u> |

Pref. holders A/c

|                       |         |                |         |
|-----------------------|---------|----------------|---------|
| To Shares in Hari Ltd | 100,000 | By P.S Capital | 100,000 |
|                       |         |                |         |

Equity holders A/c

|                            |                |                   |                |
|----------------------------|----------------|-------------------|----------------|
| To Misc Exp.               | 10,000         | By ESC            | 300,000        |
| To Shares in Hari Ltd (PC) | 430,000        | By G. Res         | 80,000         |
|                            |                | By Profit on Real | 60,000         |
|                            | <u>440,000</u> |                   | <u>440,000</u> |
|                            |                |                   |                |

In the books Hari Ltd.

1. Business Purchase a/c      Dr    530,000  
     To Liquidator of Vayu                      530,000  
     (Being B. Purchased)



|               |    |         |
|---------------|----|---------|
| 2. GW a/c     | Dr | 50,000  |
| C&B a/c       | Dr | 150,000 |
| P&M a/c       | Dr | 160,000 |
| Stock a/c     | Dr | 157,500 |
| Debtors a/c   | Dr | 92,500  |
| Cash a/c      | Dr | 20,000  |
| To R.G fund   |    | 20,000  |
| To Creditors  |    | 80,000  |
| To B Purchase |    | 530,000 |

|                   |    |                      |
|-------------------|----|----------------------|
| 3. Liquidator a/c | Dr | 530,000              |
| To 9% P.S Cap     |    | 100,000              |
| To ESC            |    | 409,520 (40952 x 10) |
| To SP             |    | 20,476 (40952 x .5)  |
| To Cash           |    | 4 (Bal fig)          |

### Case VI: Settlement of Fractional Shares (ODD Lots)

As per the Provisions of AS-14, Payment for fractional Shares will be Settled in cash by the Purchasing company.

*\*Fractional Shares are the "ODD Lots" as per the multiples of Shares which has been decided by P.Co while making Payment of PC.*

[for better Understanding, Refer Q.13]

Q.13 *\*Imp.*

Statement Showing calculation of fractional Shares

| Shareholders | Total Shares | Multiple of 5 | Fractional Shares |
|--------------|--------------|---------------|-------------------|
| Chopra       | 116          | 115           | 1                 |
| Karki        | 76           | 75            | 1                 |
| Amar Singh   | 72           | 70            | 2                 |
| Malhotra     | 28           | 25            | 3                 |
| Others       | 8            | -             | <u>8</u>          |
|              |              | Total         | <u><u>15</u></u>  |



i) Multiple of 5 Shares = 80,000 Shares – 15 Shares = 79,985

ii) Fractional Shares = 15 Shares

### Calculation of PC

#### Payment for Multiple of 5 Shares :-

|                                      |         |
|--------------------------------------|---------|
| i) Cash (79,985 x 5)                 | 399,925 |
| ii) Equity Shares (79985/5 x 2 x 15) | 479,910 |
| iii) Pref. Shares (79985/5 x 1 x 10) | 159,970 |

#### Payment for fractional Shares

|                |                  |
|----------------|------------------|
| (Rs.65/5 x 15) | <u>195</u>       |
| PC             | <u>10,40,000</u> |

Q.19 H.w

Q.16 \*V.V Imp.

### Calculation of PC

|                             | <u>North Ltd.</u> | <u>South Ltd.</u> | <u>West Ltd.</u> |
|-----------------------------|-------------------|-------------------|------------------|
| A. Payment in Debentures    | 500,000           | 630,000           | 370,000          |
| Equal to N. Assets (W.N #1) |                   |                   |                  |
| B. Payment in Shares        | <u>330,000</u>    | <u>570,000</u>    | <u>90,000</u>    |
| (W.N #2)                    |                   |                   |                  |
| PC                          | <u>830,000</u>    | <u>12,00,000</u>  | <u>460,000</u>   |

#### W.N #1 Calculation of N. Assets

|                    | <u>North Ltd.</u> | <u>South Ltd.</u> | <u>West Ltd.</u> |
|--------------------|-------------------|-------------------|------------------|
| Tangible F. Assets | 620,000           | 480,000           | 360,000          |
| Other Assets       | 30,000            | 280,000           | 85,000           |
| Trade Payables     | (80,000)          | (130,000)         | (35,000)         |
| Debentures         | <u>(70,000)</u>   | <u>-</u>          | <u>(40,000)</u>  |
| N. Assets          | <u>500,000</u>    | <u>630,000</u>    | <u>370,000</u>   |



W.N # 2 Calculation of Payment in Shares

|                                                    | <u>North Ltd.</u> | <u>South Ltd.</u> | <u>West Ltd.</u> |
|----------------------------------------------------|-------------------|-------------------|------------------|
| Average Profit before Interest                     | 90,000            | 120,000           | 50,000           |
| Interest on Deb                                    | <u>(7000)</u>     | -                 | <u>(4000)</u>    |
| Profit after Interest                              | 83,000            | 120,000           | 46,000           |
| Capitalised value of Profits<br>(Profits/10 x 100) | 830,000           | 12,00,000         | 460,000          |
| Net Assets                                         | <u>(500,000)</u>  | <u>(630,000)</u>  | <u>(370,000)</u> |
| Excess                                             | <u>330,000</u>    | <u>570,000</u>    | <u>90,000</u>    |

\*Part 6\*Q.11 \*V.V Imp.Calculation of PC

|                                       |                  |
|---------------------------------------|------------------|
| Payment in Cash (60,000 Shares x 2.5) | 1,50,000         |
| Payment in Shares (90,000 x 15)       | <u>13,50,000</u> |
| PC                                    | <u>15,00,000</u> |

In the books Y Ltd.Realisation A/c

| <u>Particular</u>        | <u>Rs.</u>       | <u>Particular</u> | <u>Rs.</u>       |
|--------------------------|------------------|-------------------|------------------|
| To Goodwill              | 1,00,000         | By Creditors      | 20,000           |
| To PPE                   | 6,40,000         | By Debentures     | 1,00,000         |
| To Stock                 | 1,68,000         | By X Ltd. (PC)    | 15,00,000        |
| To Debtors               | 36,000           |                   |                  |
| To Cash (Taken over)     | 56,000           |                   |                  |
| To Profit on Realisation | 6,20,000         |                   |                  |
| (Bal. fig)               | <u>16,20,000</u> |                   | <u>16,20,000</u> |



Equity holders A/c

| <u>Particular</u>            | <u>Rs.</u>       | <u>Particular</u>        | <u>Rs.</u>       |
|------------------------------|------------------|--------------------------|------------------|
| To Shares in X Ltd. (PC)     | 13,50,000        | By E.S. capital          | 6,00,000         |
| To Cash (PC) (Refer C&B A/c) | 1,50,000         | By G. Reserve            | 1,70,000         |
|                              |                  | By P&L                   | 1,10,000         |
|                              |                  | By Profit on Realisation | 6,20,000         |
|                              | <u>15,00,000</u> |                          | <u>15,00,000</u> |

C&B A/c

| <u>Particular</u> | <u>Rs.</u>    | <u>Particular</u>                | <u>Rs.</u>    |
|-------------------|---------------|----------------------------------|---------------|
| To X Ltd. (PC)    | 1,50,000      | By Equity holders A/c (Bal. fig) | 1,50,000      |
|                   | <u>150000</u> |                                  | <u>150000</u> |

In Books of X Ltd.Journal Entries

(1) Business Purchase a/c Dr 15,00,000  
 To Liquidator of Y Ltd. 15,00,000  
 (Being Business Purchased)

(2) PPE a/c Dr 12,00,000  
 Stock a/c Dr 1,42,000  
 Debtors a/c Dr 34200 (36000-5%)  
 Cash a/c Dr 56000 (T. over)  
 GW a/c Dr 207800 (Bal. fig)

\*Debentures of Y Ltd (V.co)  
 are to be discharged at  
 premium of 20%

To creditors 20,000

To Liab. For Deb. \*1,20,000 (1,00,000 + 20%)  
 Of Y Ltd.

To B. Purchase 15,00,000

(Being Assets & Liab. Of Y Ltd. Taken over)



(3) Liquidator of Y Ltd Dr 15,00,000

To Cash 1,50,000

To E.S.C (90,000x10) 9,00,000

To SP (90,000x5) 4,50,000

(Being Payment of PC made)

(4) Goodwill a/c Dr 5000

To Bank 5000

(Being Liab. Exp. of Y Ltd. Paid)

(5) Liability for Deb. Of Y Ltd. Dr 1,20,000

Discount on Issue Dr 5000 (Bal. fig)  $\left[ \frac{120000}{96} = 1250 \text{ Deb} \right]$   
 To 5% Debentures 125000  $\left[ 1250 \times 100 = 125000 \right]$

(Being Liab. Of Deb. Settled by issue of new Debentures)

\*Value Per Debenture of X Ltd. is less than its face value due to which more Debentures are required to be issued to Settle the liability.

Q. 14 \*V.V.Imp (20 Marks)

Calculation of Purchase Consideration

|                                                |                      |
|------------------------------------------------|----------------------|
| I Payment to Pref. holders of P Ltd. (W.N#1)   | Rs. 5,50,000         |
| II Payment to Equity holders Of P Ltd. (W.N#2) | <u>Rs. 42,00,000</u> |
| PC                                             | <u>Rs. 47,50,000</u> |

W.N#1 Payment to Pref. Shareholders of P Ltd.

Existing Pref. Dividend in P Ltd. 40,000

(Income of Pref. holders in V.W)

Increase in Income to be made by 10% 4,000

Future Income to be Maintained 44,000

% of Dividend in R Ltd. (P.Co) 8%

Pref. Shares to be issued to maintain Rs. 5,50,000

Future Income (44000/ 8%)





## W.N#2 Calculation of PC for Equity holders

### I Calculation of EPS for P Ltd.

|                                                    |                       |
|----------------------------------------------------|-----------------------|
| Profit before Tax                                  | Rs. 4,80,000          |
| Taxation                                           | <u>(Rs. 2,00,000)</u> |
| Net Profit                                         | Rs. 2,80,000          |
| Pref. Dividend                                     | <u>(Rs. 40,000)</u>   |
| (EAE) Earning Available for<br>Equity Shareholders | Rs. 240,000           |
| No of Shares in P Ltd<br>(12,00,000/10)            | 120,000               |
| Earning Per Share                                  | 2                     |

### II Calculation of P/E Ratio for R Ltd

$$\text{P/E Ratio} = \frac{\text{Market Price Per share}}{\text{*EPS}} = \frac{40}{2.5} = 16$$

#### a) \*EPS for R Ltd:-

|                                         |                  |
|-----------------------------------------|------------------|
| Profit before Tax                       | 10,64,000        |
| Taxation                                | <u>(400,000)</u> |
| Net Profit                              | 664,000          |
| Pref. Dividend                          | <u>(64,000)</u>  |
| Earning Available for Equity holders    | 600,000          |
| No of Shares in R Ltd<br>(24,00,000/10) | 240,000          |
| EPS                                     | 2.5              |

$$\begin{aligned} \text{III Value Per Share for P Ltd.} &= \text{EPS of (P Ltd)} \times \text{P/E Ratio (R Ltd)} \times 75\% \\ &= 2 \times 16 \times 75\% \\ &= 24 \end{aligned}$$

#### \*Refer Notes on Special Case VII

$$\text{IV Swap Ratio/ Exchange Ratio} = \frac{\text{Value Per Share (V.co)}}{\text{Value Per Share (P. Co)}} = \frac{24}{40} = 0.6$$



**Comment:** On the basis of Swap Ratio, P. Co will issue .6 Share for each Share in V.Co

V No of Shares to be issued by R to P:-

No of Shares to be issued =  $\frac{.6}{1} \times 120,000 = 72,000$  Shares in R Ltd

By R Ltd.

Value of Shares to be issued =  $72,000 \times 40 = 28,80,000$

By R Ltd.

VI Payment in Pref. Shares to Cover up Losses in Dividends:-

a) Existing Dividend Per Equity Share in R Ltd. 1.20

(Rs.288,000/ 240,000 Shares)

b) Expected Dividend on New Issue 86400

(72000 x 1.20)

c) Loss in Income of Equity holders of P Ltd after 105600

Exchange of Shares with R Ltd.

(192,000 – 86,400)

Existing Expected dividend  
Income in P in R Ltd

Payment in Pref Shares =  $\frac{105600}{8\%} = \text{Rs.}13,20,000$

8%

Total PC =  $28,80,000 + 13,20,000 = 42,00,000$

(V + VI)

In the Books of R Ltd

Journal Entries

i) Business Purchase a/c Dr 47,50,000  
To Liquidator of P Ltd 47,50,000  
(Being Business Purchased)



|                                  |                |                   |                |
|----------------------------------|----------------|-------------------|----------------|
| ii) Fixed Assets a/c             | Dr             | 28,00,000         |                |
| C. Assets a/c                    | Dr             | 21,00,000         |                |
| Goodwill a/c                     | Dr             | 810,000 (Bal fig) |                |
| To C. Liab                       |                | 960,000           |                |
| To B. Purchase                   |                | 47,50,000         |                |
| (Being Assets & Liab taken over) |                |                   |                |
| iii) Liquidator of P Ltd a/c     | Dr             | 47,50,000         |                |
| To 8% P.S Capital                |                | 18,70,000         |                |
| (550,000 + 13,20,000)            |                |                   |                |
| To E.S Capital (72,000 x 10)     |                | 720,000           |                |
| To S. Premium (72,000 x 30)      |                | 21,60,000         |                |
| (Being Payment of PC made)       |                |                   |                |
| <u>In the books of P Ltd</u>     |                |                   |                |
| <u>Realisation A/c</u>           |                |                   |                |
| To F. Assets                     | 2700000        | By C. Liab        | 1000000        |
| To C. Assets                     | 2300000        | By R ltd (PC)     | 4750000        |
| To Pref. holders (Loss)          | 150000         |                   |                |
| To Profit on Real                | 600000         |                   |                |
| (Bal fig)                        |                |                   |                |
|                                  | <u>5750000</u> |                   | <u>5750000</u> |
| <u>Pref holders a/c</u>          |                |                   |                |
| To Pref. Shares in               |                | By P. S Cap       | 400000         |
| R ltd                            | 550000         |                   |                |
|                                  |                | By Real A/c (Bal) | 150000         |
| <u>Equity holders A/c</u>        |                |                   |                |
| To Equity Shares in R            | 2880000        | By E.S Cap        | 1200000        |
| To Pref. Shares in R             | 1320000        | By Reserves       | 2400000        |
|                                  |                | By Profit on Real | 600000         |
|                                  | <u>4200000</u> |                   | <u>4200000</u> |



\*Part 7\*Case VII : Calculation of PC on the basis of Swap Ratio/ Exchange Ratio

The calculation of Swap ratio/ Exchange Ratio is done to find out the Number of Shares which are required to be issued by P. Co to V. Co in PC.

The following steps are followed to find out PC by using Swap ratio:-

Step I : Calculate Exchange ratio

$$\text{Swap Ratio} = \frac{\text{Value Per share (V.co)}}{\text{Value Per Share (P.co)}}$$

Step II: Calculate No. of Shares to be issued by P.co

$$\text{No of Shares to be issued} = \text{No of Equity Shares in V. Co} \times \text{Swap ratio}$$

$$\text{Step III: PC} = \text{No of Shares to be Issued} \times \text{Value Per Share (P. Co)} \\ \text{By P. Co (Step II)}$$

Hint for Application of Swap ratio in Question:-

Whenever Value Per Share for Both companies is given [or] is required to be computed then It will be considered as a Hint for Exchange Ratio.

