

2.

PREPARATION OF FINANCIAL STATEMENTS

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SECTION - A

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class)

Q.FS.RMP.01(A) (Exam May'24) (Dividend Declaration)

Following information are available in respect of Z Limited as on 31st March, 2024

- | | |
|--|---------------|
| 1. Equity shares of Rs. 100 each | Rs. 500 lakhs |
| 2. General reserve | Rs. 100 lakhs |
| 3. Loss for the year ending 31 st March, 2024 | Rs. 5 lakhs |

Due to absence of profits during the year 2023 – 24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023 – 24 are as following:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend.

SOLUTION

In case of declaration of dividend out of free reserves, there are 3 conditions:

- (1) Dividend Rate < Average Rate of last 3 years $10\% < 12\% [(12+14+10)/3]$
Condition is Satisfied
- (2) Dividend Distributed < 10% of PUSC + Reserve and Surplus $50,00,000 < 59,50,000$
 $[(5,00,00,000 + 1,00,00,000 - 5,00,000) \times 10\%]$
Condition is Satisfied



- (3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)
Condition is Not Satisfied
- (4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000) Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

- (1) Condition I
The proposed dividend of 10% is less than the average rate of dividend being 12% (i.e.) (12+14+10) / 5 = 12 %.
Hence, this condition is satisfied.

- (2) Condition II
Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	5,00,000
Amount to be drawn from General Reserve	55,00,000

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

= 10% of [₹ 500 lakhs + ₹ 100 lakhs] = ₹ 60,00,000

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

- (3) Condition III
Balance of reserves after withdrawal (100-55) ₹ 45,00,000 15% of paid-up capital ₹ 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning = ₹ 1,00,00,000
of the year

- Closing balance of reserves being 15% of paid-up capital = ₹ 75,00,000

Reserves available = ₹ 25,00,000

Maximum permissible Divisible Profits Permissible withdrawal as above = ₹ 25,00,000

Less: Current Year's Loss = ₹ 5,00,000

Maximum permissible Divisible profit = ₹ 20,00,000

Actual permissible rate of Dividend = (₹ 20,00,000 / ₹ 5,00,00,000) x 100 = 4%

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

Q.FS.RMP.02(A): (RTP May22)

“Current maturities of long-term borrowing are disclosed separately under the head Other current liabilities in the balance sheet of a company.” You are required to comment in line with schedule III to the Companies Act 2013.

SOLUTION

Current maturities of loan term borrowing are shown under ‘short term borrowings’ and not under ‘Other current liabilities’ as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Hence the statement given in the question is not valid.

Q.FS.SM.03(A):

The Balance Sheet of Appropriate Ltd. as at 31st March, 2020 is as follows:

	Note No.	31 st March, 2020	31 st March, 2019
<u>EQUITY & LIABILITIES</u>			
Share Capital	1		
Reserves and Surplus	2		
Employee Stock Option Outstanding	3		
Share Application Money Refundable	4		
<u>Non-Current Liabilities</u>			
Deferred Tax Liabilities (Arising from Indian Income Tax)	5		
<u>Current Liabilities</u>			
Trade Payable	6		
Total			
<u>ASSETS</u>			
<u>Non-Current Assets</u>			
PPE – Tangible	7		
Capital Work in Progress – (Including Capital Advance)	8		
<u>Current Assets</u>			
Trade Receivables	9		
Deferred Tax Assets (Arising from Income Tax)	10		
Profit and Loss (Debit Balance)			
Total			

Comment on the presentation in terms of Schedule III to the Companies Act, 2013 notified by the Central Government.

SOLUTION

Following Observations are considered from the given Balance Sheet Presentation: -

- 1) Under Equity & Liabilities side, First head is “Shareholders Fund” which is not mentioned on the face of Balance Sheet.
- 2) “Employee Stock Option Outstanding” is being wrongly shown on the face of Balance Sheet. It should be shown under the head “Reserves & Surplus” as a separate line item in Notes.
- 3) Share Application money refundable should be shown under Other Current Liabilities in the Notes.
- 4) Share Application money Pending Allotment head is missing on the Face of Balance Sheet
- 5) Capital Advance should be shown under “Long term Loans & Advances” in Non-Current Assets & Not as Capital Work in progress.
- 6) DTA shall be shown under Non-Current Assets Instead on Current Assets.

- 7) Dr. Balance of P&L A/c shall be shown separately as Negative figure under Reserves and not Asset side.

Correct Presentation in Balance Sheet (as per Schedule III)

Particulars	Note. No.	CY (Rs.)	PY (Rs.)
Equity & Liability			
1) Shareholder's Fund			
a) Share capital			
b) Reserves & Surplus	1		
2) Share application money pending allotment			
3) Non-Current Liabilities			
Deferred Tax Liability			
4) Current Liabilities			
Trades Payables			
Other Current Liabilities	2		
Assets			
1) Non-Current Assets			
a) PPE			
(i) Tangible Assets			
(ii) Capital Work in Progress			
b) Deferred Tax Assets			
c) Long term Loans & Advances	3		
2) Current Assets			
Trade Receivables			

Notes to Accounts: -

1) Reserves & Surplus	
a) ESOP Outstanding	
b) Dr. Balance of P&L A/c	
2) Other Current Liabilities	
a) Share application money refundable	
3) Long term loans & advances	
a) Capital Advances	

Q.FS.SM.04(A): (Basics)

You are required to prepare Balance sheet and statement of Profit and Loss from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 20X1.

**Haria Chemicals Ltd.
Trial Balance as at 31st March, 20X1**

Particulars	Rs	Particulars	Rs
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of Rs 10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to Directors	80,000	Bank loans	6,45,000
Advertisement	20,000	Trade payables	2,81,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Purchases	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provision:	
Current account	45,000	Machinery	1,46,000
Cash	8,000		

Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		
Tools & Equipments	2,45,000		
Goodwill	2,65,000		
Trade receivables	4,40,000		
Dealer aids	21,000		
Transit insurance	30,000		
Trade expenses	37,000		
Distribution freight	54,000		
Debenture interest	55,000		
	85,35,000		85,35,000

Additional information: Closing Inventory on 31-3-20X1: Rs 8,23,000.

SOLUTION

**Haria Chemicals Ltd.
Balance Sheet as at 31st March, 20X1**

	Schedule	Rupees as at the
	(1)	No. end of 31 st March 20X1 (2)
Equity and Liabilities		
(1) Shareholders' funds:		
a) Share Capital	1	25,00,000
b) Reserves and Surplus	2	7,40,000
(2) Non-Current Liabilities		
a) Long term borrowings	3	11,45,000
(3) Current Liabilities		
a) Trade Receivables		<u>2,81,000</u>
Total		<u>46,66,000</u>
Assets		
(1) Non-Current assets		
(a) PPE:	4	30,05,000
(b) Intangible assets (goodwill)		2,65,000
(2) Current assets		
a) Inventories		8,23,000
b) Trade receivables		4,40,000
c) Cash and bank balances	5	53,000
d) Short term loans and advances	6	<u>80,000</u>
Total		<u>46,66,000</u>

**Haria Chemicals Ltd.
Statement of Profit and Loss for the year ended 31st March, 20X1**

	Schedule	Figures
Revenue from operations		42,68,000
Other income (A)	7	<u>56,000</u>
Expenses		<u>43,24,000</u>
Cost of materials consumed	8	23,19,000
Change in inventory of finished goods	9	(1,43,000)
Employee benefit expenses	10	9,00,000
Finance cost	11	1,71,000

Other expenses (B)	12	4,76,000	
Profit before tax (A - B)		37,23,000	6,01,000
Provision for tax			—
Profit for the period			6,01,000

Notes to Accounts

1. Share capital	Rs		
Authorised:			
Equity share capital of Rs 10 each			25,00,000
Issued and Subscribed:			
Equity share capital of Rs 10 each			25,00,000
2. Reserves and Surplus			
Balance as per last balance sheet			1,39,000
Balance in profit and loss account			6,01,000
			7,40,000
3. Long term Borrowings			
11% Debentures			5,00,000
Bank loans (assumed long-term)			6,45,000
			11,45,000
4. PPE			
	Gross block	Depreciation	Net Block
Freehold land	15,46,000		15,46,000
Furniture	2,00,000		2,00,000
Fixtures	3,00,000		3,00,000
Plant & Machinery	8,60,000	1,46,000	7,14,000
Tools & Equipment	2,45,000		2,45,000
Total	31,51,000	1,46,000	30,05,000
5. Cash and bank balances Cash and cash equivalents			
Current account balance			45,000
Cash			8,000
Other bank balances			Nil
			53,000
6. Short-term loans and Advances			
Loan to directors			80,000
7. Other Income			
Rent received			46,000
Transfer fees			10,000
			56,000
8. Changes in inventory of finished goods, WIP & Stock in trade			
Opening inventory		6,80,000	
Closing inventory		8,23,000	(1,43,000)
9. Employee benefit expense			
Wages			9,00,000
10. Finance cost			
Interest on bank loans			1,16,000
Debenture interest			55,000
			1,71,000
11. Other Expenses			
Consumables			84,000
Preliminary expenses			10,000
Bad debts			35,000
Rentals			25,000

1. Share capital		Rs	
Authorised:			
Equity share capital of Rs 10 each		25,00,000	
Issued and Subscribed:			
Equity share capital of Rs 10 each		25,00,000	
2. Reserves and Surplus			
Balance as per last balance sheet		1,39,000	
Balance in profit and loss account		<u>6,01,000</u>	
		7,40,000	
3. Long term Borrowings			
11% Debentures		5,00,000	
Bank loans (assumed long-term)		<u>6,45,000</u>	
		11,45,000	
4. PPE			
	Gross block	Depreciation	Net Block
Freehold land	15,46,000		15,46,000
Furniture	2,00,000		2,00,000
Fixtures	3,00,000		3,00,000
Plant & Machinery	8,60,000	1,46,000	7,14,000
Tools & Equipment	2,45,000		<u>2,45,000</u>
	Total	1,46,000	30,05,000
Commission			1,20,000
Advertisement			20,000
Dealers' aids			21,000
Transit insurance			30,000
Trade expenses			37,000
Distribution freight			54,000
			4,76,000

Q.FS.RMP.05(A): (RTP Nov'18) (MTP May'22)

You are required to prepare a Balance Sheet as at 31st March 2020, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (Given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

- Share Capital consists of-
 - 1,20,000 Equity Shares of Rs. 100 each fully paid up.
 - 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
- Write off the amount of Miscellaneous Expenses in full, amounting Rs. 2,32,000.

SOLUTION

Balance Sheet of Mehar Ltd. as at 31st March, 2020

		Note	Rs.
I	EQUITY AND LIABILITIES:		
(1)	EQUITY		
	(a)	Share Capital	1
			1,60,00,000
	(b)	Reserves and Surplus	2
			110,68,000
(2)	Non-current Liabilities		
		Long term Borrowings- Terms Loans (Secured)	
			40,00,000
(3)	Current Liabilities		
	(a)	Trade Payables	
			45,80,000
	(b)	Short Term Borrowings	3
			8,00,000
	(c)	Short-term Provisions (Provision for taxation)	
			10,20,000
		Total	3,74,68,000
II	ASSETS		
(1)	Non-current Assets		
	(a)	Property, Plant and Equipment	4
			214,00,000
	(b)	Non- current Investments	
			9,00,000
(2)	Current Assets:		
	(a)	Inventories	5
			48,00,000
	(b)	Trade Receivables	6
			48,20,000
	(c)	Cash and Cash Equivalents	
			38,40,000
	(d)	Short-term Loans and Advances	7
			17,08,000
		Total	3,74,68,000

Notes to accounts

			(Rs.)
1.	Share Capital		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of Rs. 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	Reserves and Surplus		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance	-	
	Profit for the period	32,00,000	
	Less: Miscellaneous Expenditure		
	written off (2,32,000)	29,68,000	110,68,000
3.	Short Term Borrowings		
	Loan from other parties		8,00,000
4.	Property, plant and equipment Plant and Machinery (WDV)		214,00,000
5.	Inventories		

	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	Trade Receivables		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	Short term loans & Advances		
	Staff Advances*	2,20,000	
	Other Advances*	14,88,000	17,08,000

Note: *Considered to be short term. Alternately such loan can also be treated as Long Term Borrowing.

Q.FS.SM.06(A):

Ring Ltd. was registered with a nominal capital of Rs 10,00,000 divided into shares of Rs 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:



Particulars	Rs	Particulars	Rs
Buildings	5,80,000	Sales	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful Debts (1-4-20X1)	6,000
Loose Tools	46,000	Equity Share Capital	4,00,000
Purchases (Adjusted)	4,20,000	General Reserve	80,000
Salaries	1,20,000	Profit and Loss A/c (1-4-20X1)	50,000
Directors' Fees	20,000	Creditors	1,84,000
Rent	52,000	Provision for depreciation:	
Depreciation	40,000	On Building 1,00,000	
Bad Debts	12,000	On Machinery 1,10,000	2,10,000
Investment	2,40,000	14% Debentures	4,00,000
Interest accrued on investment	4,000	Interest on Debentures accrued but not due	28,000
Debenture Interest	56,000	Interest on Investments	24,000
Advance Tax	1,20,000	Unclaimed dividend	10,000
Sundry expenses	36,000		
Debtors	2,50,000		
Bank	60,000		
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information:

- (a) Closing stock is more than opening stock by Rs 1,60,000;
- (b) Provide to doubtful debts @ 4% on Debtors
- (c) Make a provision for income tax @30%.
- (d) Depreciation expense included depreciation of Rs 16,000 on Building and that of Rs 24,000 on Machinery.
- (e) The directors declared a dividend @ 25% and transfer to General Reserve @ 10%.
- (f) Bills Discounted but not yet matured Rs 20,000.

SOLUTION

**Ring Ltd.
Profit and Loss Statement for the year ended
31st March, 20X2**

Particulars	Note No.	(Rs in lacs)
I Revenue from operations		10,40,000

II	Other income (interest on investment)		24,000
III	Total Revenue [I + II]		10,64,000
IV	Expenses:		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance costs (debenture interest)		56,000
	Depreciation and Amortisation Expenses		40,000
	Other Expenses	8	1,24,000
	Total Expenses		7,60,000
V	Profit before Tax (III-IV)		3,04,000
VI	Tax Expenses @ 30%		(91,200)
VII	Profit for the period		2,12,800

Balance Sheet of Ring Ltd. as at 31st March, 20X2

Particulars		Note No.	Rs
I	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds		
(a)	Share Capital	1	4,00,000
(b)	Reserves and Surplus	2	3,42,8000
(2)	Non-Current Liabilities		
(a)	Long-term Borrowings (14% debentures)		4,00,000
(3)	Current Liabilities		
(a)	Trade Receivable (Sundry Creditors)		1,84,000
(b)	Other Current Liabilities	3	42,000
(c)	Short-Term Provisions	4	91,200
	Total		14,60,000
II	ASSETS		
(1)	Non-Current Assets		
(a)	PPE		
(i)	Tangible Assets	5	5,70,000
(b)	Non-current Investments		2,40,000
(2)	Current Assets		
(a)	Inventories	6	2,26,000
(b)	Trade Receivables	7	2,40,000
(c)	Cash and bank balances		60,000
(d)	Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
(e)	Other Current Assets		4,000
	(Interest accrued on investments)		
	Total		14,60,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting Rs 20,000.

Notes to Accounts:

1	Share Capital	
	Authorised Capital	
	10,000 Equity Shares of Rs 100 each	10,00,000
	Issued Capital	
	4,000 Equity Shares of Rs 100 each	4,00,000
	Subscribed Capital and fully paid	
	4,000 Equity Shares of RS 100 each	4,00,000

		4,00,000
2. Reserve and Surplus		
General Reserve [Rs 80,000 + RS 21,280]		1,01,280
Balance of Statement of Profit & Loss Account		
Opening Balance	50,000	
Add: Profit for the period	2,12,800	
	2,62,800	
Appropriations		
Transfer to General Reserve @ 10%	(21,280)	2,41,520
		3,42,800
3. Other Current Liabilities		
Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		28,000
		42,000
4. Short-Term Provision		
Provision for Tax		91,200
5 Tangible Assets		
Buildings	5,80,000	
Less: Provision for Depreciation	1,00,000	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	1,10,000	90,000
		5,70,000
6 Inventories		
Closing Stock of Finished Goods	1,80,000	
Loose Tools	46,000	2,26,000
7 Trade Receivables		
Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	(10,000)	2,40,000
8. Other Expenses		
Rent		52,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of Rs 2,50,000 less Rs 6,000)		4,000
Sundry Expenses		36,000
		1,24,000

Q.FS.SM.07(A):

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 20X2:



	Dr.	Cr.
	Rs	Rs
Authorised Capital-divided into 5,000 6% Preference Shares of Rs 100 each and 10,000 equity Shares of Rs 100 each		15,00,000
Subscribed Capital -		
5,000 6% Preference Shares of Rs 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	

Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of Rs 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		<u>2,00,000</u>
	19,75,000	19,75,000
Wages and Salaries Outstanding	1,280	
Inventory on 31st March, 20X2		
Wines, Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	

Depreciation: Furniture and Fittings @ 5% p.a.: Land and Building @ 2% p.a.