Case VIII: Intrinsic Value Method (Unlisted Companies) \*V.V.Imp

If Purchasing Company is an Unlisted Company and It does not know its Issue Price then **Payment of PC cannot be made until value Per Share for P. Co is calculated.** The following formula may be applied to find out I.V Per share :-

$$\text{Intrinsic Value} = \frac{\text{Assets (Fair value)} - \text{Liab (Payable value)} - \text{PSC (if any)}}{\text{No of Equity Shares in P. Co}}$$



Additional Points:-

1. If fair value for Assets & Payable value for Liabilities is not Given for Purchasing Co. then we will consider Book value of Assets & Liab for I.V Per Share.
  - Intangibles shall be considered Valueless in absence of fair value
2. The Given values for Assets & liab of P. co shall not be incorporated in B/s of P.co, but the Given values shall be considered for Intrinsic Value only.
3. The concept of Intrinsic Value is relevant in case of absorption only.
  - \*In Amalgamation, I.V cannot be Computed for a newly formed Company.
4. The calculation of PC will always be made by Net Assets method whenever calculation of I.V is required.

Q.23 \*Imp (conceptual Question on I.V)I Calculation of PC (B. Co) (NAM)

|                                 |                    |
|---------------------------------|--------------------|
| F. Assets (83,00,000 – 400,000) | 79,00,000          |
| C. Assets                       | 69,00,000          |
| Investments                     | 17,00,000          |
| U. Loans                        | (22,00,000)        |
| Creditors                       | (42,00,000)        |
| Prov for Tax                    | <u>(11,00,000)</u> |
| N. Assets/PC                    | <u>90,00,000</u>   |

II Calculation of Intrinsic Value Per (Beeson Ltd)

|               |                    |
|---------------|--------------------|
| C. Assets     | 168,00,000         |
| F. Assets     | 160,00,000         |
| Secured Loans | (40,00,000)        |
| Creditors     | (46,00,000)        |
| Tax Liab      | (52,00,000)        |
| Dividend Liab | <u>(10,00,000)</u> |
| N. Assets     | 180,00,000         |



No. of Equity Shares 800,000

(Rs.80,00,000/10)

IV Per share 22.50

Or

N. Assets Per share

Or

Balance Sheet value Per share

### Calculation of No. of Share to be issued in settlement of PC

|                               |                |
|-------------------------------|----------------|
| Purchase consideration (V.co) | 90,00,000      |
| Value Per Share               | 22.50          |
| No. of Shares to be Issued    | 400,000 Shares |

### In the books of B Co Ltd.

#### Realisation A/c

|              |                 |                    |                 |
|--------------|-----------------|--------------------|-----------------|
| To F. Assets | 8300000         | By U. Loan         | 2200000         |
| To C. Assets | 6900000         | By Creditors       | 4200000         |
| To Invest    | 1700000         | By Tax Liab        | 1100000         |
| To GW        | 200000          | By Beeson Ltd (PC) | 9000000         |
|              |                 | By Loss on Real    | 600000          |
|              |                 | (Bal fig)          |                 |
|              | <u>17100000</u> |                    | <u>17100000</u> |

#### Shareholders

|                     |                |            |                |
|---------------------|----------------|------------|----------------|
| To Loss on Real     | 600000         | By S. Cap  | 5000000        |
| To Shares in Beeson | 9000000        | By Cap res | 1000000        |
|                     |                | By G. Res  | 3600000        |
|                     | <u>9600000</u> |            | <u>9600000</u> |





In the books of Beeson Ltd

|                         |    |           |           |
|-------------------------|----|-----------|-----------|
| 1 Business Purchase a/c | Dr | 90,00,000 |           |
| To Liquidator           |    |           | 90,00,000 |

|                    |    |           |           |
|--------------------|----|-----------|-----------|
| 2 Fixed Assets a/c | Dr | 79,00,000 |           |
| C. Assets a/c      | Dr | 69,00,000 |           |
| Investment a/c     | Dr | 17,00,000 |           |
| To U Loans         |    |           | 22,00,000 |
| To Creditors       |    |           | 42,00,000 |
| To Tax Liab        |    |           | 11,00,000 |
| To B. Purchase     |    |           | 90,00,000 |

|                                 |    |           |           |
|---------------------------------|----|-----------|-----------|
| 3 Liquidator a/c                | Dr | 90,00,000 |           |
| To E.S Capital (400,000 x 10)   |    |           | 40,00,000 |
| To S. Premium (400,000 x 12.50) |    |           | 50,00,000 |

Note on Alternative Presentation

In the given question, value Per share for Both companies is required to be computed due to which No. of shares are to be computed as per Swap ratio as follows:-

$$\text{Swap Ratio} = \frac{\text{Value Per share (V. Co)}}{\text{Value Per share (P. Co)}} = \frac{*180}{22.50} = 8$$

\*N. Assets of v.co / No. of Shares in V.co

- 90,00,000 / 50,000 Share

Comment : Purchasing co. will issue 8 Shares for each share in vendor.

$$\begin{aligned} \text{No. of Share to be issued} &= \text{Shares in V.co} \times \text{Swap ratio} \\ &= 50,000 \times 8/1 \\ &= 400,000 \text{ Shares} \end{aligned}$$



Q.22 \*Imp

Calculation of PC (Small Ltd)

|            |                 |
|------------|-----------------|
| Goodwill   | 50,000          |
| F. Assets  | 75,000          |
| Stock      | 47,000          |
| Debtors    | 50,000          |
| Bank       | 10,000          |
| Creditors  | (32,000)        |
| Debentures | <u>(20,000)</u> |
| PC         | <u>180,000</u>  |

Calculation of Intrinsic Value for Strong Ltd.

|                      |                 |
|----------------------|-----------------|
| F. Assets (Revalued) | 195,000         |
| Stock                | 42,000          |
| Debtors              | 30,000          |
| Cash                 | 80,000          |
| Creditors            | <u>(47,000)</u> |
| Net Assets           | 300,000         |

No. of Equity Shares 15,000

(150,000 / 10)

I.V Per share 20

Calculation of Swap Ratio/ Exchange Ratio

Swap Ratio =  $\frac{\text{*Value Per share (V. Co)}}{\text{Value Per share (P. Co)}} = \frac{*15}{20} = .75$

Value Per share (P. Co) 20

\*Value Per Share =  $\frac{N. Assets}{Shares} = \frac{180,000}{12,000} = 15$

(Small Ltd) Shares 12,000

(120,000 / 10)

Comment : The Purchasing Company will issue .75 share for each share in V. co.



No of Shares to be Issued by Strong Ltd  
 $= \text{No of Shares in Small Ltd} \times \text{Swap ratio}$   
 $= 12000 \text{ Shares} \times .75$   
 $= 9000 \text{ Shares}$

Alternative Presentation if Swap Ratio is not required in question

No. of Shares to be Issued  $= \frac{\text{PC}}{\text{IV}} = \frac{180,000}{20} = 9000 \text{ Shares}$

$\swarrow$  V.co  
 $\searrow$  P Co

In the books of Strong Ltd.

Journal Entries

i) Fixed Assets a/c Dr 55,000  
 To Revaluation Res 55,000  
 (Being F. Assets Revalued)

ii) Business Purchase a/c Dr 180,000 (PC)  
 To Liquidator of small Ltd 180,000  
 (Being Business Acquired)

iii) Goodwill a/c Dr 50,000  
 F. Assets a/c Dr 75,000  
 Stock a/c Dr 47,000  
 Debtors a/c Dr 50,000  
 Bank a/c Dr 10,000  
 To Creditors 32,000  
 To Debentures 20,000  
 To Business Purchase 180,000  
 (Being Assets & Liab. taken over)

iv) Liquidator of small a/c Dr 180,000  
 To E.S Capital (9000 x 10) 90,000  
 To S. Premium (9000 x 10) 90,000  
 (Being Payment of PC made)





B Profit & Loss Balance :-

|                                  |                 |                 |
|----------------------------------|-----------------|-----------------|
| Opening Balance (1.1.81)         | 75,000          | 60,000          |
| Profits Earned during 6 months   | 145,000         | 60,000          |
| Dividend Distributed @10% on ESC | <u>(60,000)</u> | <u>(40,000)</u> |
| Closing Balance (30.6.81)        | <u>160,000</u>  | <u>80,000</u>   |

C. Cash & Bank Balance :-

|                           |                 |                 |
|---------------------------|-----------------|-----------------|
| Net Profit                | 145,000         | 60,000          |
| Add: Depreciation         | 25,000          | 17,500          |
| Dividend Paid             | <u>(60,000)</u> | <u>(40,000)</u> |
| Cash flow during the year | 110,000         | 37,500          |
| Add: Opening Balance      | <u>117,500</u>  | <u>60,000</u>   |
| Closing Balance (Bal fig) | <u>227,500</u>  | <u>97,500</u>   |

W.N #2 Calculation of PC (Krishan Ltd)

|                              |                 |
|------------------------------|-----------------|
| Goodwill (Fair value: Given) | 25,000          |
| F. Assets (W.N #1)           | 332,500         |
| Stock (75000 + 15000)        | 90,000          |
| Debtors                      | 100,000         |
| C & B (W.N #1)               | 97,500          |
| Creditors                    | <u>(30,000)</u> |
| PC                           | <u>615,000</u>  |

W.N #3 Calculation of I. Value for Ram Ltd

|                       |                 |
|-----------------------|-----------------|
| Fixed Assets (W.N #1) | 475,000         |
| Stock                 | 95,000          |
| Debtors               | 140,000         |
| Cash (W.N #1)         | 227,500         |
| Creditors             | <u>(37,500)</u> |
| N. Assets             | 900,000         |
| No. of Shares         | 60,000          |
| (600000/10)           |                 |



IV

15

No of Shares to be issued =  $\frac{PC \rightarrow V.co}{IV \rightarrow P. Co} = \frac{615,000}{15} = 41,000$  Shares

In the books of V.co

Realisation A/c (1.7.81)

|                                |               |                 |               |
|--------------------------------|---------------|-----------------|---------------|
| To F.Assets (W.N 1)            | 332500        | By Creditors    | 30000         |
| To Stock                       | 75000         | By Ram Ltd (PC) | 615000        |
| To Debtors                     | 100000        |                 |               |
| To Cash (W.N 1)                | 97500         |                 |               |
| To Profit on Real<br>(Bal fig) | 40000         |                 |               |
|                                | <u>645000</u> |                 | <u>645000</u> |

Shareholders A/c

|                   |               |                   |               |
|-------------------|---------------|-------------------|---------------|
| To P. Exp         | 5000          | By ESC            | 400000        |
| To Shares in P.co | 615000        | By Reserves       | 100000        |
|                   |               | By PL (W.N 1)     | 80000         |
|                   |               | By Profit on Real | 40000         |
|                   | <u>620000</u> |                   | <u>620000</u> |

In the books of Ram Ltd:-

Journal Entries

i Business Purchase a/c Dr 615,000  
     To Liquidator of Krishan 615,000  
 (Being Business Purchased)

iii) Goodwill a/c Dr 25,000  
     F. Assets a/c Dr 332,500  
     Stock a/c Dr 90,000  
     Debtors a/c Dr 100,000  
     Cash a/c Dr 97,500  
     To Creditors 30,000  
     To Business Purchase 615,000  
 (Being Assets & Liab. taken over)





|                                         |    |                  |
|-----------------------------------------|----|------------------|
| 3 Liquidator of Krishan a/c             | Dr | 615,000          |
| To E.S Capital ( $41000 \times 10$ )    |    | 410,000          |
| To S. Premium ( $41000 \times 5$ )      |    | 205,000          |
| (Being Payment made)                    |    |                  |
| <u>W.N # 3 Notes to A/cs</u>            |    |                  |
| 1. Share Capital :                      |    |                  |
| Share Capital of Ram Ltd as per B/s     |    | 600,000          |
| N. Issue to Krishan Ltd in PC           |    | <u>410,00</u>    |
|                                         |    | <u>10,10,000</u> |
| 2. Reserves :-                          |    |                  |
| A. Reserves of Ram Ltd as per B/s       |    | 150,000          |
| B. Securities Premium (N. Issue in PC)  |    | 205,000          |
| C. P&L Balance (W.N #1)                 |    | 160,000          |
| D. Preliminary Exp (Written off)        |    | <u>(10,000)</u>  |
|                                         |    | 505,000          |
| 3. Trade Payable: B/s value of Ram Ltd. |    |                  |
|                                         |    | 37,500           |
| Taken over                              |    | <u>30,000</u>    |
|                                         |    | <u>67,500</u>    |
| 4. PPE :                                |    |                  |
| Fixed Assets of Ram Ltd                 |    | 475,000 (W.N #1) |
| Taken over from Krishan                 |    | <u>332,500</u>   |
|                                         |    | <u>807,500</u>   |
| 5. Stock : Ram Ltd                      |    |                  |
|                                         |    | 95,000           |
| Taken over                              |    | <u>90,000</u>    |
|                                         |    | 185,000          |
| 6. Trade Receivable : Ram               |    |                  |
|                                         |    | 140,000          |
| T. over                                 |    | <u>100,000</u>   |
|                                         |    | 240,000          |



## 7. C&amp;B

|     |               |
|-----|---------------|
| Ram | 227500        |
| T.O | <u>97500</u>  |
|     | <u>325000</u> |

\*Part 8\*Case X: Elimination of Inter Company Balances \*Imp

(i.e., Debtor/ Creditor, B/R/ B/p, Loans/Investments etc)

In Inter company Balance are Given in question then Purchasing Company will Eliminate these balances after Business Taken over. These Balances shall not have any Impact on calculation of PC or any other Calculation in the books of A/cs which is required at time of business Combination. The following Entry will be Passed in the books of Purchasing co. for eliminating Inter Company Balances:-

Journal Entry:-

|                                           |    |      |                                                                    |
|-------------------------------------------|----|------|--------------------------------------------------------------------|
| Creditors/B/P/ Loans a/c                  | Dr | xxxx | It will be the Last Entry<br>in the books of purchasing<br>company |
| To Debtors/ B/R/ Invest.                  |    | Xxxx |                                                                    |
| (Being Inter company Balances Eliminated) |    |      |                                                                    |

Case XI: Stock Reserve on Sale of Goods – Prior to Absorption/ Amalg.

In case Purchasing company has taken back its sold Goods from vendor Company then It may require Elimination of Profit which is included in taken back Goods. The following Entry shall be recorded in the books of Purchasing co:-

|                               |    |      |                                                             |
|-------------------------------|----|------|-------------------------------------------------------------|
| Journal: Goodwill a/c         | Dr | xxxx | It will be deducted from stock<br>for its valuation at cost |
| To Stock Reserve              |    | xxxx |                                                             |
| (Being Stock Reserve created) |    |      |                                                             |



Note: In Practical questions, ICAI is creating stock Reserve even if Vendor company has sold Goods to P.co before Absorption and there are no taken back goods because goods are already lying with P.co at cost. So, we will follow ICAI wrong calculation in all questions and we will create Stock Reserve on closing stock always without Considering the fact that which party had sold the goods.

Q.26 \*V.V.Imp

Calculation of PC (NAM)

|                                                                 |           |
|-----------------------------------------------------------------|-----------|
| Goodwill $[30,000 - (220,000 \times 8\%)] \div 4 \text{ years}$ | 50,000    |
| L&B $(85,000 \times 90\%)$                                      | 76,500    |
| P&M $(160,000 \times 90\%)$                                     | 144,000   |
| Stock $(55,000 \times 90\%)$                                    | 49,500    |
| Debtors $(65,000 \times 90\%)$                                  | 58,500    |
| Creditors $(80,000 \times 95\%)$                                | (76,000)  |
| Director Loan                                                   | (40,000)  |
| Debentures                                                      | (100,000) |
| PC/ Net Assets                                                  | 162,500   |
| Payment in Cash                                                 | (10,000)  |
| Balances in Shares                                              | 152,500   |

No. of Shares to be issued =  $\frac{152,500}{12.50} = 12,200$

In the books of weak Ltd.