The Equity capital on 1st April, 20X1 stood at Rs 7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs 60 paid. The directors made a call of Rs 40 per share on 1st October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs 90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

SOLUTION

**Statement of Profit and Loss of International Hotels Ltd.
for the year ended 31st March, 20X2**

	Particulars	Notes	Amount
I.	Revenue from operations	9	1,79,700
II.	Other income	10	6,800
III.	Total Revenue (I + II)		1,86,500
IV.	Expenses:		
	Cost of materials consumed	11	25,060
	Purchases of Inventory-in-Trade	12	45,800
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	13	(9,700)
	Employee benefits expense	14	29,580

	Other operating expenses	15	18,000
	Selling and administrative expenses	16	14,200
	Finance costs	17	12,000
	Depreciation and amortisation expense	18	21,315
	Other expense (preliminary expenses written off)		8,000
	Total expenses		1,64,255
V.	Profit (Loss) for the period (III - IV)		22,245

Balance Sheet of International Hotels Ltd. as on 31st March, 20X2

Particulars		Note No	Rs
EQUITY AND LIABILITIES			
1	Shareholders' funds		
a	Share capital	1	13,00,000
b	Reserves and Surplus	2	2,68,745
2	Non-current liabilities		
a	Long-term borrowings	3	2,00,000
3	Current liabilities		
a	Trade Receivables	4	42,000
b	Other current liabilities	5	13,280
Total			18,24,025
ASSETS			
1	Non-current assets		
a	PPE		
I	Tangible assets	6	9,14,985
II	Intangible assets (Goodwill)		5,00,000
B	Non-current investments		2,72,300
2	Current assets		
A	Inventories	7	38,900
B	Trade receivables		19,260
C	Cash and bank balances	8	78,580
Total			18,24,025

Notes to accounts

		Rs
1	Share Capital	
	Equity share capital	
	Authorised	
	10,000 Equity shares of Rs 100 each	10,00,000
	Issued & subscribed	
	8,000 Equity Shares of Rs 100 each	8,00,000
	Preference share capital	
	Authorised	
	5,000 6% Preference shares of Rs 100 each	5,00,000
	Issued & subscribed	
	5,000 6% Preference shares of Rs 100 each	5,00,000
	Total	13,00,000
2	Reserves and Surplus	
	Capital reserve [100 x (90 - 40)]	5,000
	General reserve	2,00,000
	Less: Amount used to pay dividend	(30,255)
	Surplus (Profit & Loss A/c)	22,245
	Add: Balance from previous year	41,500
		63,745

	Total		2,68,745
3	Long-term borrowings		
	Secured		
	6% Debentures		2,00,000
	Total		2,00,000
4	Trade Receivables		42,000
5	Other current liabilities		
	Wages and Salaries Outstanding	1,280	
	Interest on debentures dividend Receivable	12,000	13,280
	Total		13,280
6	Tangible assets		
	Freehold land & Buildings	8,50,000	
	Less: Depreciation	(17,000)	8,33,000
	Furniture and Fittings	86,300	
	Less: Depreciation	(4,315)	81,985
	Total		9,14,985
7	Inventories		
	Wines, Cigarettes & Cigars, etc.		22,500
	Foodstuffs		16,400
	Total		38,900
8	Cash and cash equivalents		
	Cash at bank		76,380
	Cash in hand		2,200
	Other bank balances		Nil
	Total		78,580
9	Revenue from operations		
	Sale of products		
	Wines, Cigarettes, Cigars etc.	68,400	
	Food	57,600	1,26,000
	Sale of services		
	Room Rent	48,000	
	Billiards	5,700	53,700
	Total		1,79,700
10	Other income		
	Transfer fees	700	
	Miscellaneous Receipts	2,800	
	Discount received	3,300	
	Total		6,800
11	Cost of materials consumed		
	Opening Inventory	5,260	
	Add: Purchases during the year	36,200	
	Less: Closing Inventory	(16,400)	25,060
	Total		25,060
12	Purchases of Inventory-in-Trade		
	Wines, Cigarettes etc.		45,800
	Total		45,800
13	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade		
	Wines, Cigarettes etc.		
	Opening Inventory	12,800	
	Less: Closing Inventory	(22,500)	(9,700)
	Total		(9,700)
14	Employee benefits expense		

	Wages and Salaries	28,300	
	Add: Wages and Salaries Outstanding	1,280	29,580
	Total		29,580
15	Other operating expenses		
	Rent, Rates and Taxes		8,900
	Coal and Firewood		3,290
	Laundry		750
	Carriage and Cooliage		810
	Repairs		4,250
	Total		18,000
16	Selling and administrative expenses		
	Advertising		8,360
	Sundry Expenses		5,840
	Total		14,200
17	Finance costs		
	Interest on Debentures (2,00,000 x 6%)	12,000	
	Total		12,000
18	Depreciation and amortisation expense		
	Land and Buildings (8,50,000 x 2%)	17,000	
	Furniture & Fittings (86,300 x 5%)	4,315	
	Total		21,315

Q.FS.SM.08(A): (MTP May20 & Nov21)

On 31st March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 20X1.



Particulars	Amount (Rs.)	
	Debit	Credit
Equity Share Capital, fully paid shares of Rs. 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long-Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:



- 1) 50,000 fully paid equity shares were allotted as consideration for land.
- 2) The cost of assets were:

Building	Rs. 32,00,000
Plant and Machinery	Rs. 30,00,000
Furniture and Fixture	Rs. 16,50,000

- 3) Trade Receivables for Rs. 4,86,000 due for more than 6 months.
- 4) Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.
- 5) Loan from Public Finance Corporation repayable after 3 years.
- 6) The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs.1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
- 7) Other long-term loans (unsecured) includes:

Loan taken from Nixes Bank	Rs. 13,80,000
(Amount repayable within one year)	(Rs. 4,80,000)
Loan taken from Directors	Rs. 8,50,000

- 8) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 20X1 has been discounted.
- 9) Short term borrowings includes:

Loan from Naya bank	Rs. 1,16,000 (Secured)
Loan from directors	Rs. 48,000

- 10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.
- 11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures

SOLUTION

SR Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
Shareholders' funds		
Share capital	1	79,85,000
Reserves and Surplus	2	30,21,000
Non-current liabilities		
Long-term borrowings	3	42,66,000
Current liabilities		
Short-term borrowings	4	9,40,000
Trade Receivables		8,13,000
Other current liabilities	5	2,04,000
Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
Non-current assets		
PPE	7	92,00,000
Current assets		
Inventories	8	58,00,000
Trade receivables	9	17,50,000
Cash and cash equivalents	10	4,84,000

Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

1. Share Capital		
Equity share capital		
Issued, subscribed and called up		
1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
Less: Calls in arrears	(15,000)	79,85,000
2. Reserves and Surplus		
General Reserve	9,41,000	
Add: Transferred from Profit and loss account	35,000	9,76,000
Securities premium		15,00,000
Surplus (Profit & Loss A/c)	5,80,000	
Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
		30,21,000
3. Long-term borrowings		
Secured: Term Loans		
Loan from Public Finance Corporation [Receivable after 3 years (Rs. 26,30,000 - Rs. 1,34,000 for interest accrued but not due)] (secured by hypothecation of land)		24,96,000
Unsecured		
Bank Loan (Nixes bank)	9,00,000	
(Rs. 13,80,000 - Rs. 4,80,000 Receivable within 1 year)		
Loan from Directors	8,50,000	
Others	20,000	17,70,000
Total		42,66,000
4. Short-term borrowings		
Loan from Naya bank (Secured)	1,16,000	
Loan from Directors	48,000	
Loan from Nixes bank Receivable within one year	4,80,000	
Others	2,96,000	
		9,40,000
5. Other current liabilities		
Unpaid dividend	70,000	
Interest accrued but not due on borrowings	1,34,000	
		6,84,000
6. Short-term provisions		
Provision for taxation		3,80,000
7. PPE		
Land		25,00,000
Buildings	32,00,000	
Less: Depreciation	(2,00,000)	30,00,000
Plant & Machinery	30,00,000	
Less: Depreciation	(6,00,000)	24,00,000
Furniture & Fittings	16,50,000	
Less: Depreciation	(3,50,000)	13,00,000
Total		92,00,000
8. Inventories		
Raw Material	13,00,000	
Finished goods	40,00,000	

	Loose tools	5,00,000	58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		12,64,000
	Total		17,50,000
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	56,000	4,14,000
	Cash in hand		70,000
	Total		4,84,000

Note: There is a contingent liability amounting to Rs. 1,60,000

Q.FS.RMP.09(A): (RTP May'18 & May'24, MTP Nov'20 & May'22)

Kapil Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31st March, 2017:

	Rs		Rs
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns (Tangible Asset)	3,75,000	Calls in Arrear @ Rs 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity shares capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs. 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000	Trade Payables (for goods)	2,40,500
Freehold Land	16,25,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr.)	30,000
Engineering Tools	1,50,000	Transfer fees received	6,500
Trade Receivables	4,00,500	Profit & Loss A/c (Cr.)	67,000
Advertisement	15,000	Repairs to Building	56,500
Commission & Brokerage	67,500	Bad debts	25,500
Business Expenses	56,000		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off Rs. 16,000 as bad debts. Provide for income tax @ 30%.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

SOLUTION

Kapil Ltd. Balance Sheet as at 31st March, 2017

	Particulars	Note No.	(Rs)
I	Equity and Liabilities		
(1)	Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,47,000
(2)	Current Liabilities		

(a) Trade Payables		2,40,500
(b) Short Term Borrowings	3	12,67,000
(b) Other Current Liabilities	4	61,000
(c) Short-Term Provisions	5	1,20,000
Total		40,25,500
II ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	29,30,000
(2) Current Assets		
(a) Inventories		7,08,000
(b) Trade Receivables	6	3,59,500
(c) Cash and Cash Equivalents	7	28,000
Total		40,25,500

Kapil Ltd. Statement of Profit and Loss for the year ended 31st March, 2017

Particulars		Note No.	(Rs)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	Total Revenue [I + II]		36,53,500
IV Expenses:			
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		32,53,500
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		(1,20,000)
VII	Profit for the period		2,80,000

Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of Rs. 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of Rs. 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs. 10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs. 10 each Rs. 8 paid (Call unpaid Rs. 10,000)	40,000 19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e., Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	3,40,000
		3,47,000

3. Short Term Borrowings

Bank Overdraft	12,67,000
	12,67,000

4. Other Current Liabilities

Outstanding Expenses [25,000+36,000]	61,000
	61,000

5. Short-term Provisions

Provision for Tax	1,20,000
	1,20,000

6. Tangible Assets

Particulars	Value given (Rs)	Depreciation rate	Depreciation Charged (Rs)	Written down value at the end (Rs)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

7. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

8. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

9. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

10. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

11. Finance Cost

Interest on Bank overdraft	1,11,000
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12. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500

Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Q.FS.RMP.10(A): (RTP May'19, Nov'21)

Om Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Redeemable Preference shares of Rs. 100 each and 90,000 equity Shares of Rs. 10 each. The following was the Trial Balance of the Company as on 31st March, 2021:



Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures up to 30th Sep (1st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

Other Information:

- Closing Stock was valued at Rs. 4,27,500.
- Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
- Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
- Bills Receivable includes Rs. 4,500 being dishonored bills. 50% of which had been considered irrecoverable.
- Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
- Depreciation on Furniture to be charged at 10% on Written Down Value.
- Interest on Debentures for the half year ending on 31st March was due on that date.
- Technical Knowhow Fees is to be written off over a period of 10 years.
- Trade receivables include Rs. 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

SOLUTION

Balance sheet of Om Ltd. as at 31st March, 2021

		Note	(Rs.)
I	Equity and Liabilities		
(1)	Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
(2)	Non-current liabilities:		
	Long term borrowings	3	4,50,000
(3)	Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		24,88,950
II	ASSETS		
(1)	Non- Current Assets:		
	(a) Property, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
(2)	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	Total		24,88,950

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs. 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150

V	Profit before exceptional, extraordinary items and tax		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	Profit before tax		28,650

Notes to accounts

			(Rs.)
1.	Share Capital		
	Authorized capital:		
	90,000 Equity Shares of Rs. 10 each.	9,00,000	
	6,000 6% Preference shares of Rs. 100 each	6,00,000	
	Issued, subscribed & called up:		
	60,000, Equity Shares of Rs. 10 each	6,00,000	12,00,000
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	
2.	Reserves and Surplus		
	Balance as on 1st April, 2020	85,500	
	Add: Surplus for current year	28,650	
	Balance as on 31st March, 2021		1,14,150
3.	Long Term Borrowings		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	Short Term Borrowings		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	Other Current liabilities		
	Interest due on Borrowings (5% Debentures)		11,250
6.	Property, plant and equipment		
	Furniture		
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance	1,05,000	
	Add: Depreciation	45,000	
	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		
		6,000	
	Total Gross block of Furniture A/c	1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance	45,000	
	Depreciation for the year: On Opening WDV at 10% i.e. (10% x 1,05,000)	10,500	
	On additional purchase during the year at 10% i.e. (10% x 6,000)	600	
	Less: Accumulated Depreciation	56,100	99,900

	Freehold property (at cost)		10,50,000
			11,49,900
7.	Intangible Assets		
	Technical knowhow	4,50,000	
	Less: Written off	45,000	4,05,000
8.	Trade Receivables		
	Sundry Debtors (a) Debt outstanding due more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	Employee benefit expenses		
	Salaries & Wages	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10.	Finance Costs		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	51,900
11.	Other Expenses		
	Payment to the auditors	18,000	3,47,550
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	2,250	

Working note

Calculation of Sundry Debtors-Other Debts		
Sundry Debtors as given in Trial Balance		1,50,300
Add Back: Bills Receivables Dishonoured		4,500
		1,54,800
Less: Bad Debts written off - 50% Rs. 4,500		(2,250)
Adjusted Sundry Debtors		1,52,550
Less: Debts due for more than 6 months (as per information given)		(18,000)
Total of other Debtors i.e., Debtors outstanding for less than 6 months		1,34,550

Q.FS.RMP.11(A): (RTP Nov'19, Nov'22, MTP May'24)

The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		Rs.	Particulars		Rs.
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		21,000
Purchases of raw material		12,60,000	Share Capital		3,15,000

Manufacturing Expenses		2,70,000	Secured Loans: Short term Long-term	4,500 21,000	25,500
Salaries and wages		40,200	Fixed Deposits (unsecured): Short term	1,500	
General Charges		16,500	Long term	3,300	4,800
Building		1,01,000	Trade payables		3,27,000
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Investments: Current	4,500				
Non-Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,07,200			24,07,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

- Inventory on 31st March, 2019 Raw material Rs. 25,800 & finished goods Rs. 60,000.
- Outstanding Expenses: Manufacturing Expenses Rs. 67,500 & Salaries & Wages Rs. 4,500.
- Interest accrued on Securities Rs. 300.
- General Charges prepaid Rs. 2,490.
- Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
- Current maturity of long-term loan is Rs. 1,000.
- The Taxation provision of 40% on net profit is considered.

SOLUTION

Oliva Ltd.

Balance Sheet as at 31.03.2022

	Particulars	Note	Amount
(1)	Equity and Liabilities		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
(2)	Non-current liabilities		
	(a) Long-term borrowings	2	23,300
(3)	Current Liabilities		
	(a) Short -term borrowings	3	7,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
II	ASSETS		8,14,350
(1)	Non-current assets		
	(a) Property, Plant & equipment	6	2,04,160

	(b) Non-current investments		7,500
(2)	Current assets		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(f) Other current assets	8	2,790
			8,14,350

Oliva Ltd.

Statement of Profit and loss for the year ended 31.03.202

(Rs.)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	Total income (I +II)		17,14,200
IV	Expenses:		
	Cost of materials consumed	9	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	10	(13,500)
	Employee benefit expenses	11	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	12	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Notes to accounts

No.	Particulars	Amount	Amount
1.	Reserve & Surplus		
	Profit & Loss Account: Balance b/f	21,000	
	Net Profit for the year	29,430	50,430
2.	Long term borrowings		
	Secured loans (21,000 less current maturities 1,000)	20,000	
	Fixed Deposits: Unsecured	3,300	23,300
3.	Short term borrowings		
	Secured loans	4,500	
	Fixed Deposits -Unsecured	1,500	

	Current maturities of long-term borrowings		1,000	7,000
4.	Other current liabilities			
	Expenses Payable (67,500 + 4,500)		72,000	72,000
5.	Short term provisions			
	Provision for Income tax			19,620
6.	Property, plant and equipment			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	Inventory			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	Other Current Assets			2,790
	General Charges prepaid		2,490	
	Interest accrued		300	
9.	Cost of material consumed			
	Opening inventory of raw Material	30,000		
	Add: Purchases	12,60,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
10.	Changes in inventory of Finished Goods & WIP			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		(46,500)	13,500
11.	Employee Benefit expenses			
	Salary & Wages (40,200 + 4,500)			44,700
12.	Other Expenses:			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

Q.FS.RMP.12(A): (RTP Nov'20, Exam Nov'19, RTP May'20, May'23)

On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:



Credit Balances

	Rs.
Equity shares capital (fully paid shares of Rs. 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation (Secured by hypothecation of Plant & Machinery – Repayable within one-year Rs. 3,00,000)	15,75,000
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses (Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances:

	Rs.
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories: Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

- (i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.
 - (ii) Cost of Building Rs. 42,00,000
Cost of Plant & Machinery Rs. 73,50,000
Cost of Furniture & Fixture Rs. 6,56,250
 - (iii) Trade receivables for Rs. 5,70,000 are due for more than 6 months.
 - (iv) The amount of Balances with Bank includes Rs. 27,000 with a bank which is not a scheduled Bank and the deposits of Rs. 7,50,000 are for a period of 9 months.
 - (v) Unsecured loan includes Rs. 3,00,000 from a Bank and Rs. 1,50,000 from related parties.
- You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

SOLUTION

Om Ltd.