Realisation A/c

|               |               |                    |               |
|---------------|---------------|--------------------|---------------|
| To Goodwill   | 35000         | By Creditors       | 80000         |
| To L&B        | 85000         | By Loan            | 40000         |
| To P&M        | 160000        | By Debentures      | 100000        |
| To Stock      | 55000         | By Strong Ltd (PC) | 162500        |
| To Debtors    | 65000         | By Loss on         |               |
| To Cash (Exp) | 4000          | Realisation (Bal)  | 21500         |
|               |               |                    |               |
|               | <u>404000</u> |                    | <u>404000</u> |



| <u>Shareholders A/c</u> |               |             |               |
|-------------------------|---------------|-------------|---------------|
| To Discount on Deb      | 6000          | By E.S Cap  | 200000        |
| To Shares in Strong Ltd | 152500        | By Reserves | 20000         |
| To Cash (Refer C&B A/c) | 40000         |             |               |
| To Loss on Real         | 21500         |             |               |
|                         | <u>220000</u> |             | <u>220000</u> |

| <u>Cash &amp; Bank A/c</u> |              |                     |              |
|----------------------------|--------------|---------------------|--------------|
| To Bal b/d                 | 34000        | By Realisation      | 4000         |
| To Strong Ltd (PC)         | 10000        | By Shareholders A/c | 40000        |
|                            |              | (Bal fig)           |              |
|                            | <u>44000</u> |                     | <u>44000</u> |

In the books of Strong Ltd.

### Journal Entries

i) Business Purchase a/c Dr 162500

To Liquidator of weak Ltd 162500

(Being Business Purchased)

ii) Goodwill a/c Dr 50,000

L&B a/c Dr 76,500

P&M a/c Dr 144,000

Stock a/c Dr 49,500

Debtors a/c Dr 58,500

To Creditors 76,000

To Loan from A 40,000

To Debentures 100,000

To B. Purchased 162,500

(Being Assets & Liab taken over)

iii) Liquidator of Weak a/c Dr 162,500

To Cash 10,000

To ESC (12200 x 10) 122,000

To Sp (12200 x 2.5) 30,500

(Being Payment of PC made)



iv) Director Loan a/c      Dr 40,000  
     Debentures a/c          Dr 100,000  
         To Bank                      140,000  
     (Being Liabilities Discharged)

v) Goodwill a/c              Dr 6250  $(10000/40000 \times 25000)$   
     To Stock Reserve          6250  
     (Being Stock Reserve created on unsold Goods)

vi) Creditors a/c      Dr 20,000  
     To Debtors              20,000  
     (Being Inter co. balances Eliminated)

Q.27 \*Imp

### Valuation of Goodwill

$$\text{Goodwill} = \frac{\text{Average Profits} - \text{Closing Capital Employed}}{\text{Normal Rate}}$$

### A. Calculation of Average Profits :

|       | AX Itd (IV)      | TX Itd (PC)    |
|-------|------------------|----------------|
| 1997  | 500,000          | 150,000        |
| 1998  | 650,000          | 210,000        |
| 1999  | <u>575,000</u>   | <u>180,000</u> |
| Total | <u>17,25,000</u> | <u>540,000</u> |

Avg Profits      575,000      180,000

(Total/3)

Non Trade

|        |              |              |
|--------|--------------|--------------|
| Income | (50,000)     | (9000)       |
|        | <u>(25%)</u> | <u>(18%)</u> |

|               |                |                |
|---------------|----------------|----------------|
| Normal Profit | <u>525,000</u> | <u>171,000</u> |
|---------------|----------------|----------------|



B. Calculation of Capital Employed

|                   | AX Itd           | TX Itd         |
|-------------------|------------------|----------------|
| Total Assets      | 17,10,000        | 730,000        |
| N.T Investments   | (200,000)        | (50,000)       |
| Preliminary Exp.  | (10,000)         | -              |
| Normal Assets     | 15,00,000        | 680,000        |
| Total Liabilities | (240,000)        | (205,000)      |
| Capital Emp.      | <u>12,60,000</u> | <u>475,000</u> |

C. Goodwill : Ax Itd = 525000 - 12,60,000 = 13,65,000

20%

Tx Itd = 171000 - 475,000 = 380,000

20%

Notes:

1. In the Given case, It is clearly mentioned that Proposed Dividend has been cancelled due to which we have not considered it.
2. we have ignored non trade Investments & Non Trade Income while Valuation of goodwill because GW is always valued for Business.

Calculation of PC & IV

|                                 | AX Itd (P.Co)  | TX Itd (V Co)       |
|---------------------------------|----------------|---------------------|
| Capital Employed                | 12,60,000      | 475,000             |
| Goodwill                        | 13,65,000      | 380,000             |
| N.T Invest                      | <u>200,000</u> | <u>50,000</u>       |
| N. Assets                       | 28,25,000      | <u>905,000</u> - PC |
| No. of Shares<br>(700,000 / 10) | 70,000         |                     |
| IV                              | 40.357         |                     |

No. of Shares to be Issued = 905,000 = 22,424 Shares

40.357

SC

SP

10

30.357





In the books of Ax Ltd

Journal Entries (For Knowledge only)

1. Business Purchase a/c      Dr    905,000  
     To Liquidator of Tx                      905,000

(Being Business acquired)

2. Goodwill a/c      Dr    380,000  
     F. Assets a/c      Dr    400,000  
     N.T Invest a/c      Dr    50,000  
     Stock a/c      Dr    50,000  
     Debtors a/c      Dr    80,000  
     A. Tax a/c      Dr    20,000  
     Cash a/c      Dr    130,000  
         To Creditors                      45,000  
         To Tax Liab                      60,000  
         To Debentures                      100,000  
         To Business Purchase                      905,000

(Being Assets & Liab Taken over)

3. Liquidator a/c      Dr    905,000  
     To ESC                      224,240 (22424 x 10)  
     To SP                      680,725 (22424 x 30.357)  
     To Cash                      35 (fractional)

(Being Payment of PC made)

\*Part 9\*

Case XII: Entries are to be made at Par \*Imp

("At Par" = Keywords)

In Case Purchasing company issues its shares to vendor company "at Par" to save its floatation cost then the following steps should be Applied in the books of P.co & V.co :-



Step I : Calculate "PC" Normally by Net Asset method

(Note: It means that Par value concept does not work under Net Payment method)

→ Unlisted Co.

Step II: Calculate Intrinsic Value Per Equity share for Purchasing company

Step III: No. of Shares to be Issued =  $\frac{PC \text{ (Step I)}}{IV \text{ (Step II)}}$

Step IV: Revised PC at Par by = No. of Shares x face value Share  
"Excluding Premium (Step III)  
in Intrinsic Value"

↓  
It will be considered in  
the books of V.co & P.co

i) V. Co = Real A/c & Shareholders A/c

ii) P. Co = All Journal Entries  
(First 3 Entries)

Q.24

Calculation of PC & Intrinsic Values

|                           | Exe ltd (PC)<br>(Vendor co.) | Wye ltd (IV)<br>(Purchasing co.) |
|---------------------------|------------------------------|----------------------------------|
| Sundry Assets             | 16,85,000                    | 43,57,500                        |
| Cash                      | 3500                         | 27,500                           |
| Creditors                 | <u>(55,000)</u>              | <u>(65,000)</u>                  |
| N. Assets                 | 16,33,500                    | 43,20,000                        |
|                           | (Normal PC)                  |                                  |
| No. of Shares (B/s)       |                              | 40,000                           |
| Intrinsic Value Per Share |                              | 108                              |



Statement Showing Payment of PC

|                                         |                    |
|-----------------------------------------|--------------------|
| Normal PC                               | 16,33,500          |
| Payment in Shares<br>(9000/3 x 5 x 108) | <u>(16,20,000)</u> |
| Payment in cash (Bal fig)               | <u>13,500</u>      |

Revised value of PC due to Par Value :-

|                                     |                  |
|-------------------------------------|------------------|
|                                     | Face Value       |
| Payment in shares (9000/3 x 5 x 75) | 11,25,000        |
| Payment in Cash                     | <u>13,500</u>    |
| PC at Par value                     | <u>11,38,500</u> |

In the books of Exe Ltd.Realisation A/c

|               |                |                  |                |
|---------------|----------------|------------------|----------------|
| To S. Assets  | 1685000        | By Creditors     | 55000          |
| To Cash (T.o) | 3500           | By Wye Ltd (PC)  | 1138500        |
|               |                | By Loss on Real. | 495000         |
|               |                | (Bal fig)        |                |
|               | <u>1688500</u> |                  | <u>1688500</u> |

Shareholders A/c

|                      |                |           |                |
|----------------------|----------------|-----------|----------------|
| To Loss on Real      | 495000         | By SC     | 1215000        |
| To Shares in Wye Ltd | 1125000        | By G. res | 403500         |
| To Cash (PC)         | 13500          | By P&L    | 15000          |
|                      | <u>1633500</u> |           | <u>1633500</u> |

In the books of Wye LtdJournal Entries

|                            |              |
|----------------------------|--------------|
| 1. Business Purchase a/c   | Dr 11,38,500 |
| To Liquidator of Exe Ltd   | 11,38,500    |
| (Being Business Purchased) |              |



|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| 2. S. Assets a/c                        | Dr               | 16,85,000        |
| Cash a/c                                | Dr               | 3500             |
| To Creditors                            |                  | 55,000           |
| To B. Purchase                          |                  | 11,38,500        |
| To Cap res (Bal)                        |                  | 495,000          |
| (Being assets & Liab taken over)        |                  |                  |
| 3. Liquidator of Exe a/c                | Dr               | 11,38,500        |
| To Cash                                 |                  | 13,500           |
| To S. Capital                           |                  | 11,25,000        |
| (Being Payment of PC made)              |                  |                  |
| <u>Notes to A/cs :</u>                  |                  |                  |
| <u>A. Share capital :</u>               |                  |                  |
| 40,000 Shares @ 75 fully paid up        |                  | 30,00,000        |
| 15,000 Shares @ 75 (Newly Issued in PC) |                  | <u>11,25,000</u> |
|                                         |                  | 41,25,000        |
| <u>B. Reserves</u>                      |                  |                  |
| G. Reserve                              | 1285000          |                  |
| P&L                                     | 35000            |                  |
| Cap Res. (New)                          | <u>495000</u>    |                  |
|                                         | <u>1815000</u>   |                  |
| C Trade Payable : Wye ltd               | 65,000           |                  |
| Exe ltd                                 | <u>55,000</u>    |                  |
|                                         | <u>120,000</u>   |                  |
| D. P.P.E : Wye ltd                      | 43,57,500        |                  |
| Exe ltd                                 | <u>16,85,000</u> |                  |
|                                         | <u>60,42,500</u> |                  |



|                     |                |
|---------------------|----------------|
| E. C & CE : Wye Ltd | 27,500         |
| Taken over : Cash   | 3500           |
| Payment in PC       | <u>(13500)</u> |
|                     | <u>17500</u>   |

B/S of Wye Ltd

|                                 |   |                  |
|---------------------------------|---|------------------|
| <u>Shareholders funds:</u>      |   |                  |
| Share capital                   | A | 41,25,000        |
| Reserves                        | B | 18,15,000        |
| <u>N.C Liab</u>                 |   |                  |
| Current Liab: Trade Payable     | C | 120,000          |
|                                 |   | <u>60,60,000</u> |
| <u>Non Current assets : PPE</u> |   |                  |
|                                 | D | 60,42,500        |
| <u>C. Assets : Cash</u>         |   |                  |
|                                 | E | 17,500           |
|                                 |   | <u>60,60,000</u> |

Q.25

Calculation of PC & IV1) Purchase Consideration for Big Ltd

|           |              |
|-----------|--------------|
|           | (Crores)     |
| Goodwill  | 40           |
| F. Assets | 200          |
| C. Assets | 200          |
| Loans     | <u>(100)</u> |
| PC        | <u>340</u>   |

2) Calculation of IV Per Share for Small Ltd

|           |              |
|-----------|--------------|
| Goodwill  | 75           |
| F. Assets | 429          |
| C. Assets | 200          |
| Loans     | <u>(100)</u> |



|                                                                                                                                                                                                                  |               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| P.S Capital                                                                                                                                                                                                      | (60)          |
| N. Assets                                                                                                                                                                                                        | 544           |
| No of Shares                                                                                                                                                                                                     | 4             |
| (40/10)                                                                                                                                                                                                          |               |
| IV Per Share                                                                                                                                                                                                     | 136           |
| 3) No. of Shares to be Issued = $\frac{PC}{IV} = \frac{340 \text{ Crores}}{136 \text{ Per Share}} = 2.5 \text{ crore Per Share}$                                                                                 |               |
| Face value                                                                                                                                                                                                       |               |
| Revised PC at Par value = 2.5 crore Shares x 10 = 25 crore                                                                                                                                                       |               |
| <u>In the books of Small Ltd</u>                                                                                                                                                                                 |               |
| <u>Journal Entries</u>                                                                                                                                                                                           |               |
| 1) Business Purchase a/c                                                                                                                                                                                         | Dr 25         |
| To Liquidator of Big Ltd                                                                                                                                                                                         | 25            |
| (Being Business Purchased)                                                                                                                                                                                       |               |
| 2) Goodwill a/c                                                                                                                                                                                                  | Dr 40         |
| F. Assets a/c                                                                                                                                                                                                    | Dr 200        |
| C. Assets a/c                                                                                                                                                                                                    | Dr 100        |
| To Loans                                                                                                                                                                                                         | 100           |
| To B. Purchase                                                                                                                                                                                                   | 25            |
| To Cap Res.                                                                                                                                                                                                      | 3/5 (Bal fig) |
| (Being Assets & Liab taken over)                                                                                                                                                                                 |               |
| Note : The Purchasing company will not consider its fair value of GW & F. Assets in its B/s because the Given values are relevant for I.V only. So, B/s of P.co will be Prepared on the basis of its old values. |               |
| iii) Liquidator of Big a/c                                                                                                                                                                                       | Dr 25         |
| To ESC                                                                                                                                                                                                           | 25            |
| (Being Payment of PC made)                                                                                                                                                                                       |               |





\*Part 10\*

Case XIII: Treatment of "Statutory Reserves" held by vendor company In its B/s

(Stat Reserves: Reserves maintained under Income Tax Act for Restricted Period i.e., Investment Allowance Reserve, Export Project Reserve, Export Profit Reserve etc.

If there are Some Stat. Reserves in B/S of vendor company which are yet to be maintained for some Period at the time of Liquidation then the following points should be considered:-

1. In the books of V. Co. :-

As we know, Purchasing Co. can not take over Reserves of Vendor company under Purchase method, due to which we will transfer these Reserves to Shareholders A/c for Closing the Balance as we Close other Reserves. So, there is no Special Treatment in the books Of V. Co. for these Reserves.