Balance Sheet as on 31st March, 2020

	Particulars	Notes	Figures at the end of current reporting period
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	1,04,89,500
b	Reserves and Surplus	2	32,34,000
2	Non-current liabilities		
a	Long-term borrowings	3	25,45,500
3	Current liabilities		
a	Trade Payables		21,00,000
b	Other current liabilities	4	3,00,000
c	Short-term provisions	5	12,25,350
	Total		1,98,94,350
Assets			
1	Non-current assets		
a	Property, Plant and Equipment	6	1,12,12,500

b	Intangible assets (Patents & Trade Marks)		6,00,000
2	Current assets		
a	Inventories	7	26,25,000
b	Trade receivables	8	21,00,000
c	Cash and cash equivalents	9	29,08,500
d	Short-term loans and advances		4,48,350
	Total		1,98,94,350

Notes to accounts

			Rs.
1	Share Capital		
	Equity share capital		
	Issued, subscribed and called up 10,50,000 Equity Shares of Rs. 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		1,04,89,500
2	Reserves and Surplus		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		32,34,000
3	Long-term borrowings		
	Secured Term Loans		
	Loan from State Finance Corporation (Rs. 5,75,000 less Rs. 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		25,45,500
4	Other current liabilities		
	Loan Installment repayable within one year		3,00,000
	Short-term provisions		
	Provision for taxation		12,25,350
	Property, Plant and Equipment		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500
	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		1,12,12,500
	Inventories		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
	Trade receivables		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000

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

SOLUTION

**H Ltd
Balance Sheet as at 31st March 2021**

Particulars	Note No	Amount in Rs.
Equity and Liabilities		
I. Shareholders' Funds		
a. Share Capital	1	13,00,000
b. Reserves and Surplus	2	53,91,900
II. Non-Current Liabilities		
a. Long Term Borrowings	3	4,00,000
III. Current Liabilities		
a. Trade Payables	4	10,40,000
b. Other Current Liabilities	5	70,000
Total		82,01,900
Assets		
I. Non-Current Assets		
a. Property, Plant and Equipment	6	40,61,000
b. Intangible Assets	7	10,00,000
II. Current Assets		
a. Inventories		9,50,000
b. Trade Receivables		19,60,000
c. Cash and Cash equivalents		2,30,900
Total		82,01,900

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

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

Notes to Accounts

(Amount in Rs.)

1	Share Capital		
	a. Authorized Capital		
	5,000, 6% Preference shares of Rs. 100/- each		5,00,000
	10,000 Equity Shares of Rs. 100/- each		10,00,000
			15,00,000

	b. Issued & Subscribed Capital		
	5,000, 6% Preference shares of Rs. 100/- each		5,00,000
	8,000, Equity shares of Rs. 100/- each		8,00,000
	Total		13,00,000
2	Reserves & Surplus		
	Capital Reserve (100 X (90-40))		5,000
	Revaluation Reserve (36,00,000-24,00,000)		12,00,000
	General Reserve		40,00,000
	Surplus	1,84,900	
	Add: Balance from previous year	72,000	
	Less: Dividends declared	(70,000)	
	Profit/(Loss) carried forward to Balance Sheet		1,86,900
	Total		53,91,900
3	Long-Term Borrowings		
	Secured		
	9% Debentures		4,00,000
4	Trade Payables		10,40,000
5	Other Current Liabilities		
	Dividend Payable		
	Preference Dividend		30,000
	Equity Dividend		40,000
	Total		70,000
6	Property, Plant and Equipment		
	Land		
	Opening balance		24,00,000
	Add: Revaluation Adjustment		12,00,000
	Closing Balance		36,00,000
	Plant and Machinery		
	Opening Balance		7,70,000
	Less: Disposed off		(1,00,000)
	Depreciation		(2,09,000)
	Closing Balance		4,61,000
	Total		40,61,000
7	Intangible Assets		
	Goodwill		12,50,000
	Less: Amortized (1/5th)		(2,50,000)
	Total		10,00,000
8	Finance Costs		
	Debenture Interest		36,000
9	Depreciation and Amortization		
	Plant and Machinery		67,000
	Goodwill		2,50,000
	Total		3,17,000
10	Other Expenses		
	Factory Expenses		15,00,000
	Selling Expenses		14,00,000

Administrative Expenses		3,00,000
Loss on sale of Plant and Machinery		
Book Value (1,00,000-30,000)	70,000	
Less: Sale Value	(40,000)	30,000
Total		32,30,000

Note:

- The inventories (31.3.20) amounting Rs. 9,50,000 (given in the trial balance of the question) should have been as closing inventory i.e., as on 31.3.21. In the above solution, this inventory has been considered as closing inventory i.e., for 31.3.21. If this is considered as inventory of 31.3.20, the closing inventory (as on 31.3.21) will not be available for the balance sheet as on 31.3.21 and in that case, the balance sheet will not tally without using suspense account amounting Rs. 9,50,000.
- The financial statements given in the above answer include adjustment for dividend declared on 31st March, 2021, strictly, as per the information given in the question. However, practically dividends are declared in the annual general meetings which take place after the reporting date.

Q.FS.RMP.14(A): (EXAM Nov'22)

The following is the trail balance of Anmol Limited as on 31st March, 2022:



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

Following Information is Provided:

- The Authorised Share Capital of the company is 2,00,000 Equity Shares of Rs. 10 Each. The company has issued 1,00,000 Equity Shares of Rs. 10 Each.
- Rent of Rs. 20,000 and wages of Rs. 1,56,500 are outstanding as on 31st March, 2022.
- Provide Depreciation @10% per annum on plant and Machinery, 10% on Furniture and Fitting and 5% on Factory Building on written down value basis.

- (4) Closing Stock as on 31st March, 2022 is Rs. 11,37,500
 - (5) Make a Provision for Doubtful Debts @5% on Debtors
 - (6) Make a provision of 25% for Corporate Income Tax.
 - (7) Transfer Rs. 1,00,000 to General Reserve.
 - (8) Term loan from Public Sector Bank is secured against Hypothecation of Plat & Machinery. Installment of Term Loan falling due within one year is Rs. 17,00,000
 - (9) Trade Receivables of Rs. 85,600 are outstanding for more than six months.
 - (10) The board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.
- You are required to prepare Balance sheet as on 31st March, 2022 and Statement of Profit and Loss with Note to Accounts for the Year Ending 31st March, 2022 as per Schedule III of Companies Act, 2013. Ignore Previous years' Figures.

SOLUTION:

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

Particulars		Note No	₹
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	10,00,000
b	Reserves and Surplus	2	24,76,462
2	Non-current liabilities		
a	Long-term borrowings	3	85,00,000
3	Current liabilities		
a	Short term borrowings (Installment of term loan falling due in one year)		17,00,000
b	Trade Payables	4	56,33,875
c	Other current liabilities	5	1,76,500
d	Short term provisions (provision for tax)		1,16,988
	Total		1,96,03,825
ASSETS			
1	Non-current assets		
a	PPE	6	1,11,70,700
2	Current assets		
a	Inventories		11,37,500
b	Trade receivables	7	61,51,250
c	Cash and bank balances	8	11,06,875
d	Short term loans & advances (Advance tax paid)		37,500
			1,96,03,825

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

	Particulars	Notes	Amount
I.	Revenue from operations		1,25,87,000
II.	Other income (Commission income)		72,500
III.	Total Income (I + II)		1,26,59,500
IV.	Expenses:		
	Purchases of Inventory-in-Trade		82,95,000
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	9	(2,12,500)

	Employee benefits expense	10	14,28,500
	Finance costs (interest on term loan)		8,05,000
	Depreciation		7,80,300
	Other operating expenses	11	10,95,250
	Total expenses		1,21,91,550
V.	Profit (Loss) for the period (III - IV)		4,67,950
VI.	(-) Tax (25%)		(1,16,988)
VII.	PAT		3,50,962

Notes to accounts

		₹	
1	Share Capital		
	Equity share capital		
	Authorized		20,00,000
	2,00,000 equity shares of ₹ 10 each		
	Issued & subscribed		10,00,000
	1,00,000 equity shares of ₹ 10 each		
2	Reserves and Surplus		
	General Reserve	10,00,000	
	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	
	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	Long-term borrowings		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000
	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	Trade payables		
	Trade payables	55,08,875	
	Bills payable	1,25,000	56,33,875
5	Other current liabilities		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500
6	PPE (Note 2)		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	Trade receivables		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	

	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	Cash and bank balances		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	Changes in Inventories		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)
10	Employee benefit expense		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	Other operating expenses		
	Rent	2,20,000	
	Add: outstanding	20,000	2,40,000
	Rates and Taxes		50,000
	Selling & Distribution expenses		4,36,000
	Bad debts		38,500
	Provision for Doubtful Debts (3,23,750-25,000)		2,98,750
	Director's fee		32,000
	Total		10,95,250

Note:

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

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

SECTION B – HOMEWORK QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)

Q.FS.RMP.1(B): (RTP May21) (Dividend Declaration)

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

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



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

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

SOLUTION

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

Profits available

Current year profit	Rs. 1,42,500
Amount which can be utilized from reserves (Rs. 5,00,000 – 1,42,500)	Rs. 3,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

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

Condition II

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

Condition III

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

CONCLUSION

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

Q.FS.RMP.2(B): (MTP Nov21)

From the following information, prepare extract of Balance Sheet of A Limited along with notes making necessary compliance of Schedule III to the Companies Act, 2013:

	Amount (Rs.)
Loan Funds	
(a) Secured Loans	18,12,000
(b) Unsecured Loan - Short term from bank	2,25,000
Other information is as under:	
Secured Loans	
Term Loans from:	
Banks	8,95,000
Others	9,17,000
	18,12,000
Current Maturities of long-term loan from Bank	1,24,000
Current Maturities of long- term loan from Others	85,000

There was no interest accrued / due as at the end of the year. Current maturities of long-term loans amounting Rs. 2,09,000 is included in the value of secured loans of Rs. 18,12,000.

SOLUTION

Extract of Balance Sheet of A Ltd.

Particulars	Note No	Amount
Non - Current Liabilities		
Long term borrowings	1	16,03,000
Current Liabilities		
Short term borrowings	2	4,34,000

Notes to Accounts

1. Long-Term Borrowings		
Term loans – Secured		
- From banks		8,95,000
- From other parties		9,17,000
		18,12,000
Less: Current maturities of long-term debt (Refer Note 3)		(2,09,000)
		16,03,000
2. Short-Term Borrowings		
(Unsecured loan)		
- from bank		2,25,000
Current maturities of long-term debt		
- From banks		1,24,000
- From others		85,000
		2,09,000

Q.FS.SM.3(B): (MTP May'18, Nov'18, May'19, May'21 & Nov'22) (Similar to Q12)

On 31st March, 20X1 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 20X1:

Credit Balances:

	Rs.
Equity shares capital, fully paid shares of Rs. 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation (Secured by hypothecation of Plant & Machinery Repayable within one-year Rs. 2,00,000)	10,50,000
Loans: Unsecured (Long term)	8,47,000
Sundry Creditors for goods & expenses (Payable within 6 months)	14,00,000
Profit & Loss Account	7,00,000
Provision for Taxation	8,16,900
	1,33,63,000



Debit Balances:

	Rs.
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000

Inventories: Finished goods	14,00,000
Raw Materials	3,50,000
Trade Receivables	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trademarks	4,00,000
	1,33,63,000

The following additional information is also provided in respect of the above balances:

- i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.
 - ii) Cost of Building Rs. 28,00,000
 Cost of Plant & Machinery Rs. 49,00,000
 Cost of Furniture & Fixture Rs. 4,37,500
 - iii) Trade receivables for Rs. 3,80,000 are due for more than 6 months.
 - iv) The amount of Balances with Bank includes Rs. 18,000 with a bank which is not a scheduled Bank and the deposits of Rs. 5 lakhs are for a period of 9 months.
 - v) Unsecured loan includes Rs. 2,00,000 from a Bank and Rs. 1,00,000 from related parties.
- You are not required to give previous year's figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III to the Companies Act, 2013.

SOLUTION

**Bose and Sen Ltd.
Balance Sheet as at 31st March, 20X1**

Particulars		Note No	Figures at the end of current reporting period (Rs.)
Equity and Liabilities			
1	Shareholders' funds		
	a Share capital	1	69,93,000
	b Reserves and Surplus	2	21,56,000
2	Non-current liabilities		
	a Long-term borrowings	3	16,97,000
3	Current liabilities		
	a Trade Receivables		14,00,000
	b Other current liabilities	4	2,00,000
	c Short-term provisions	5	8,16,900
Total			1,32,62,900
ASSETS			
1	Non-current assets		
	a PPE	6	74,75,000
	I Tangible assets		
	II Intangible assets (Patents & Trade Marks)		4,00,000
2	Current assets		
	A Inventories	7	17,50,000
	B Trade receivables		14,00,000
	C Cash and bank balances	8	19,39,000
	D Short-term loans and advances		2,98,900
Total			1,32,62,900

Notes to accounts

1.	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	7,00,000 Equity Shares of Rs. 10 each (Out of the above 4,20,000 shares have been issued for consideration other than cash)	70,00,000	
	Less: Calls in arrears	(7,000)	69,93,000
	Total		69,93,000
2.	Reserves and Surplus		
	General Reserve	15,49,100	
	Less: Preliminary expenses	(93,100) *	14,56,000
	Surplus (Profit & Loss A/c)		7,00,000
	Total		21,56,000
3.	Long-term borrowings		
	Secured: Term Loans		
	Loan from Public Finance Corporation [Receivable after 3 years (Rs. 10,50,000 - Rs. 2,00,000 for interest accrued but not due)] (secured by hypothecation of land)		8,50,000
	Unsecured		
	Bank Loan (Nixes bank)	2,00,000	
	Loan from Related Parties	1,00,000	
	Others	5,47,000	8,47,000
	Total		16,97,000
4.	Other current liabilities		
	Current maturities of long-term debt loan Instalment Receivable within one year		2,00,000
5.	Short-term borrowings		
	Provision for taxation		8,16,900
6.	PPE		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	(7,50,000) (b.f)	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	(12,25,000) (b.f)	36,75,000
	Furniture & Fittings	4,37,500	
	Less: Depreciation	(87,500) (b.f)	3,50,000
	Total		74,75,000
7.	Inventories		
	Raw Material	3,50,000	
	Finished goods	14,00,000	17,50,000
8.	Trade receivables		
	Outstanding for a period exceeding six months		3,80,000
	Others		10,20,000
	Total		14,00,000
9.	Cash and cash equivalents		
	Cash at bank with Scheduled Banks	12,11,000	
	with others banks	18,000	12,29,000
	Cash in hand		2,10,000
	Other Bank balances	5,00,000	
	Bank deposits for period of 9 months		5,00,000

Total	19,39,000
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Q.FS.RMP.4(B): (RTP May21)

Om Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following ledger balances as on 31st March, 2021:



	Rs.		Rs.
Inventory 1.4.2020	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	(Dr. balance)	
Carriage Inwards	57,500	Cash in hand	11,000
Purchases	12,32,500	Calls in Arrear @ Rs. 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs. 10 each)	2,40,500
Business Expenses	56,000	Trade Payables	36,17,000
Wages	14,79,000	Sales	30,000
Freehold Land	7,30,000	Rent (Cr.)	6,500
Plant & Machinery	7,50,000	Transfer fees received	67,000
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	56,500
Trade Receivables	4,00,500	Repairs to Building	25,500
Advertisement Expenses	15,000	Bad debts	
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2021 was Rs. 7,05,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,500. It was decided to transfer Rs. 10,000 to reserves.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide Rs. 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2021 and Balance Sheet as at that date.