2. In the books of P. Co. :-

Without taking over these Reserves

As per the Provisions of AS-14, Purchasing Co. will disclose these Reserves in its books for the Period which is yet to be Complete under Restriction by vendor company. The following Entry will be recorded :-

|                                    |      |
|------------------------------------|------|
| Amalgamation Adjustment Reserve Dr | xxxx |
| To Stat. Res.                      | xxxx |

(Being Stat. Res. of vendor company disclosed)

Comment : The above Entry will be reversed after Ending the restricted Period . The above 2 Balances shall be disclosed under "Notes to A/c Reserves" as Follows :-



Reserves (Note to A/c)

|                        |        |
|------------------------|--------|
| General Res.           | xxxx   |
| P&L                    | xxxx   |
| Cap. Res.              | xxxx   |
| S. Premium             | xxxx   |
| Stat. Reserves (V.Co.) | xxxx   |
| Amal. Adj. Reserve     | (xxxx) |
|                        | xxxx   |

Note (important for Questions)

If question remains Silent on Period of Stat. Res. whether it is yet to be Completed or not then Disclosure in the books of P. Co. can be given or Can be ignored based upon Assumption of Student.

Q. 31 :

Calculation of PC

|                          | <u>A Ltd.</u>                          | <u>B Ltd.</u>                          |
|--------------------------|----------------------------------------|----------------------------------------|
| Payment in Pref. Shares  | 450                                    | 300                                    |
|                          | $\frac{300 \times 150 \times 1}{100}$  | $\frac{200 \times 150 \times 1}{100}$  |
| Payment in Equity Shares | 1,200                                  | 900                                    |
|                          | $\frac{800 \times 100 \times 30}{100}$ | $\frac{750 \times 100 \times 30}{100}$ |
| PC                       | 1,650                                  | 1,200                                  |

Calculation of Payable value of Debentures

|                           | <u>A Ltd.</u>    | <u>B Ltd.</u>    |
|---------------------------|------------------|------------------|
| Existing Interest         | 6                | 3                |
|                           | (60x10%)         | (30x10%)         |
| Proposed Rate of Deb.     | 15%              | 15%              |
| Payable value of N. Issue | 40               | 20               |
| To Maintain Interest      | $\frac{6}{15\%}$ | $\frac{3}{15\%}$ |



In the books of C Ltd.Journal Entries

i) Business Purchase a/c Dr 2850

To liquidator of A Ltd. 1650

To Liquidator of B Ltd. 1200

(Being Business Purchased)

ii) Acquisition of A Ltd.

L&amp;B a/c Dr 550

P&amp;M a/c Dr 350

Investment a/c Dr 150

Stock a/c Dr 350

Debtors a/c Dr 250

B/R a/c Dr 50

Cash a/c Dr 300

GW a/c Dr 110 (Bal. fig)

To 15% Debent. 40

To Creditors 270

To B/P 150

To B. Purchase 1650

(Being Business Purchased from A Ltd.)

iii) Acquisition of B Ltd :-

L&amp;B a/c Dr 400

P&amp;M a/c Dr 250

Invest. a/c Dr 50

Stock a/c Dr 250

Debtors a/c Dr 300

B/R a/c Dr 50

Cash a/c Dr 200

To Cap. Res. (Bal) 90

To creditors 120

To B/P 70

To 15% Deb. 20

To B. Purchase 1200

(Being Business Purchased from B)



iv) Liquidator of A Ltd. Dr 1650

|        |                                                 |     |
|--------|-------------------------------------------------|-----|
| To ESC | $\left( \frac{2}{1} \times 5 \times 10 \right)$ | 400 |
|--------|-------------------------------------------------|-----|

|        |     |
|--------|-----|
| To PSC | 300 |
|--------|-----|

|       |                                                       |     |
|-------|-------------------------------------------------------|-----|
| To SP | $\left( \frac{2}{1} \times 5 \times 20 \right) + 150$ | 950 |
|-------|-------------------------------------------------------|-----|

(Being Payment of PC made to A Ltd.)

v) Liquidator of B Ltd. Dr 1200

|        |                                                   |     |
|--------|---------------------------------------------------|-----|
| To ESC | $\left( \frac{7.5}{1} \times 4 \times 10 \right)$ | 300 |
|--------|---------------------------------------------------|-----|

|        |     |
|--------|-----|
| To PSC | 200 |
|--------|-----|

|       |                                                         |     |
|-------|---------------------------------------------------------|-----|
| To SP | $\left( \frac{7.5}{1} \times 4 \times 20 \right) + 100$ | 700 |
|-------|---------------------------------------------------------|-----|

(Being Payment of PC Made)

vii) Cap. Res. a/c Dr 90

|       |    |
|-------|----|
| To GW | 90 |
|-------|----|

(Being GW eliminated Cap. Res. )

|   |   |
|---|---|
| A | B |
| ↑ | ↑ |

viii) Amalgamation Adj. Res. Dr 100 (50+50)

To Invest. Allow. Res. 100

(Being Stat. Res. disclosed)

### Notes to A/c

1 Share Capital :

|                               |     |
|-------------------------------|-----|
| E.S.C Shares issued to A Ltd. | 400 |
|-------------------------------|-----|

|                         |     |
|-------------------------|-----|
| Shares issued to B Ltd. | 300 |
|-------------------------|-----|

|                          |     |
|--------------------------|-----|
| P.S.C Shares issued to A | 300 |
|--------------------------|-----|

|                    |            |
|--------------------|------------|
| Shares issued to B | <u>200</u> |
|--------------------|------------|

|  |             |
|--|-------------|
|  | <u>1200</u> |
|--|-------------|



## 2 Reserves :

|                      |              |
|----------------------|--------------|
| Securities Premium A | 950          |
| Securities Premium B | 700          |
| I.A Res.             | 100          |
| A.A Res.             | <u>(100)</u> |
|                      | 1650         |

## 3. 15% Debentures : A 40

20  
60

|                                          |            |
|------------------------------------------|------------|
| 4. Trade Payable : Creditors (270 + 120) | 390        |
| B/P (150 + 70)                           | <u>220</u> |
|                                          | 610        |

|                            |             |
|----------------------------|-------------|
| 5. PPE : L \$B (550 + 400) | 950         |
| P\$M (350 + 250)           | <u>100</u>  |
|                            | <u>1550</u> |

|                         |     |
|-------------------------|-----|
| 6. NC Invest (150 + 50) | 200 |
|-------------------------|-----|

|                  |            |
|------------------|------------|
| 7. Inventory : A | 350        |
| B                | <u>250</u> |
|                  | 600        |

|                                           |            |
|-------------------------------------------|------------|
| 8. Trade Receivable : Debtors (250 + 300) | 550        |
| B/R (50 + 50)                             | <u>100</u> |
|                                           | <u>650</u> |

|              |            |
|--------------|------------|
| 9 C & CE : A | 300        |
| B            | <u>200</u> |
|              | 500        |



|                                                                                                                                                                                                                                                                                                                        |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| SC                                                                                                                                                                                                                                                                                                                     | 1200        |
| Res                                                                                                                                                                                                                                                                                                                    | 1650        |
| NCL : Deb                                                                                                                                                                                                                                                                                                              | 60          |
| CL: TP                                                                                                                                                                                                                                                                                                                 | <u>610</u>  |
|                                                                                                                                                                                                                                                                                                                        | <u>3520</u> |
| NCA: PPE                                                                                                                                                                                                                                                                                                               | 1550        |
| IA                                                                                                                                                                                                                                                                                                                     | 20          |
| Invest                                                                                                                                                                                                                                                                                                                 | 200         |
| CA : Invest                                                                                                                                                                                                                                                                                                            | 600         |
| T Rec                                                                                                                                                                                                                                                                                                                  | 650         |
| Cash                                                                                                                                                                                                                                                                                                                   | <u>500</u>  |
|                                                                                                                                                                                                                                                                                                                        | <u>3520</u> |
| <u>Case XIV: Settlement of "Dissenting Shareholders" in V Company</u>                                                                                                                                                                                                                                                  |             |
| In Case some shareholders of vendor company are not in the favour of Scheme then these shareholders are known as Dissenting shareholders. The Payment to Dissenting members will be made by vendor company itself from C & B A/c. It means that Purchasing company will not consider these members in PC calculations. |             |
| <u>In the books of V. Co</u>                                                                                                                                                                                                                                                                                           |             |
| 1 Dissenting members a/c                                                                                                                                                                                                                                                                                               | Dr    xxxx  |
| To Bank                                                                                                                                                                                                                                                                                                                | xxxx        |
| 2 Equity Shareholders a/c                                                                                                                                                                                                                                                                                              | Dr    xxxx  |
| To Dissenting members                                                                                                                                                                                                                                                                                                  | xxxx        |
| Q.29                                                                                                                                                                                                                                                                                                                   |             |
| <u>Calculation of PC</u>                                                                                                                                                                                                                                                                                               |             |
| <u>(Excluding Dissenting Shares)</u>                                                                                                                                                                                                                                                                                   |             |
| Payment in shares $(10000 - 50) \times \frac{1}{2} \times 60 = \underline{298,500}$                                                                                                                                                                                                                                    |             |
| PC                                                                                                                                                                                                                                                                                                                     | 298,500     |





In the books of Simple cotton LtdRealisation A/c

|                   |               |                    |               |
|-------------------|---------------|--------------------|---------------|
| To F. Property    | 125000        | By Creditors       | 37500         |
| To P&M            | 25000         | By Modern Ltd (PC) | 298500        |
| To Stock          | 150000        | By Loss on Real    |               |
| To Invest         | 5000          | (Bal fig)          | 91500         |
| To Debtors        | 100000        |                    |               |
| To Bank (T. over) | 17500         |                    |               |
| To Bank:          |               |                    |               |
| Exp 1250          |               |                    |               |
| Tax 3750          | 5000          |                    |               |
|                   | <u>427500</u> |                    | <u>427500</u> |

Shareholders A/c

|                              |               |             |               |
|------------------------------|---------------|-------------|---------------|
| To Shares in modern Ltd (PC) | 298500        | By S. Cap   | 300000        |
| To Dissenting members        | 1625          | By Reserves | 62500         |
| To Loss on Real              | 91500         | By P&L      | 30000         |
| To Bank (Refer C&B) a/c      | 875           |             |               |
|                              | <u>392500</u> |             | <u>392500</u> |

Cash & Bank A/c

|                    |             |                       |             |
|--------------------|-------------|-----------------------|-------------|
| To Bal b/d (N.T.O) | 7500        | By Real A/c           |             |
|                    |             | Liq Exp               | 1250        |
|                    |             | Income Tax            | 3750        |
|                    |             | By Dissenting Members | 1625        |
|                    |             | By Equity             |             |
|                    |             | Shareholder (Bal)     | 875         |
|                    | <u>7500</u> |                       | <u>7500</u> |

In the books of modern Ltd

|                                |    |        |
|--------------------------------|----|--------|
| 1 Business Purchase a/c        | Dr | 298500 |
| To liquidator of simple cotton |    | 298500 |



|                    |    |         |
|--------------------|----|---------|
| 2. F. Property a/c | Dr | 125,000 |
| P&M a/c            | Dr | 25,000  |
| Stock a/c          | Dr | 150,000 |
| Invest a/c         | Dr | 5000    |
| Debtors a/c        | Dr | 100,000 |
| Bank a/c           | Dr | 17,500  |
| To Creditors       |    | 37,500  |
| To B. Purchase     |    | 298,500 |
| To Cap Res (bal)   |    | 86,500  |

|                  |    |         |
|------------------|----|---------|
| 3 Liquidator a/c | Dr | 298,500 |
| To ESC (50)      |    | 248,750 |
| To SP (10)       |    | 49,750  |

Q.30 H.w

\*Part II\*

### Concept 4: Explanation on Pooling Interest Method (Merger)

(In Practical Questions, we can Apply this Accounting only if )  
Pooling Interest method or merger is clearly Specified

**Note :** It means that Merger/ Pooling Int. should be specified in the  
Questions

As per the conditions of AS-14, the following conditions should be satisfied to classify a Transaction of Business Acquisition in the nature of merger :-

- I The Purchasing company is bound to acquire All Assets & All outside Liab of vendor company without making any selection of Items.
- II The Purchasing company will take over all Assets & All Outside Liab Of vendor company "at book value only"



(Note: No Need to check fair value for Assets & Payable value for Liab)

III The Purchasing company will also take over all Reserves of vendor Company at book value.

(Note: If Vendor Co. has only balance in misc. Expenditure A/c then we will take over Net Reserves after writing off Such Misc Expenditure)

IV The Purchasing company will continue the business of vendor Company after such Merger.

V The payment of Purchase consideration will be made in shares only.  
Except : Cash can be offered to Pref holders in PC

(Note: It means that PC to Equity holders will be settled in Shares only)

VI The difference between PC and Share capital of V.co will be considered as Loss on Profit on Merger

Profit on Merger = Cap Reserve

Loss on merger = Cap Res, G. Res, P&L

1                      2                      3

\*GW will not be debited in any case

VI At least 90% of Shareholders in face value should be in favour of Scheme of Merger

### In the books of Vendor Company

Changes in Accounting under : Under Purchase method, V. Co Transfer  
Merger from Purchase method its Reserves to Equity Shareholders  
A/c for closing the balances, but now  
these Reserves shall be transferred to  
Realisation A/c because Reserves have  
been taken over by P.co.



In the books of Purchasing Co.

(Being Assets, Liab & Reserves merged)

All other Entries are quite similar as we learnt in Purchase Method

### Additional Points to be considered under "Merger"

1. Intangible Assets in : Under Pooling Interest Method, P.co is bound to acquire all Assets of Vendor company at "Book value" It indicates that P.co is bound to take over Intangible Assets also of V.co at "Book Value".

2. **Statutory Reserves** : Under Merger, Purchasing co. is bound to acquire In Vendor co. all Reserves of V. company at book value. So, there is no need of Separate disclosure on Statutory Res. of vendor company in the books of P.co we will not show any Amalgamation Adjustment Account under Pooling Interest Method.

|                                                       |                                                                                                                                                         |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3. Liquidation Exp. of Vendor company if Paid by P.co | : Under merger, we cannot open "GW" Account due to Book value concept. So, Purchasing company will debit its Reserves to write off Liq Exp as Follows:- |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|



|                          |    |      |
|--------------------------|----|------|
| i) Liq Exp a/c           | Dr | xxxx |
| To Bank                  |    | xxxx |
| ii) *Cap Res/ GR/ PL a/c | Dr | xxxx |
| To Liq Exp.              |    | xxxx |

\*We will write off these Expenses in same way as we write off loss on Merger

\*We will write off these Expense in same way as we write off loss on Merger

#### 4. Elimination of Inter company Balances :-

(Debtors/ creditors/ B/R/ B/P, Loan/ Invest)

- Same concept as we studied in Purchase method

#### Q.32 (Simple Problem)

#### Calculation of PC

|                          | A ltd                   | B ltd                  |
|--------------------------|-------------------------|------------------------|
| Payment in Pref Shares   | 1500                    | 1000                   |
|                          | $(1200/100 \times 125)$ | $(800/100 \times 125)$ |
| Payment in Equity Shares | 3600                    | 2400                   |
|                          | $(2400/10 \times 15)$   | $(1600/10 \times 15)$  |
| PC                       | 5100                    | 3400                   |

#### In the books of AB ltd

#### Journal Entries

|                        |    |      |
|------------------------|----|------|
| i) Business Merger a/c | Dr | 8500 |
| To liquidator of A ltd |    | 5100 |
| To liquidator of B ltd |    | 3400 |

(Being Business Merged )



ii) Business of A Ltd:

F Assets a/c Dr 4000

Investment a/c Dr 1600

Stock a/c Dr 1200

Debtors a/c Dr 1600

Cash a/c Dr 1200

Loss on merger a/c Dr 1500 (Bal fig)

To Loans 1600

To Creditors 1200

To P.F Tax 800

To Cap Res. 800

To G. Res 1200

To P&amp;L A/c 400

To Business merger 5100

(Being Assets, Liab &amp; Reserves taken over)

iii) Business of B Ltd :-

F Assets a/c Dr 2600

Investment a/c Dr 600

Stock a/c Dr 600

Debtors a/c Dr 800

Cash a/c Dr 600

Loss on merger a/c Dr 1000 (Bal fig)

To Loans 800

To Creditors 400

To P.F Tax 200

To Cap Res. 600

To G. Res 600

To P&amp;L A/c 200

To Business merger 3400

(Being Assets, Liab &amp; Reserves taken over)





iv) Liquidator of A Ltd a/c Dr 5100

To P.S capital 1500 (125)

To E.S capital 2400 (10)

To Sec Premium 1200 (5)

(Being Payment of PC made)

v) Liquidator of B Ltd a/c Dr 3400

To P.S capital 1000 (125)

To E.S capital 1600 (10)

To Sec Premium 800 (5)

(Being Payment of PC made)

vi) Capital Reserve a/c Dr 1400 (800 + 600)

General reserve a/c Dr 1100 (Bal fig)

To Loss on merger 2500 (1500 + 1000)

(Being Losses written off) A B

Notes to A/cs:

A. Share Capital:

15% P.S capital (1500 + 1000) of 125 each 2500

E.S capital of 10 each (2400 + 1600) 4000

6500

B Reserves:

i) Capital Reserve (800 + 600 - 1400) Nil

ii) G. Reserve (1200 + 600 - 1100) 700

iii) PL (400 + 200) 600

iv) Sec Premium (1200 + 800) 2000

3300

C Secured Loans:

(1600 + 800) 2400

D Tax Provision (800 + 200) 1000



E Trade Payables (1200 + 400) 1600

F PPE : F. Assets (4000 + 2600) 6600

G Investments (1600 + 600) 2200

H Current Assets : Inventory (1200 + 600) 1800

Debtors (1600 + 800) 2400

Cash (1200 + 600) 1800

B/S of AB Ltd after Merger

Shareholders fund:

|               |   |      |
|---------------|---|------|
| Share Capital | A | 6500 |
|---------------|---|------|

|          |   |      |
|----------|---|------|
| Reserves | B | 3300 |
|----------|---|------|

Non Current Liab:

|               |   |      |
|---------------|---|------|
| Secured Loans | C | 2400 |
|---------------|---|------|

Current Liab :

|                  |   |      |
|------------------|---|------|
| Short Term Prov. | D | 1000 |
|------------------|---|------|

|                |   |              |
|----------------|---|--------------|
| Trade Payables | E | 1600         |
|                |   | <u>14800</u> |

|           |   |      |
|-----------|---|------|
| NCA : PPE | F | 6600 |
|-----------|---|------|

|            |   |      |
|------------|---|------|
| Investment | G | 2200 |
|------------|---|------|

|                |   |      |
|----------------|---|------|
| CA : Inventory | H | 1800 |
|----------------|---|------|

|                  |   |      |
|------------------|---|------|
| Trade Receivable | H | 2400 |
|------------------|---|------|

|        |   |             |
|--------|---|-------------|
| C & CE | H | <u>1800</u> |
|--------|---|-------------|

|  |  |              |
|--|--|--------------|
|  |  | <u>14800</u> |
|--|--|--------------|



Q.33

Notes to A/cs:

## 1. Share Capital

ESC (1500 + 800)      2300

PSC (400 + 300)      700

3000

## 2 Reserves :

G. Res (200 + 150 - 350)      Nil

P&amp;L (80 + 60 - 140)      Nil

Rev. Res (100 + 80 - 10)      170170

3. NCL : Debentures (96 + 80)      176

4 CL (204 + 95)      299

5 PPE (1200 + 1000)      2200

6 CA (880 + 565)      1445

\*Part 12\*

Q.18, Q.11, Q.30 Discussed in Class

\*Part 13\*Basic EPS in case of Business combination

As per the Provisions of AS-20, it may be possible that A Company has acquired business of other company during the year and has issued its Equity Shares in settlement of Purchase consideration. In the Given Case, Purchasing company should consider the nature of Business Acquisition before computing "WANS" for the purpose of Basic EPS.



The following two different situations may be considered:-

### I<sup>st</sup> Case: Business Acquisition in the nature of "Purchase"

If the Business is acquired in the nature of Purchase then we should follow the following 2 steps:-

**Step I : Take Profits of Purchasing company only which it has earned during the current year**

(Note: We will not consider vendor co Profits while computing EAE because P. Co cannot take over Profits of V.co under Purchase Method.)

**Step II:** Consider the newly issued shares by P.co in Settlement of PC on the basis of "Date of issue" while computing WANS like other Issues.

(Note: There is no Special Treatment for Newly issued shares in Business Acquisition)

**Example:-** A Ltd acquires B Ltd under Purchase method on 1.8.2023. The Following additional information may be helpful :-

|                              | <u>A Ltd</u> | <u>B Ltd</u> |
|------------------------------|--------------|--------------|
| Net Profits till 1.8.23      | Rs.200,000   | Rs.150,000   |
| Net Profits after 1.8.23 but |              |              |
| Upto 31.3.24                 | Rs.450,000   | Nil          |
| No. of Shares (1.4.2023)     | 10000        | 5000         |

A Ltd has issued 1 share for each share in B Ltd on 1.8.2023. Calculate Basic EPS for A Ltd for the year 2023-24.

**Solution**

Calculation of BEPS for A Ltd.

$$\text{BEPS} = \frac{\text{EAE}}{\text{*WANS}} = \frac{\text{Rs.650,000 (2L + 4.5L)}}{\text{*13333 Shares}} = 48.75$$



$$\begin{aligned}
 *WANS &= 1.4.23 - 31.7.23 \quad 10,000 \times 4/12 = 3333 \\
 &1.8.23 - 31.3.24 \quad 15,000 \times 8/12 = \underline{10000} \\
 &\quad \quad \quad 13333
 \end{aligned}$$

### II<sup>nd</sup> Case: If Business Acquisition is in the nature of Merger

If Business Acquisition is given in the nature of Merger then the Following 2 steps should be followed :-

Step I : We will consider vendor company current year profits till Merger in the "EAE" of Purchasing company while computing Basic EPS.

Step II: We will not consider date of New Issue while computing WANS. It means that we will not calculate WANS in Merger. It is assumed that P.C is running Vendor Business from the beginning of year.

#### Example :

With help of Previous Example, Calculate BEPS for A Ltd. assuming Business Acquisition in the nature of Merger :-

Solution

$$\begin{aligned}
 BEPS &= \underline{Rs.800,000} \quad (Rs.2L + 4.5L + 1.5L) \\
 &15000 \text{ Shares} \\
 &(10000 + 5000 \times 1/1) \\
 &= Rs.53.33
 \end{aligned}$$

Q.21

#### Calculation of BEPS (Pooling Int Method)

$$\begin{aligned}
 BEPS &= \underline{Rs.15,00,000} \quad (Rs.5L + Rs.8L + Rs.2L) \\
 &10,000 \text{ Shares} \\
 &(6000 + 4000 \times 1/1) \\
 &= Rs.150
 \end{aligned}$$



### Calculation of BEPS

(If It was a case of Purchase)

$$\begin{aligned} \text{BEPS} &= \text{Rs. } 13,00,000 \text{ (Rs. } 5\text{L} + \text{Rs. } 8\text{L}) \\ &\quad *9000 \text{ Shares} \\ &= \text{Rs. } 144.44 \end{aligned}$$

$$\begin{aligned} *WANS &= 1.4 - 30.6 \quad 6000 \times 3/12 = 1500 \\ &\quad 1.7 - 31.3 \quad 10000 \times 9/12 = \underline{7500} \\ &\quad \quad \quad 9000 \end{aligned}$$

Q.20 \*Imp

Assumption : In the Given question, Nature of Business Acquisition is not mentioned, So we have assumed it in the nature of Purchase.

i) Calculation of No. of shares to be issued by A Ltd to B Ltd.

$$\begin{aligned} \text{a) Swap Ratio} &= \frac{\text{Value Per share (V. co)}}{\text{Value Per share (P. co)}} = \frac{30}{120} = \frac{1}{4} \end{aligned}$$

$$\begin{aligned} \text{b) No. of Shares to be issued} &= \text{Shares in V.co} \times \text{Swap ratio} \\ &= 200 \text{ L} \times \frac{1}{4} \\ &= 50\text{L} \end{aligned}$$

ii) Calculation of WANS :

$$\begin{aligned} 1.4 - 30.9 \quad 500 \times 6/12 &= 250 \\ 1.10 - 31.3 \quad 550 \times 6/12 &= \underline{275} \\ &\quad 525 \end{aligned}$$

$$\begin{aligned} \text{iii) BEPS} &= \text{Rs. } 2700 \text{ (1200 + 1500)} = 5.14 \\ &\quad 525 \text{ Shares} \end{aligned}$$

Alternatively, if we assume it as merger:-

$$\begin{aligned} \text{BEPS} &= \text{Rs. } 3050 \text{ (1200 + 1500 + 350)} = 5.545 \\ &\quad 550 \text{ Shares} \end{aligned}$$





\*Part 14\*

## Illustration 7

I Statement Showing Payment in shares to K & L Ltd

|                          | K Ltd                                                                   | L Ltd                                                                   |
|--------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Payment in Pref Shares   | 440,000                                                                 | 330,000                                                                 |
|                          | $\left( \frac{400000}{100} = \frac{4000}{1} \times 5 \times 22 \right)$ | $\left( \frac{300000}{100} = \frac{3000}{1} \times 5 \times 22 \right)$ |
|                          |                                                                         |                                                                         |
| Payment in Equity Shares | 10,56,000                                                               | 396,000                                                                 |
|                          | $\left( \frac{800000}{100} = \frac{8000}{1} \times 6 \times 22 \right)$ | $\left( \frac{300000}{100} = \frac{3000}{1} \times 6 \times 22 \right)$ |
|                          |                                                                         |                                                                         |
| Payment in Shares        | <u>14,96,000</u>                                                        | <u>726,000</u>                                                          |

II Statement Showing calculation of PC

|                     | K Ltd            | L Ltd            | Total            |
|---------------------|------------------|------------------|------------------|
| L&B                 | 450,000          | 300,000          | 750,000          |
| P&M                 | 620,000          | 500,000          | 11,20,000        |
| Furniture           | 60,000           | 20,000           | 80,000           |
| Goodwill            | 80,000           | -                | 80,000           |
| Inventories         | 220,500          | 137,200          | 357,700          |
|                     | (225000 - 2%)    | (140000 - 2%)    |                  |
| Debtors             | 268,125          | 170,625          | 438,750          |
|                     | (275,000 - 2.5%) | (175,000 - 2.5%) |                  |
| Cash & bank         | 161375           | 72175            | 233550           |
| 5 % Debentures      | (200,000)        | -                | (200,000)        |
| Secured loan        | -                | (200,000)        | (200,000)        |
| Creditors           | <u>(100,000)</u> | <u>(210,000)</u> | <u>(310,000)</u> |
| PC/ NA              | 15,60,000        | 790,000          | 23,50,000        |
| I Payment in Shares | <u>(1496000)</u> | <u>(726000)</u>  | <u>(2222000)</u> |
| II Balance in Cash  | <u>64000</u>     | <u>64000</u>     | <u>128000</u>    |
| (Bal fig)           |                  |                  |                  |



In the books of K & L LtdRealisation A/c

| <u>Particular</u>       | <u>K ltd</u>   | <u>L ltd</u>   | <u>Particulars</u> | <u>K ltd</u>   | <u>L ltd</u>   |
|-------------------------|----------------|----------------|--------------------|----------------|----------------|
| To Goodwill             | 80000          | -              | By 5% Deb.         | 200000         | -              |
| To L&B                  | 450000         | 300000         | By 5. Loan         | -              | 200000         |
| To P&M                  | 620000         | 500000         | By Creditors       | 100000         | 210000         |
| To Furniture            | 60000          | 20000          | By LK Ltd          | 1560000        | 790000         |
| To Stock                | 225000         | 140000         | (PC)               |                |                |
| To Debtors              | 275000         | 175000         | By Real Loss       | 51375          | 37175          |
| To C&B                  | 161375         | 72175          | (Bal fig)          |                |                |
| To Pref. holders<br>A/c | 40000          | 30000          |                    |                |                |
|                         | <u>1911375</u> | <u>1237175</u> |                    | <u>1911375</u> | <u>1237175</u> |

Equity holders A/c

| <u>Particular</u> | <u>K ltd</u>   | <u>L ltd</u>  | <u>Particulars</u> | <u>K ltd</u>   | <u>L ltd</u>  |
|-------------------|----------------|---------------|--------------------|----------------|---------------|
| To Real Loss      | 51375          | 37175         | By ESC             | 800000         | 300000        |
| To Shares in LK   | 1056000        | 396000        | By PL              | 371375         | 97175         |
| To Cash           | 64000          | 64000         | BY GR              | -              | 100000        |
|                   | <u>1171375</u> | <u>497175</u> |                    | <u>1171375</u> | <u>497175</u> |

Pref. Holders A/c

| <u>Particular</u>      | <u>K ltd</u> | <u>L ltd</u> | <u>Particulars</u>      | <u>K ltd</u> | <u>L ltd</u> |
|------------------------|--------------|--------------|-------------------------|--------------|--------------|
| To Shares in LK<br>Ltd | 440000       | 330000       | By PSC                  | 400000       | 300000       |
|                        |              |              | By Real. A/c            | 40000        | 30000        |
|                        |              |              | (Loss on<br>Redemption) |              |              |

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal



Chapter-16 Accounting Standard 14Amalgamation of Companies(Extra Questions)\*Part I\*

Q.1 (8 Marks)

Calculation of PC

→ N.T. Over

|                            |                |
|----------------------------|----------------|
| F. Assets (16500-4000) 90% | 11,250         |
| C. Assets (19500-1000) 90% | 16,650         |
| Goodwill                   | 8,000          |
| Debentures                 | (10,000)       |
| Creditors                  | <u>(3,000)</u> |
| N. Assets                  | 22,900         |
| (PC)                       |                |

Payment in Shares (15,000)

[1000 Shares @ 15]

Payment in Cash (Bal) 7,900In the books of AB Ltd.Realisation A/c

|                    |              |                     |              |
|--------------------|--------------|---------------------|--------------|
| To GW              | 4,000        | By Debent.          | 10,000       |
| To F. Assets       | 16,500       | By Creditors        | 3,000        |
| To C. Assets       | 18,500       | By xy Ltd (PC)      | 22,900       |
| To Cash (Exp.)     | 400          | By Cash : F. Assets | 4,000        |
| To Profit on Real. | 500          | (Not Taken over)    |              |
| (Bal. fig)         | <u>39900</u> |                     | <u>39900</u> |



Equity holders A/c

|                      |                   |                    |              |
|----------------------|-------------------|--------------------|--------------|
| To Shares in xy Ltd. | 15,000            | By S. Capital      | 20,000       |
| To Cash              | 12500             | By PL A/c          | 7,000        |
|                      | <u>          </u> | By Profit on Real. | <u>500</u>   |
|                      | <u>27500</u>      |                    | <u>27500</u> |

C&B A/c

|                         |                   |                    |                   |
|-------------------------|-------------------|--------------------|-------------------|
| To Bal b/d              | 1,000             | By Realisation A/c | 400               |
| To xy Ltd (PC)          | 7,900             | (Exp.)             |                   |
| To Real. A/c (NTD) F.A. | 4,000             | By Equity holders  | 12500             |
|                         | <u>          </u> | (Bal. fig)         | <u>          </u> |
|                         | <u>12900</u>      |                    | <u>12900</u>      |

XY Ltd. A/c

|                    |                   |                  |                   |
|--------------------|-------------------|------------------|-------------------|
| To Realisation A/c | 22,900            | By Equity Shares | 15,000            |
|                    |                   | By Cash          | 79,00             |
|                    | <u>          </u> |                  | <u>          </u> |
|                    | <u>22900</u>      |                  | <u>22900</u>      |

In the books of Xy Ltd.Journal Entries

1) Business Purchase Dr 22900

To Liquidator of AB Ltd 22900

(Being Business Taken over)

2) GW a/c Dr 8000

F. Assets a/c Dr 11250

C. Assets a/c Dr 16650

To Deb. 10,000

To Cred. 3,000

To B. Purchase 22900



3) liquidator of AB Ltd Dr 22900

To Cash 7900

To ESC (1000x10) 10000

To SPR (1000x5) 5,000

(Being Payment made)

Q. 2 (10 -12 Marks)

Calculation of PC

|                                            |                 |
|--------------------------------------------|-----------------|
| Assets (Fair Value)                        | 5,00,000        |
| Debentures                                 | (1,00,000)      |
| Creditors                                  | <u>(50,000)</u> |
| N. Assets                                  | 3,50,000        |
| (PC)                                       |                 |
| i) Payment in Cash (1/4 <sup>th</sup> )    | <u>(87500)</u>  |
| ii) Payment in Shares (3/4 <sup>th</sup> ) | 262500          |
| Issue Price                                | 12              |
| No. of Shares                              | 21875           |

In the books of X Ltd.