SOLUTION

I	Particulars	Note No.	(Rs.)
	Equity and Liabilities		
(1)	Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,82,000
(2)	Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	61,500
	(c) Short-Term Provisions	4	<u>1,35,000</u>
	Total		<u>28,09,000</u>
II	ASSETS		
(1)	Non-Current Assets		
	(a) Property, Plant and Equipment		
(2)	Current Assets		
	1) Inventories		7,05,000
	2) Trade Receivables	6	3,75,500
	3) Cash and Cash Equivalents	7	<u>31,000</u>
	Total		<u>28,09,000</u>

**Statement of Profit and Loss of Om Ltd.
for the year ended 31st March, 2021**

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses Other		82,500
	Expenses	10	<u>4,24,500</u>
V	Total Expenses		<u>32,03,500</u>
VI	Profit before Tax (III-IV)		4,50,000
VII	Tax Expenses @ 30%		<u>(1,35,000)</u>
	Profit for the period		<u>3,15,000</u>

Notes to Accounts:

1. Share Capital

Authorized Capital	<u>50,00,000</u>
5,00,000 Equity Shares of Rs. 10 each	
Issued Capital	
2,00,000 Equity Shares of Rs. 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs. 10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs. 10 each Rs. 8 paid (Call unpaid Rs. 10,000)	<u>40,000</u>
	19,90,000

2. Reserves and Surplus

General Reserve		10,000
Surplus i.e., Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	<u>(10,000)</u>	<u>3,72,000</u>
		3,82,000

3. Other Current Liabilities

Outstanding Expenses [25,000+36,500]	61,500
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4. Short-term Provisions

Provision for Tax	1,35,000
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5. Property, Plant and Equipment

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
Land	7,30,000		-	7,30,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>17,80,000</u>		<u>82,500</u>	<u>16,97,500</u>

6. Trade Receivables

Trade receivables	4,00,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,75,500</u>

7. Cash & Cash Equivalent

Cash Balance	11,000
Bank Balance in current A/c	<u>20,000</u>
	<u>31,000</u>

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	<u>25,000</u>
	<u>15,04,000</u>

10. Other Expenses

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	<u>25,000</u>
Provision for Doubtful Debts	<u>4,24,500</u>

Note:

Alternate 1:

Bad-debts is 25,500

It is asked in the question to create a provision of 25,000

It is assumed that out of 25,500 Bad-Debts 25,000 to be written-off against Provision Created & rest 500 will be directly transfer to Profit & Loss

Alternate 2:

Question ask to make a provision of 25,000 & also there is no Opening Balance of Provision. Therefore, we can also assume that this 25,000 provision should be closing Balance.

Q.FS.RMP.5(B): (MTP May19 & May22)

State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

- (i) Share application money received in excess of issued share capital.
- (ii) Share option outstanding account.
- (iii) Unpaid matured debenture and interest accrued thereon.
- (iv) Uncalled liability on shares and other partly paid investments.
- (v) Calls unpaid.
- (vi) Intangible Assets under development.
- (vii) Money received against share warrant.
- (viii) Cash equivalents



SOLUTION

- (i) Current Liabilities/ Other Current Liabilities
- (ii) Shareholders' Fund / Reserve & Surplus
- (iii) Current liabilities/Other Current Liabilities
- (iv) Contingent Liabilities and Commitments
- (v) Shareholders' Fund / Share Capital
- (vi) Fixed Assets
- (vii) Shareholders' Fund / Money received against share warrants
- (viii) Current Assets

Q.FS.SM.6(B): (RTP May'22 & MTP May'24)

Following is the trial balance of Delta limited as on 31.3.2021.

(Figures in Rs. '000)



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

Additional Information:

- (i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.
- (ii) The company revalued the land at Rs. 9,60,000.
- (iii) Equity share capital includes shares of Rs. 50,000 issued for consideration other than



cash.

- (iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes Rs. 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
- (vii) Make provision for income tax @30%.
- (viii) Trade receivables of Rs. 50,000 are due for more than six months.

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

SOLUTION

Delta Limited
Balance Sheet as at 31st March 2021

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

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

Particulars	Note No.	(Rs. in '000)
I. Revenue from Operations		1200.00
II. Other Income	8	6.00
III. Total Income (I +II)		1,206.00
IV. Expenses:		
Purchases (adjusted)		400.00
Finance Costs	9	30.00
Depreciation (10% of 800)		80.00
Other expenses	10	150.00



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

Notes to Accounts

	Particulars		(Rs. in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		800
	80,000 Shares of Rs. 10/- each		
	Issued, Subscribed and Called-up		
	50,000 Shares of Rs. 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve Rs. (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e., Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation Rs. (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	

	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

Q.FS.SM.7(B): (Sep'24 Exam)

The following is the Trial Balance of Shivam Ltd as on 31st March, 2024 :

Particulars	Dr. (‘000)	Particulars	Cr. (‘000)
Land at Cost	148	Equity Share of Rs. 10 each	200
Plant & Machinery at Cost	520	10% Debenture of Rs. 100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss Ale	48
Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	1,127	Total	1,127

Additional Information:

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1:2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of Rs. 10 each.
- The Company, on the advice of an independent valuer, revalued the Land at Rs. 2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2024 and also transferred profit @ 10% to General Reserve.
- Suspense Account of Rs. 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was Rs. 10,000 and Accumulated Depreciation thereon being Rs. 8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.

- Provision for Income tax is required@ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures.

Answer

Shivam Limited
Balance Sheet as at 31st March 2024

Particulars	Note No.	Rs. (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
a. Share capital	1	300.00
b. Reserves and Surplus	2	232.70
2. Non-Current liabilities		
a. Long term borrowings	3	135.00
3. Current Liabilities		
a. Trade Payables		35.00
b. Short – Term Provisions		30.30
Total		733.00
II. Assets		
1. Non-Current assets		
a. Property, Plant and Equipment and Intangible assets		
(i) Property, Plant and Equipment	4	596.00
2. Current assets		
a. Inventories		58.00
b. Trade receivables		65.00
c. Cash and cash Equivalents		14.00
Total		733.00

Shivam Limited
Statement of Profit and Loss for the year ended 31st March 2024

	Particulars	Notes	Rs. (in '000)
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		<u>474.00</u>
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00
	Depreciation and Amortisation expenses (10% of 510*)		51.00

	Other expenses	6	<u>82.00</u>
	Total Expenses		<u>373.00</u>
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

			Rs. (in 000)
1.	Share Capital		
	Equity share capital		
	<u>Authorised</u>		
	35,000 shares of Rs. 10 each		<u>350.00</u>
	<u>Issued, subscribed & paid-up</u>		
	20,000 shares of Rs. 10 each fully paid up	200.00	
	Add: 10,000 Bonus Shares issued during the year	<u>100.00</u>	300.00
2.	Reserves and Surplus		
	Securities Premium Account		
	Opening Balance	27.00	
	Less: Utilised for bonus issue	<u>27.00</u>	0.00
	Revaluation reserve (2,45,000 – 1,48,000)		97.00
	General Reserve 90		
	Less: Utilized for bonus issue (73)	17.00	
	Add: Transfer from Profit & loss @ 10%	<u>7.07</u>	24.07
	Profit & loss Balance		
	Opening balance	48.00	
	Profit for the period	70.70	
	Appropriations		
	Transfer to General Reserve @ 10%	(7.07)	<u>111.63</u>
			<u>232.70</u>
3.	Long term borrowing		
	10% Debentures		135.00
4	Property, Plant and Equipment		
	Land		
	Opening balance	148.00	
	Add: Revaluation adjustment	<u>97.00</u>	
	Closing balance		245.00

	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	<u>(10.00)</u>	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	<u>(159.00)</u>	
	Closing balance		351.00
	Total		596.00
5	Other Income		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	<u>(2.00)</u>	1.00
6	Other expenses:		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	<u>22.00</u>	82.00

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March 2024. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = Rs. 2,00,000 / Rs. 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × Rs. 10 = Rs. 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as Rs. 14,000, the difference of Rs. 500 (Rs.13,500 - Rs.14,000) may be treated as an advance payment.