Realisation A/c

|              |               |                  |               |
|--------------|---------------|------------------|---------------|
| To I. Assets | 50,000        | By Debentures    | 100000        |
| To F. Assets | 4,20,000      | By Creditors     | 50,000        |
| To C. Assets | 1,10,000      | By Ram Ltd (PC)  | 3,50,000      |
|              |               | By Loss on Real. | 80,000        |
|              |               | (Bal. fig)       |               |
|              | <u>580000</u> |                  | <u>580000</u> |

Equity holders A/c

|                  |               |                 |               |
|------------------|---------------|-----------------|---------------|
| To PL (Dr)       | 70,000        | By E.S. capital | 5,00,000      |
| To Cash          | 87,500        |                 |               |
| To Shares in Ram | 2,62,500      |                 |               |
| To Loss on Real. | <u>80000</u>  |                 |               |
|                  | <u>500000</u> |                 | <u>500000</u> |



| Ram Ltd. A/c                      |               |           |               |
|-----------------------------------|---------------|-----------|---------------|
| To Real. A/c (PC)                 | 3,50,000      | By cash   | 87500         |
|                                   |               | By Shares | 262500        |
|                                   | <u>350000</u> |           | <u>350000</u> |
| <u>In the books of Ram Ltd.</u>   |               |           |               |
| i) Business Purchase Dr 3,50,000  |               |           |               |
| To Liquidator of X Ltd. 3,50,000  |               |           |               |
| (Being Business Taken over)       |               |           |               |
| 2) Assets a/c Dr 500000           |               |           |               |
| To Debent. 100000                 |               |           |               |
| To Cred. 50000                    |               |           |               |
| To B. Purchase 350000             |               |           |               |
| (Being Assets & Liab. Taken over) |               |           |               |
| 3) Liquidator of X Ltd Dr 350000  |               |           |               |
| To cash 87500                     |               |           |               |
| (2/875x10) To ESC 218750          |               |           |               |
| (2/875x2) To SPR 43750            |               |           |               |
| (Being Payment made)              |               |           |               |
| 4) GW a/c Dr 400                  |               |           |               |
| To Cash 400                       |               |           |               |
| (Being Liq. Exp. Paid)            |               |           |               |
| 5) Debent. a/c Dr 100000          |               |           |               |
| To Cash 100000                    |               |           |               |
| (Being Deb. Of X Ltd. repaid)     |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |
|                                   |               |           |               |





Q. 6 (10 Marks)

Calculation of PC

|             | <u>X Ltd.</u> | <u>Y Ltd.</u> |
|-------------|---------------|---------------|
| S. Assets   | 1,00,000      | 60,000        |
| Creditors   | (25000)       | (5000)        |
| Loan from X | -             | (15000)       |
| Loan to Y   | 15000         | -             |
| PC          | 90,000        | 40,000        |

In the books of X Ltd & Y Ltd.Realisation A/c

| <u>Particular</u> | <u>X Ltd.</u> | <u>Y Ltd.</u> | <u>Particular</u> | <u>X Ltd.</u> | <u>Y Ltd.</u> |
|-------------------|---------------|---------------|-------------------|---------------|---------------|
| To S. Assets      | 1,20,000      | 60,000        | By cred.          | 25000         | 5000          |
| To loan to Y      | 15000         | -             | By loan from X    | -             | 15000         |
|                   |               |               | By X Ltd (PC)     | 90,000        | 40,000        |
|                   |               |               | By Loss on Real.  | 20,000        | -             |
|                   |               |               | (Bal)             |               |               |
|                   | <u>135000</u> | <u>60000</u>  |                   | <u>135000</u> | <u>60000</u>  |

Equity holders A/c

| <u>Particular</u>    | <u>X Ltd.</u> | <u>Y Ltd.</u> | <u>Particular</u> | <u>X Ltd.</u> | <u>Y Ltd.</u> |
|----------------------|---------------|---------------|-------------------|---------------|---------------|
| To PL                | -             | 10,000        | By S. Cap.        | 1,00,000      | 50,000        |
| To Loss on Real.     | 20,000        | -             | By PL             | 10,000        | -             |
| To Shares in XY Ltd. | 90,000        | 40,000        |                   |               |               |
|                      | <u>110000</u> | <u>50000</u>  |                   | <u>110000</u> | <u>50000</u>  |

In the books of XY Ltd.

1) B. Purchase Dr 130000

To Liquidator of X 90000

To Liquidator of Y 40000

(Being Business Purchased)



2) S. Assets Dr 160000  
 Loan to Y Dr 15000  
     To Cred. 30,000  
     To loan from X 15000  
     To B. Purchased 130000  
 (Being Assets & Liab. taken over)

3) Liquidator of X Dr 90000  
 Liquidator of Y Dr 40000  
     To ESC 130000  
 (Being Payment made)

4) Loan from X Dr 15000  
     To Loan to Y 15000  
 (Being Inter Co. Balances Eliminated)

Q. 10 \*Imp (16 Marks)

#### Calculation of Aug. Profits

|              | <u>River Ltd.</u> | <u>Canal Ltd.</u> |
|--------------|-------------------|-------------------|
| 94-95        | 352500            | 275000            |
| 95-96        | 440000            | 320000            |
| 96-97        | <u>445000</u>     | <u>342500</u>     |
| Total        | 1237500           | 937500            |
| Aug. Profits | 412500            | 312500            |
| (Total/3)    |                   |                   |

#### Calculation of 10% on Cap. Employed

|            | <u>River</u>     | <u>Canal</u>     |
|------------|------------------|------------------|
| F.A        | 2250000          | 1450000          |
| C.A        | 1250000          | 3050000          |
| C. L       | <u>(1000000)</u> | <u>(2750000)</u> |
| C. Emp.    | 25,00,000        | 17,50,000        |
| 10% of C.E | 2,50,000         | 1,75000          |



Valuation of GW

|                   | <u>River</u>    | <u>Canal</u>    |
|-------------------|-----------------|-----------------|
| Aug. Profits      | 412500          | 312500          |
| 10% of C.E        | <u>(250000)</u> | <u>(175000)</u> |
| Excess            | 162500          | 137500          |
| GW [Excess x 2.5] | 406250          | 343750          |

Calculation of PC

|           | <u>River</u>     | <u>Canal</u>     | <u>Total</u>     |
|-----------|------------------|------------------|------------------|
| GW        | 406250           | 343750           | 7,50,000         |
| FA        | 2250000          | 1450000          | 37,00,000        |
| CA        | 1250000          | 3050000          | 43,00,000        |
| Creditors | <u>(1000000)</u> | <u>(2750000)</u> | <u>(3750000)</u> |
| N. Assets | <u>2906250</u>   | <u>2093750</u>   | <u>50,00,000</u> |

Issue Price = Rs. 50,00,000 = 12.50  
400000 Shares

i) Shares to be issued to = 2906250 = 232500

River Ltd. 12.50

ii) Shares to be issued to = 2093750 = 167500

Canal Ltd. 12.50 400000

Balance sheet of Sagar Ltd.

|                                      |        |                    |
|--------------------------------------|--------|--------------------|
| <u>Shares holders Fund :-</u>        |        |                    |
| Shares Capital                       | Note 1 | 50,00,000          |
| R&S                                  | Note 2 | 12,50,000          |
| <u>Non current Liab.</u>             | -      | -                  |
| <u>Current Liab : Trade Payables</u> | Note 3 | <u>37,50,000</u>   |
|                                      |        | <u>1,00,00,000</u> |
| <u>Non current Assets :</u>          |        |                    |
| Tangible Assets                      | Note 4 | 37,00,000          |
| Intangible Assets                    | Note 5 | 7,50,000           |
| <u>Current Assets</u>                | Note 6 | <u>55,50,000</u>   |
|                                      |        | <u>1,00,00,000</u> |



Notes to A/c:1. Share Capital:

|                             |                  |
|-----------------------------|------------------|
| Shares issued to Public     | 10,00,000        |
| (1000000 x 10)              |                  |
| Shares issued to River Ltd. | 2325000          |
| (232500 x 10)               |                  |
| Shares issued to Canal Ltd. | 1675000          |
| (167500 x 10)               |                  |
|                             | <u>50,00,000</u> |

2. R&S:Security Premium Res:

|                        |                |
|------------------------|----------------|
| Public (1000000 x 2.5) | 250000         |
| River (232500 x 2.5)   | 581250         |
| Canal (167500 x 2.5)   | <u>418750</u>  |
|                        | <u>1250000</u> |

3. Trade Payable:

|                  |                |
|------------------|----------------|
| Creditors: River | 1000000        |
| Canal            | <u>2750000</u> |
|                  | <u>3750000</u> |

4. Tangible Assets

|       |                |
|-------|----------------|
| River | 2250000        |
| Canal | <u>1450000</u> |
|       | <u>3700000</u> |

5. Intangible Assets

|           |               |
|-----------|---------------|
| GW: River | 406250        |
| Canal     | <u>343750</u> |
|           | <u>750000</u> |

6. Current Assets:

|                     |                |
|---------------------|----------------|
| River               | 1250000        |
| Canal               | 3050000        |
| Public Issued: Cash | <u>1250000</u> |
|                     | <u>5550000</u> |



\*Part 2\*

Q.9 (12 Marks)

Calculation of PC (NPM)

|                   | Anand Ltd.                            | Bhanu Ltd.                           |
|-------------------|---------------------------------------|--------------------------------------|
| Payment in Shares | 18,00,000                             | 1,30,000                             |
|                   | $\frac{150000 \times 6 \times 10}{5}$ | $\frac{39000 \times 1 \times 10}{3}$ |
| Payment in Cash   | 10,000                                | 5,000                                |
| PC                | 1,810,000                             | 1,35,000                             |

Calculation of Payable value of DebenturesAnand Ltd. =  $350000 \times 8\% = 4,00,000$ 

7%

Bhanu Ltd. =  $70000 \times 8\% = 80,000$ 

7%

480,000

In the books of Anand Bhanu Ltd.

1) Business purchase a/ Dr 19,45,000  
 To Liquidator of Anand Ltd. 18,10,000  
 To Liquidator of Bhanu Ltd. 135,000

(Being Business Taken over)

2) Freehold Property Dr 580,000  
 P&M Dr 450,000  
 Stock Dr 844,000  
 Debtors Dr 353,500  
 Bank Dr 337,500  
 GW Dr 180850 (Bal. fig)

To 7% Deb. 480,000  
 To Creditors 314,850  
 To B. od 6000  
 To B. Purchase 19,45,000

(Being Assets & Liab. Taken over)

3) Liquidator of Anand Dr 18,10,000

To ESC 18,00,000

To Cash 10,000

(Being Payment made)

4) Liquidator of Bhanu Dr 135000

To ESC 130000

To Cash 5000

(Being Payment made)

B/S of Anand Bhanu Ltd.Share holders Funds :-

Share Capital

Note 1

19,30,000

R\$S

-

-

Non current Liab. :-

Long Term Debts

Note 2

4,80,000

Current Liab.

Trade Payable

Note 3

314850

Other current Liab.

Note 4

60002730850Non current Assets :-

Tangible Assets

Note 5

1030000

I. Assets

Note 6

180850

Current Assets :

Inventory

-

844000

Trade Receivable

-

353500

C&amp;CE

Note 7

3225002730850Note 1 : Share Capital

Shares issue to Anand

18,00,000

Shares issue to Bhanu

1300001930000



Note 2 : Long Term Debts

|                         |               |
|-------------------------|---------------|
| 7% Deb. Issued to Anand | 400000        |
| 7% Deb. Issued to Bhanu | <u>80000</u>  |
|                         | <u>480000</u> |

Note 3 : Trade Payables :

|           |               |
|-----------|---------------|
| Creditors | <u>314850</u> |
|-----------|---------------|

Note 4 : Tangible Assets

|          |                |
|----------|----------------|
| Property | 580000         |
| P&M      | <u>450000</u>  |
|          | <u>1030000</u> |

Note 5 : Intangible Assets

|    |               |
|----|---------------|
| GW | <u>180850</u> |
|----|---------------|

Note 6 : C&CE

|                       |                |
|-----------------------|----------------|
| Bank                  | 337500         |
| Payment to Liquidator | <u>(15000)</u> |
|                       | <u>322500</u>  |

Q. 3 (4 Marks)

(Note : In the Given question, we have ignored Debentures/creditors because PC is already Given and we have applied Net Payment Method)

Calculation of PCPayment to Pref. holders :-

|                         |         |
|-------------------------|---------|
| Payment in Pref. Shares | 150,000 |
|-------------------------|---------|

$$\frac{2000 \times 3 \times 100}{4}$$

Payment to Equity holders :-

|                                            |                  |
|--------------------------------------------|------------------|
| Payment in Cash (5000x20)                  | 100,000          |
| Payment in Shares ( <u>5000</u> x 6 x 125) | <u>750,000</u>   |
| 5 PC                                       | <u>10,00,000</u> |



Q. 4 (4 Marks)

Calculation of Exchange Ratio

$$\text{Exchange Ratio} = \frac{\text{Value Per Share (V. Co)}}{\text{Value Per Share (P. Co)}}$$

$$= \frac{70}{120}$$

$$= .5833$$

No. of Shares to be issued = 3000 Shares x .5833

By Y Ltd. = 1750 Shares

Calculation of PC

Payment to Pref. holders : Cash 60,000

Payment to Equity holders (1750 x 120) 210000PC 270000

Q. 7 (6-8 Marks)

Calculation of PC

→ B/S

|                 | <u>Super Ltd</u> | <u>Fast Ltd</u>  | <u>Total</u>     |
|-----------------|------------------|------------------|------------------|
| Building        | 10,00,000        | 6,00,000         | 1600000          |
| Machinery       | 4,00,000         | 5,00,000         | 9,00,000         |
| Stock           | 3,00,000         | 40,000           | 3,40,000         |
| Debtors         | 2,40,000         | 40,000           | 280000           |
| C&B             | 3,20,000         | 20,000           | 3,40,000         |
| Creditors       | (60,000)         | (40,000)         | (1,00,000)       |
| Provident Fund  | (1,00,000)       | ( - )            | (1,00,000)       |
| Emp. Profit A/c | <u>( - )</u>     | <u>(60,000)</u>  | <u>(60,000)</u>  |
| N. Assets       | <u>21,00,000</u> | <u>11,00,000</u> | <u>32,00,000</u> |
| (PC)            |                  |                  |                  |



B/S of Super Fast Exp. Ltd.Share holders Fund :-

Share Capital

Note 1

32,00,000

R\$S

-

-

Non Current Liab.

Long Term Provisions

Note 2

160000

Current Liab.

Trade Payable

Note 3

10000034,60,000Non current Assets :-

Tangible Assets

Note 4

2500000

Current Assets :-

Inventory

-

340000

Trade Receivable

-

280000

C&amp;C.E

-

3400003460000Notes to A/c :-Note 1 : Share Capital

Shares issued to Super Exp. 21,00,000

Shares issued to Fast Exp. 11,00,0003200000Note 2 : Long Term Prov.

Prov. Fund

1,00,000

EPS A/c

60,000160000Note 3 : Trade Payables

Creditors

100000

Note 4 : Tangible Assets

|           |                |
|-----------|----------------|
| Building  | 1600000        |
| Machinery | <u>900000</u>  |
|           | <u>2500000</u> |

Q. 12 (16 Marks)

Calculation of PC

|           |               |
|-----------|---------------|
| F. Assets | 12,80,000     |
| Stock     | 7,70,000      |
| B/R       | <u>30,000</u> |
| PC        | 20,80,000     |

i) Payment in Pre. Shares (51,00,000)ii) Payment in Equity Shares (15,70,000)a) No. of Pref. Shares =  $\frac{510000}{100} = 5100$  Sharesb) No. of Equity Shares =  $\frac{1570000}{8} = 196250$  ShareIn the books of Exe Ltd.Realisation A/c

|                          |                |                   |                 |
|--------------------------|----------------|-------------------|-----------------|
| To F. Assets             | 9,64,000       | By PFDD           | 8,000           |
| To Stock                 | 7,75,000       | By B/P            | 40,000          |
| To Debtors (NTD)         | 160000         | By Creditors      | 226000          |
| To B/R                   | 30,000         | By PF Tax         | 220000          |
| To Cash (liab. & Exp.)   | 479000         | By wye ltd (PC)   | 20,80,000       |
| To Profit in Real. (Bal) | <u>316000</u>  | By Cash (Debtors) | <u>1,50,000</u> |
|                          | <u>2724000</u> |                   | <u>2724000</u>  |



| <u>Equity holders A/c</u>       |                |                       |                |
|---------------------------------|----------------|-----------------------|----------------|
| To Pref. Shares in wye Ltd      | 510000         | By S. cap.            | 12,00,000      |
| To Equity Shares in wye Ltd     | 1570000        | By Pre Inc. Profit    | 42000          |
|                                 |                | By C. Res.            | 270000         |
|                                 |                | By PL A/c             | 252000         |
|                                 |                | By Profit on Real.    | <u>316000</u>  |
|                                 | <u>2080000</u> |                       | <u>2080000</u> |
| <u>C&amp;B A/c</u>              |                |                       |                |
| To Bal b/d                      | 3,29,000       | By <u>Real. A/c</u> : |                |
| To Real. (Debtors)              | 150000         | B/P                   | 38000          |
|                                 |                | Tax                   | 222000         |
|                                 |                | Exp.                  | 8000           |
|                                 |                | Cred. (Bal            | <u>211000</u>  |
|                                 | <u>479000</u>  | fig)                  | <u>479000</u>  |
| <u>Wye Ltd A/c</u>              |                |                       |                |
| To Real. A/c                    | 20,80,000      | By Pref. Shares       | 510000         |
|                                 | <u>2080000</u> | By Equity Shares      | <u>1570000</u> |
|                                 |                |                       | <u>2080000</u> |
| <u>In the books of wye Ltd.</u> |                |                       |                |
| 1) Business Purchase Dr 2080000 |                |                       |                |
| To Liquidator of Exe 2080000    |                |                       |                |
| (Being Business Taken over)     |                |                       |                |
| 2) F. Assets Dr 12,80,000       |                |                       |                |
| Stock Dr 7,70,000               |                |                       |                |
| B/R Dr 30,000                   |                |                       |                |
| To B. Purchase 20,80,000        |                |                       |                |
| (Being Assets taken over)       |                |                       |                |
| 3) Liquidator of Exe Dr 2080000 |                |                       |                |
| To PSC 150000                   |                |                       |                |
| To ESC 1570000                  |                |                       |                |
| (Being Payment made)            |                |                       |                |



Q. 11 (10 Marks)

Statement Showing Shares to be issued

1) Avg. Profits :-

$$\text{Star Ltd} = \frac{224788 + (1250) + 188962}{3} = 13750$$

$$\text{Moon Ltd} = \frac{136950 + 171050 + 179500}{3} = 162500$$

2) Distribution of Shares :- (137500 : 162500)

$$\text{Star Ltd} = \frac{137500}{300000} \times 300000 \text{ Shares} = 13750$$

$$(PC = 13750 \text{ Shares @ } 5/- = 68750)$$

$$\text{Moon Ltd} = \frac{162500}{300000} \times 300000 \text{ Shares} = 16250$$

$$(PC = 16250 @ 5/- = 81250)$$

In the books of Neptune Ltd

1) Business Purchase Dr 150000

To Liquidator of Star 68750

To Liquidator of Moon 81250

(Being Business acquired)

2) F. Assets Dr 550000

C. Assets Dr 228625

To current Liab. 388625

To B. Purchase 150000

To Cap. Res. (Bal. fig) 240000

(Being Assets &amp; Liab. Taken over)





3) Liquidator of Star Ltd Dr 68750

Liquidator of Moon Ltd Dr 81250

To SC 150000

(Being Payment made)

4) Creditors Dr 21675

To Debtors 21675

(Being Inter Co. Bal. Eliminated)

B/S

Share holders Fund:

Share Capital

150000

R&S : Cap Res.

240000

Non current Laib.

-

Current Liab. (388625-21675)

366950

756950

Non current Assets :

Tangible

550000

Current Assets (228625-21675)

206950

756950

\*Part 3\*

Q. 5 \*V.V. Imp (16 -20 Marks)

Calculation of PC

Payment in Cash (20,000x30) 6,00,000

Payment in Shares (20000x4x100) 16,00,000

5 PC 22,00,000

Statement Showing Revised Balance after Payment of Dividend

X Ltd

Y Ltd

(a) P&L Balances

480000

140000

Declared Dividend @ 6%

(360000)

(120000)

Revised Bal. 1,20,000

20,000



|                    |           |          |
|--------------------|-----------|----------|
| (b) C&B Balances   | 10,80,000 | 1,80,000 |
| Dividend Paid @ 6% | (360000)  | (120000) |
| Revised Bal.       | 720000    | 60,000   |

In the books of Y Ltd.

Realisation A/c

|                  |                |                  |                |
|------------------|----------------|------------------|----------------|
| To Goodwill      | 4,00,000       | By Creditors     | 3,80,000       |
| To Machinery     | 16,80,000      | By Debentures    | 12,00,000      |
| To Furniture     | 20,000         | By X Ltd (PC)    | 22,00,000      |
| To Stock         | 7,20,000       | By Loss on Real. | 1,20,000       |
| To Debtors       | 7,20,000       | (Bal. fig)       |                |
| To C&B (T. over) | 56000          |                  |                |
| To New Project   | 3,00,000       |                  |                |
| To Cash (Exp)    | 4,000          |                  |                |
|                  | <u>3900000</u> |                  | <u>3900000</u> |

Equity holders A/c

|                     |                |                |                |
|---------------------|----------------|----------------|----------------|
| To Cash             | 600000         | By E.S capital | 20,00,000      |
| To Shares in X Ltd. | 16,00,000      | By Cap. Res.   | 2,00,000       |
| To Loss on Real.    | 1,20,000       | By G. Res.     | 1,00,000       |
|                     |                | By P&L A/c     | 20,000         |
|                     | <u>2320000</u> |                | <u>2320000</u> |

C&B A/c

|                         |       |                   |       |
|-------------------------|-------|-------------------|-------|
| To Bal b/d (N. T. over) | 4,000 | By Real. A/c Exp. | 4,000 |
|                         |       |                   |       |

X Ltd A/c

|              |                  |                  |                  |
|--------------|------------------|------------------|------------------|
| To Real. A/c | 22,00,000        | To Cash          | 6,00,000         |
|              | <u>22,00,000</u> | To Shares in Ltd | 16,00,000        |
|              |                  |                  | <u>22,00,000</u> |



In the books of X Ltd.

1) Business Purchase Dr 22,00,000  
     To Liquidator of Y Ltd. 22,00,000  
 (Being Business Acquired)

2) Machinery Dr 19,76,000  
     Furniture Dr 24,000  
     Stock Dr 6,40,000  
     Debtors Dr 6,84,000  
     New Project Dr 380000  
     C&B Dr 56000 (T.O)  
     Goodwill (Bal.) Dr 92,000  
         To Creditors 380000  
         To 11% Deb. holders 12,72,000  
         To B. Purchase 22,00,000

(Being Assets & Liab. Taken over)

3) Liquidator of Y Ltd. Dr 2200000  
     To Cash 6,00,000  
     To E.S. Cap. 16,00,000

(Being Payment made)

4) 11 % Deb. Holders Dr 1272000  
     To 12% Deb. 12,00,000  
     To Cash 72,000  
 (Being Claim of Deb. Holders Settled)

5) GW a/c Dr 20,000  
     To Cash 20,000  
 (Being Liq. Exp. of Y Ltd. Paid)



Q .17

Calculation of PC & IV

|                   | A Ltd             | B Ltd             |
|-------------------|-------------------|-------------------|
|                   | (IV)              | (PC)              |
| Long Term Invest. | -                 | 4,80,000          |
| Sundry Assets     | 30,00,000         | 14,00,000         |
| Creditors         | <u>(6,00,000)</u> | <u>(38,00,00)</u> |
| N. Assets         | 24,00,000         | 15,00,000         |
| No. of Shares     | 2,00,000          | <u>(PC)</u>       |
| IV                | 12/-              |                   |

No. of Shares =  $15,00,000 / 12 = 125000$  Shares

In the books of B Ltd.Realisation A/c

|                    |           |               |         |
|--------------------|-----------|---------------|---------|
| To S. Assets       | 18,00,000 | By Creditors  | 380000  |
| To Profit on Real. | 80,000    | By A Ltd (PC) | 1500000 |
| (Bal. fig)         |           |               |         |

Shares holders A/c

|                     |           |              |           |
|---------------------|-----------|--------------|-----------|
| To Shares in A Ltd. | 15,00,000 | By S. cap.   | 12,00,000 |
|                     |           | By G. Res.   | 22,00,00  |
|                     |           | By Profit on | 80,000    |
|                     |           | Real.        |           |

In the books of A Ltd.

1) Business Purchase Dr 15,00,000

To Liquidator of B Ltd. 15,00,000

(Being Business Purchased)

2) S. Assets Dr 14,00,000

L.T. Invest. Dr 480000

To Creditors 380000

To B. Purchase 15,00,000

(Being Assets & Liab. Taken over)



3) Liquidator of B Ltd Dr 15,00,000

(125000x10) To ESC (10) 1250000

(12500x2) To SP Res. (2) 250000

(Being Payment made)

4) Creditors Dr 100000

To Debtors 100000

(Being Inter Co. Balances Eliminated)

5) GW Dr 20,000 (120000x 120)

120

To S. Res. 20,000

(Being S. Res. Created)

Q. 18 (12 Marks)

Calculation of PC

Payment to Pref. holders (1,00,000-10%) 90,000

Payment to Equity holders (300000x8x10) 4,00,000

6 PC 4,90,000

In the books of A Ltd.

Journal Entries

(i) F. Assets a/c Dr 105000 (700000x15%)

To Rev. Res. 105000

(Being upward Revaluation made by A Ltd of its own Assets)

(ii) P&L a/c Dr 60,000

To Declared Dividend 60,000

(Being Dividend Declared @ 10% on 6L by A Ltd.)

(iii) Declared Dividend Dr 60000

To Bank 60000

(Being Dividend Paid by A Ltd)



(iv) Business Purchase Dr 490000

To Liquidator of B Ltd. 490000

(Being Business Purchased)

(v) F. Assets a/c Dr 287500 (250000+15%)

Stock a/c Dr 304000 (320000-5%)

Debtors a/c Dr 180500 (190000-5%)

B/R a/c Dr 1,00,000

C&B a/c Dr 10,000 (40000-30,000)

To Creditors 1,25,000

To B/P 25,000

To 12% Deb. holders 1,62,000

(150000+8%)

To B. Purchase 490000

To Cap. Res. (Bal) 80,000

(Being Assets & Liab taken over)

(vi) Liquidator of B Ltd. Dr 490000

To 10% PSC 90,000

To ESC 4,00,000

(Being Payment made)

(vii) 12% Deb. holders Dr 162000 (90)

(\*162000/90 = 1800 Deb)

Discount Dr 18000 (10)

To 12% Deb. 180000

(Being Claim of Deb. holders Settled by issue of 1800 Deb. @ 90)

(viii) GW a/c Dr 30,000

To Cash 30,000

(Being Liq. Exp. of B Ltd. Paid)

(ix) Creditors a/c Dr 10,000

To Debtors 10,000

(Being Inter Co. Balances Eliminated)





Q .16 (12 – 16 Marks)

Calculation of PC

|                                     | <u>X Ltd.</u>                                      | <u>Y Ltd.</u>                                                  |
|-------------------------------------|----------------------------------------------------|----------------------------------------------------------------|
| <u>Payment to Equity holders :-</u> |                                                    |                                                                |
| Equity Shares                       | 90                                                 | 54                                                             |
|                                     | $\frac{5 \text{ crore} \times 6 \times 30}{10}$    | $\frac{4.5 \text{ crore} \times 2 \times 30}{5}$               |
|                                     | 10                                                 | 5                                                              |
| <u>Payment to Pref. holders :-</u>  |                                                    |                                                                |
| Pref. Shares                        | 24                                                 | 16.8                                                           |
|                                     | $\frac{20 \text{ crore} \times 1 \times 120}{100}$ | $\frac{\text{Rs. } 14 \text{ crore} \times 1 \times 120}{100}$ |
|                                     | 1                                                  | 1                                                              |
| PC                                  | <u>114</u>                                         | <u>70.80</u>                                                   |

Calculation of Payable value of Debentures

$$X \text{ Ltd.} = \frac{4 \text{ crore} \times 15\%}{18\%} = 3.33 \text{ crore}$$

$$Y \text{ Ltd.} = \frac{5 \text{ crore} \times 15\%}{18\%} = 4.17 \text{ crore}$$

$$7.50 \text{ crore}$$

In the books of Z Ltd.Journal Entries

a) Business Purchase Dr 184.80  
     To Liquidator of X Ltd 114  
     To Liquidator of Y Ltd 70.80

(Being Business Purchased)

b) L&B a/c Dr 63 (38+25)  
     P&M a/c Dr 41 (24+17)  
     Invest. a/c Dr 16 (10+6)  
     Stock a/c Dr 37 (22+15)  
     Debtors a/c Dr 54 (30+24)



Cash a/c Dr 29 (16+13)  
 To creditors 43 (31+12)  
 To 18% Deb. 7.5  
 To B. Purchase 184.80  
 To Cap. Res. 4.7 (Bal.)  
 (Being Assets & Liab. Taken over)

c) Liquidator of X Ltd. Dr 114  
 To ESC (90 x 10) 30  
 30  
 To PSC (24 x 100) 20  
 120  
 To SP Res. 64  
 $\left[ \begin{array}{l} \underline{90} \times 20 \\ 30 \end{array} \right] + \left[ \begin{array}{l} \underline{24} \times 20 \\ 120 \end{array} \right]$   
 (Being Payment Of PC made)

d) Liquidator of Y Ltd Dr 70.80  
 To ESC (54 x 10) 18  
 30  
 To PSC (16.8 x 100) 14  
 120  
 To SP Res. 38.8  
 $\left[ \begin{array}{l} \underline{54} \times 20 \\ 30 \end{array} \right] + \left[ \begin{array}{l} \underline{16.8} \times 20 \\ 120 \end{array} \right]$   
 (Being Payment of PC made)

e) Amalgamation Adj. Dr 9 (5+4)  
 To I.A. Res. 9  
 (Being Stat. Res. Disclosed)



\*Part 4\*

Q .15 (12-16 Marks)

Statement Showing Calculation of PC(a) Payment in Equity Shares :-I Payment to P

|                              |                     |
|------------------------------|---------------------|
| 24000 Shares x <u>475000</u> | @ 25 = Rs. 2,85,000 |
| 10,00,000                    |                     |

II Payment to Q

|                              |                          |
|------------------------------|--------------------------|
| 24000 Shares x <u>525000</u> | @ 25 = <u>Rs. 315000</u> |
| 10,00,000                    | <u>Rs. 6,00,000</u>      |

b) Payment in Pref. Shares :-

|                 | <u>P</u>           | <u>Q</u>           |
|-----------------|--------------------|--------------------|
| P&M             | 525000             | 675000             |
| Building        | 775000             | 648000             |
| C. Assets       | 163500             | 158600             |
| C. Liab.        | <u>(623500)</u>    | <u>(557600)</u>    |
| Cap. Emp.       | <u>840000</u>      | <u>924000</u>      |
| Value of Shares | <u>840000 x 8%</u> | <u>924000 x 8%</u> |
|                 | 12%                | 12%                |
|                 | = 560000           | = 616000           |

(c) Total PC :-

$$P = 285000 + 560000 = 845000$$

$$Q = 315000 + 616000 = 931000$$

Calculation of GW/C. Res.

|           | <u>P</u>        | <u>Q</u>        |
|-----------|-----------------|-----------------|
| Total PC  | 8,45,000        | 9,31,000        |
| N. Assets | <u>(840000)</u> | <u>(924000)</u> |
| GW        | <u>5000</u>     | <u>7000</u>     |



| <u>B/S OF PQ Ltd.</u>           |                 |                 |
|---------------------------------|-----------------|-----------------|
| <u>Shares holders Fund :-</u>   |                 |                 |
| <u>Shares Capital</u>           | <u>Note 1</u>   | <u>1776000</u>  |
| <u>R\$S</u>                     | <u>-</u>        | <u>-</u>        |
| <u>Non current Liab.</u>        | <u>-</u>        | <u>-</u>        |
| <u>Current Liab</u>             | <u>Note 2</u>   | <u>11311000</u> |
|                                 | <u>Total</u>    | <u>2907100</u>  |
| <u>Non current Assets :</u>     |                 |                 |
| <u>Tangible Assets</u>          | <u>Note 3</u>   | <u>2623000</u>  |
| <u>I. Assets</u>                | <u>Note 4</u>   | <u>14000</u>    |
| <u>Current Assets</u>           | <u>Note 5</u>   | <u>270100</u>   |
|                                 |                 | <u>2907100</u>  |
| <u>Note 1 : Share Capital</u>   |                 |                 |
| <u>Equity S. Capital :</u>      |                 |                 |
| <u>Issued to P 285000</u>       |                 |                 |
| <u>Issued to Q 315000</u>       |                 |                 |
| <u>Total (a) 600000</u>         |                 |                 |
| <u>Pref. S. Capital :</u>       |                 |                 |
| <u>Issued to P 560000</u>       |                 |                 |
| <u>Issued to Q 616000</u>       |                 |                 |
| <u>Total (b) 1176000</u>        |                 |                 |
| <u>Total (a + b) 17,76,000</u>  |                 |                 |
| <u>Note 2: Current Liab. :-</u> |                 |                 |
| <u>P</u>                        | <u>623500</u>   |                 |
| <u>Q</u>                        | <u>557600</u>   |                 |
|                                 | <u>1181100</u>  |                 |
| <u>Inter Co. Bal.</u>           | <u>(50,000)</u> |                 |
|                                 | <u>1131100</u>  |                 |



**Note 3 : Tangible Assets**

P&amp;M : P 525000

Q 675000 1200000Building : P 775000 1423000Q 648000 2623000**Note 4 : I. Assets**

Goodwill (P) 5000

(Q) 7000

Goodwill on Stock 2000(10,000 x 20%) 14000**Note 5 : Current Assets**

P 163500

Q 158600

Stock Res. (2000)

Inter Co. Elimination (50,000)270100

Q .13 (12 Marks)

**Calculation of PC**(a) Swap Ratio = Value Per Share (V.Co)

Value Per Share (P. Co)

$$\rightarrow A \text{ Ltd.} = \frac{18}{16} = 1.125$$

$$\rightarrow B \text{ Ltd.} = \frac{20}{16} = 1.25$$

(b) No. of Shares to be issued = Shares in V. Co x Swap Ratio

$$\rightarrow A \text{ Ltd.} = 100000 \text{ Shares} \times 1.125 = 112500$$

$$\rightarrow B \text{ Ltd.} = 60000 \text{ Shares} \times 1.25 = 75000$$



(c) PC: A Ltd. =  $112500 \text{ Shares} \times 16 = 18,00,000$

B Ltd. =  $75000 \text{ Shares} \times 16 = \underline{12,00,000}$

PC 30,00,000

In the books of AB Ltd.

1) Business Purchase Dr 30,00,000

To Liquidator of A Ltd. 18,00,000

To Liquidator of B Ltd. 12,00,000

(Being Business Purchased)

2) L&B a/c Dr 13,50,000

P&M a/c Dr 8,80,000

Investment a/c Dr 80,000

Inventory a/c Dr 8,70,000

Debtors a/c Dr 6,70,000

Cash a/c Dr 70,000

GW (Bal. fig) Dr 370000

To Creditors 4,30,000

To S. Loan 3,00,000

To Debent. 5,00,000

To other Liab. 60,000

To B. Purchase 30,00,000

(Being Assets & Liab. Taken over)

3) Liquidator of A Ltd. Dr 18,00,000

Liquidator of B Ltd. Dr 12,00,000

To S. Capital ( $187500 \times 10$ ) 1875000

To SPR ( $187500 \times 6$ ) 1125000

(Being Payment made)





| <u>B/S of AB Ltd.</u>                          |               |                |
|------------------------------------------------|---------------|----------------|
| <u>Share holders Funds :</u>                   |               |                |
| S. Capital                                     |               | 1875000        |
| R&S : SPR                                      |               | 1125000        |
| <u>Non Current Liab.</u>                       |               |                |
| LTD : Debentures                               | 5,00,000      |                |
| S. Loan                                        | 300000        | 800000         |
| <u>Current Liab.</u>                           |               |                |
| Trade Payable                                  | 430000        |                |
| O.C. Liab                                      | 60000         | <u>490000</u>  |
|                                                |               | <u>4290000</u> |
| <u>Non current Assets :</u>                    |               |                |
| Tangible Assets                                |               | 2230000        |
| I. Assets (GW)                                 |               | 370000         |
| Invest.                                        |               | 80000          |
| <u>Current Assets :</u>                        |               |                |
| Stock                                          |               | 870000         |
| Debtors                                        |               | 670000         |
| Cash                                           |               | <u>70000</u>   |
|                                                |               | <u>4290000</u> |
| Q.8 (12 Marks)                                 |               |                |
| <u>Calculation of PC</u>                       |               |                |
| Payment in Shares (6000 x <u>3</u> ) 9000      |               |                |
|                                                | 2             |                |
|                                                |               | <u>9000</u>    |
| <u>Calculation of Profit or Loss in Merger</u> |               |                |
| PC                                             | 9000          |                |
| Share Capital of V Ltd.                        | <u>(6000)</u> |                |
| *Diff                                          | <u>3000</u>   |                |



\*It will be written off from R&S

In the books of Y Ltd.

1) Business merger a/c Dr 9000  
     To Liquidator of V Ltd. 9000  
 (Being Business merged)

2) P&M a/c           Dr 5000  
     Furniture a/c     Dr 1700  
     Stock a/c         Dr 4041  
     Debtor a/c        Dr 1020  
     Cash a/c          Dr 609  
     B/R a/c            Dr 130  
     Loss on merger Dr 3000 (Bal.)

    To Prov.           702  
     To Creditors       463  
     To 13% Deb.       1000  
     To PL              825  
     To G. Res.         3200  
     To FP Res.         310  
     To B. merger       9000

(Being Assets, Liab. & Res. Taken over)

3) Liquidator of V Dr 9000  
     To S. Cap.        9000  
 (Being PC Paid)

4) Loss on merger Dr    /  
     To Cash             /  
 (Being Exp. Paid)

5) G. Res. Dr    300/  
     To Loss on merger   300/  
 (Being Loss written off)



6) B/P Dr 120

To B/P 120

(Being Inter Co. Balances Eliminated)

Notes :

Note 1 : Share Capital

|                    |              |
|--------------------|--------------|
| Opening Balance    | 15000        |
| New Issue : Merger | <u>9000</u>  |
|                    | <u>24000</u> |

Note 2 : R&S

|                    |                        |
|--------------------|------------------------|
| F. P. Reserve      | 310                    |
| Securities Premium | 3000                   |
| G. Res. : Y        | 9500                   |
| V                  | 3200                   |
| Loss               | <u>(3001)</u> 9699     |
| P&L : Y            | 2870                   |
| V                  | <u>825</u> <u>3695</u> |
|                    | <u>16704</u>           |

Note 3 : Long Term Debt.

|             |      |
|-------------|------|
| 13% Debent. | 1000 |
|-------------|------|

Note 4 : Trade Payable

|               |                 |
|---------------|-----------------|
| Creditors : Y | 1080            |
| V             | <u>463</u> 1543 |

Note 5 : Short Term Prov.

|   |                 |
|---|-----------------|
| Y | 1830            |
| V | <u>702</u> 2532 |

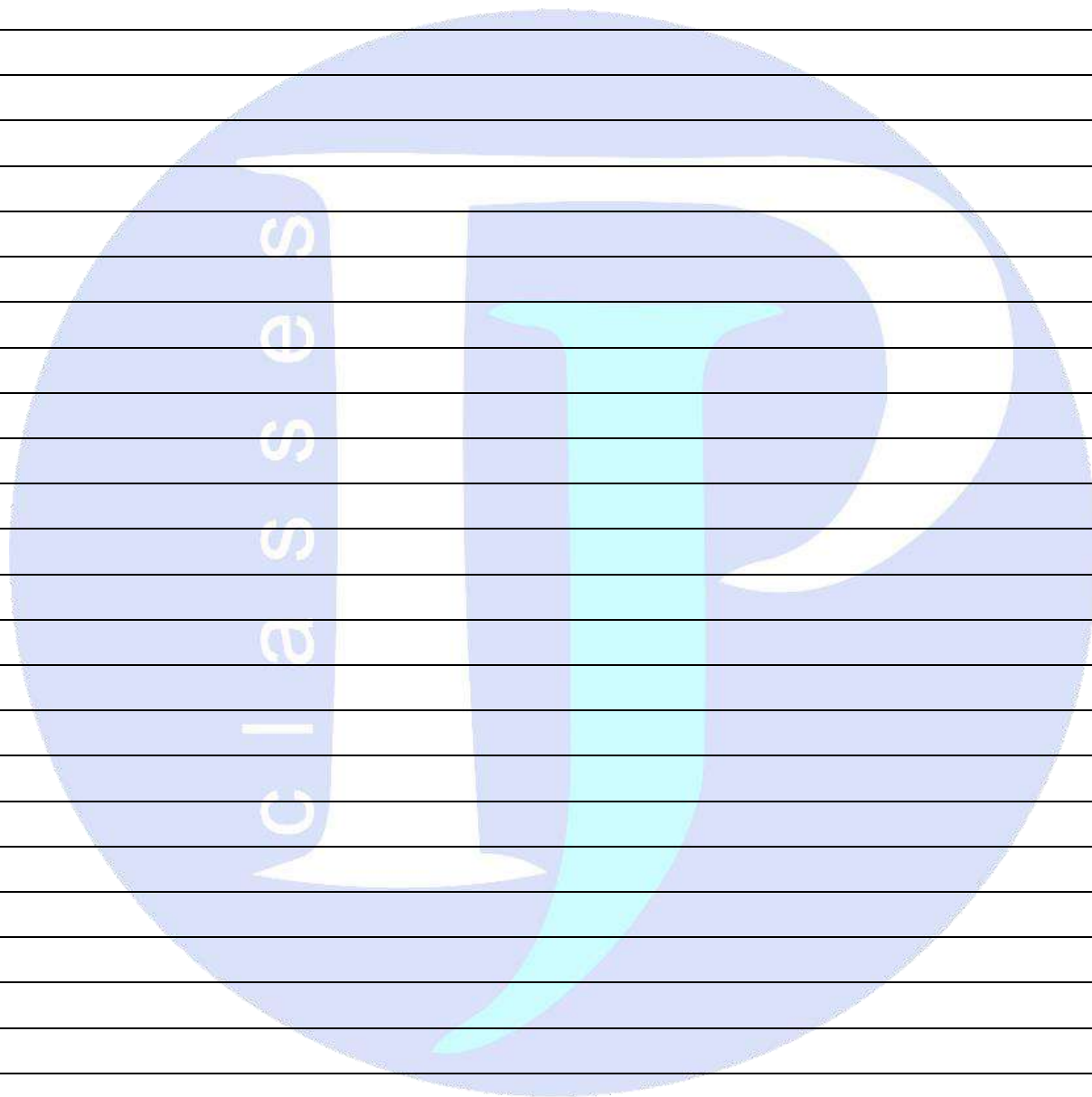
Note 6 : Tangible Assets

|         |                   |
|---------|-------------------|
| L&B     | 6000              |
| P&M : Y | 14000             |
| V       | <u>5000</u> 19000 |



|                               |             |              |              |
|-------------------------------|-------------|--------------|--------------|
| Furniture: Y                  | 2304        |              |              |
| V                             | <u>1700</u> | <u>4004</u>  |              |
|                               |             | <u>29004</u> |              |
| <u>Note 7: Current Assets</u> |             |              |              |
| Stock: Y                      | 7862        |              |              |
| V                             | <u>4041</u> | 11903        |              |
| Debtors: Y                    | 2120        |              |              |
| V                             | <u>1020</u> | 3140 + 10    |              |
| C&B : Y                       | 1114        | <u>3150</u>  |              |
| V                             | 609         |              |              |
| Exp.                          | <u>(1)</u>  | 1722         |              |
|                               | <u>B/S</u>  |              |              |
| <u>Share holders fund :</u>   |             |              |              |
| S. Capital                    |             | Note 1       | 24000        |
| R&S                           |             | Note 2       | 16704        |
| <u>Non current Liab.</u>      |             |              |              |
| Long Term Debt.               |             | Note 3       | 1000         |
| <u>Current Liab.</u>          |             |              |              |
| T. Payable                    |             | Note 4       | 1543         |
| S. Term Prov.                 |             | Note 5       | 2532         |
|                               |             |              | <u>45779</u> |
| <u>Non current Assets</u>     |             |              |              |
| Tangible                      |             | Note 6       | 29004        |
| <u>Current Assets</u>         |             |              |              |
| Stock                         |             |              | 11903        |
| T. Res.                       |             |              | 3150         |
| C&CE                          |             |              | <u>1722</u>  |
|                               |             |              | <u>45779</u> |





Thank You  
Best of Luck.....!!!!!!  
CA. Parveen Jindal