MASTER QUESTION

MQ.FS.01:

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

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

Additional Information:

- The authorised share capital of the company is:
3,000, 9% preference shares of Rs. 100 each 3,00,000



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

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

Solution:

**Holding Ltd
Balance Sheet as on 31/03/X2**

Particulars	Note no	Amount
Equity & Liabilities		
1) Shareholder's Fund		
(i) Share capital	1	19,00,000
(ii) Reserve & Surplus	2	39,30,000
2) Non-current liabilities		
(i) Long term Borrowings	3	19,50,000
(ii) DTL	-	1,00,000
3) Current liabilities		
i) Short term borrowings	4	6,20,000
ii) Trade payables	-	11,50,000
iii) Other current liabilities	5	3,27,000
iv) Short term provisions	6	8,00,000
Total		1,07,77,000
ASSETS		
Non-current assets		
(i) PPE	7	51,02,000
(ii) Intangible asset	8	8,00,000
(iii) Non-current investment	9	16,00,000
Currents Assets		

(i)Inventories	10	10,20,000
(ii)Trade Receivable	11	17,95,000
(iii)Cash & Cash eg.	12	4,30,000
(iv) Other current asset	13	30,000
Total		1,07,77,000

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

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

Note to accounts:

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

2) Reserves & surplus	
a) Capital Reserve	25,000
b) Revaluation reserve	4,00,000
c) Security premium	1,55,000
(-) Premium On redeem	(20,000)
	1,35,000
d) Gen Reserves opening	15,00,000
(+) Transfer From P&L	4,05,800
	19,05,800
e) Profit & loss a/c	
Opening balance	1,50,000
(+) NPAT	20,29,000
(-) Transfer to GR 20%	(4,05,800)
(-) Interim Dividend	(90,000)
(-) Preference Dividend	(27,000)
(-) Equity Dividend	(1,92,000)
	14,64,200
Total	39,30,000

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

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

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

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

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

8) INTANGIBLE ASSETS			
	Gross	Amortisation	Net
Goodwill	10,00,000	2,00,000	8,00,000

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

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

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

12) Cash & Cash equivalents	
Bank Balance	4,30,000

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

14) Revenue from operation	
Sales	90,00,000

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

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

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

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

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

20) Other Expense	
Factory Expense	12,00,000
Administration Expense	4,00,000
Selling Expense	9,00,000
Bad debts	45,000
Consumables	18,000
Preliminary Expense	40,000
Managerial remuneration	1,00,000
Director fees	51,000

Other Misc. Expense	21,000
Provision for DD	38,000
Advertisement Expense	16,000
Total	28,29,000

21) Contingent liabilities

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

Working Note 1

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

BUYBACK OF SECURITIESINDEX

S.NO.	TOPIC	PG.NO.	No. Of. Eg/Qns
SECTION A – CLASS PRACTICE QUESTIONS			
	Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class		
1.	Series 100 – Basic Level Questions on Buyback	4.2	2
2.	Series 200 – Questions on Buyback, Redemption & Bonus	4.3	7
3.	Series 300 – Buyback as per Maximum Limit	4.17	3
SECTION B – HOMEWORK QUESTIONS			
	Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home		
4.	Series 100 – Basic Level Questions on Buyback	4.25	1
5.	Series 200 – Questions on Buyback, Redemption & Bonus	4.26	5
6.	Series 300 – Buyback as per Maximum Limit	4.37	2
SECTION C – CASE SCENERIO MCQs			
7.	Case Scenario 1	4.42	1
8.	Case Scenario 2	4.43	1

SECTION A – QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams
to be Practiced in the Class)

SERIES 100**BASIC LEVEL QUESTIONS ON BUYBACK****Q.BB.RMP.101(A): (EXAM Jan'21)**

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs. 10 each at Rs. 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

- Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.
- Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.
- Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
- The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding Buy-back of shares in the books of Umang Ltd.

SOLUTION**Journal Entries in the books of Umang Ltd.**

			Dr. Rs.	Cr. Rs.
1.	Bank A/c Profit and Loss A/c To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	Dr. Dr.	25,00,000 5,00,000	30,00,000
2.	Bank A/c To 12% Pref. Share capital A/c (Being 12% Pref. Shares issued for Rs. 20,00,000)	Dr.	20,00,000	20,00,000
3.	Equity share capital A/c Premium payable on buy-back To Equity shares buy-back A/c/ Equity shareholders A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	50,00,000 25,00,000	75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	75,00,000	75,00,000
5.	Securities Premium A/c General Reserve A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr. Dr.	15,00,000 10,00,000	25,00,000
6.	General Reserve A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)	Dr.	30,00,000	30,00,000

Q.BB.OM.102(A):

Jayesh Ltd. provides you the following information:



1. **Issued capital:** 2,50,000 equity shares of 10/- each
2,000, 10% Preference shares of 100/- each
(Issued two months back for the purpose of buy-back)
2. **Reserves and Surplus:** Capital Reserve – 10,00,000/-
Securities Premium- 22,00,000/-
Revenue Reserve – 30,00,000/-
Profit & Loss A/c – 40,00,000/-
3. **Resolution passed to buy back** 20% of its equity capital @ 50/- per share.

Required: Pass journal entries to record the above transactions.

Solution

1)	Equity Share Capital A/c Premium on Buyback A/c To Equity Share Buyback A/c	Dr. Dr.	5,00,000 20,00,000	25,00,000
2)	Equity Shares Buyback A/c To Bank A/c	Dr.	25,00,000	25,00,000
3)	Security Premium A/c To Premium on Buyback A/c	Dr.	20,00,000	20,00,000
4)	Security Premium A/c Revenue Reserve A/c To CRR A/c	Dr. Dr.	2,00,000 1,00,000	3,00,000

(*Alternatively, instead of 2,00,000 SP A/c we can use whole Revenue Reserve for Creating CRR of 3,00,000)

SERIES 200**QUESTIONS ON BUYBACK, REDEMPTION & BONUS****Q.BB.SM.201(A):**

M Ltd. furnishes the following Balance Sheet as at 31st March, 20X1:

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

Notes to accounts:

No.	Particulars	₹ in ('000)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	
	3,00,000 Equity shares of ₹ 10 each fully paid up	3,000
	20,000 9% Preference Shares of 100 each	2,000
	Total	5,000
2	Reserves and Surplus	
	Capital reserve	10
	Revenue reserve	4,000
	Securities premium	500
	Profit and Loss account	1,800
	Total	6,310
3	Long term borrowings	
	10% Debentures	400
4	Property, Plant and Equipment (PPE)	
	PPE: Cost	3,000
	Less: Provision for depreciation	(250)
	Net carrying value	2,750

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

You are required to pass necessary Journal entries & Prepare revised Balance Sheet.

SOLUTION**Journal Entries in the books of M Ltd.**

₹ in '000

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

Q.BB.RMP.202(A): (EXAM Nov'22)

PG Limited furnishes the following Balance Sheet as at 31st March,2022:

	Particulars	Notes	₹ (in Lakhs)
1.	Equity and Liabilities		
	Shareholders' funds		
	(a)Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2	Current liabilities		
	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		29,500
	Assets		
1	Non-current asset		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2	Current asset		
	(a) Inventories		6,000
	(b) Trade receivable		2,600
	(c)Cash and cash equivalents		7,400
	Total		29,500

Notes to accounts:

	Particulars	₹ (in Lakhs)
1	Share Capital	12,000
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	
2	Reserves and Surplus	
	Securities premium General	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 750 lakhs.

On 5th April, 2022, the company achieved the target of buy-back. You are required to pass necessary journal entries for the above transactions.

SOLUTION

In the books of PG Limited
Journal Entries

Date	Particulars	Dr.	Cr.
2022			(₹ in lakhs)
April 1	Bank A/c	Dr.	750
	To Investment A/c		740
	To P&L A/c (Profit on sale of investment)		10
	(Being investment sold on profit)		
April 5	Equity share capital A/c	Dr.	3,000
	Premium payable on buy-back A/c	Dr.	1,500
	To Equity shares buy-back A/c		4,500
	(Being the amount due to equity shareholders on buy-back)		

	Securities Premium A/c	Dr.	1,500	
	To Premium payable on buy-back A/c			1,500
	(Being the amount of premium charged from securities premium account)			
	Equity shares buy-back A/c	Dr.	4,500	
	To Bank A/c			4,500
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)			
April 5	Profit and Loss A/c	Dr.	1,700	
	General reserve A/c	Dr.	1,300	
	To Capital redemption reserve A/c			3,000
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)			

Note:

- In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.
- Calculation of amount of Buy Back of Share: ₹12,000/10 X 25% X ₹ 15 = ₹ 4,500 Lakhs

Q.BB.RMP.203(A): (RTP May'20 & RTP Nov'23) (Buyback & Redemption)

The following was the Balance Sheet of C Ltd. as on 31st March ,2019:

Equity & Liabilities	Rs Lakhs	Assets	Rs Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of Rs 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of Rs 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company **redeemed all its Preference Shares** at a Premium of 10% and bought back 10% of its Equity Shares at Rs 20 per Share. In order to make cash available, the Company sold all the Investments for Rs 2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

SOLUTION:

Journal Entries in the books of C Ltd.

(Rs in lakhs)

	Particulars			
1	Bank A/c	Dr.	2,500	
	To Investments A/c			2,350

	To Profit and Loss A/c (Being investment sold on profit for the purpose of buy- back)			150
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	2,500 250	2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr. Dr.	550 250	800
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)	Dr. Dr.	2,750 1,600	4,350
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)	Dr.	3,300	3,300

Balance Sheet of C Ltd. (after Redemption and Buyback) (Rs Lakhs)

	Particulars	Note No	Amount (Rs.)
(I)	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		<u>1,000</u>
	Total		<u>22,700</u>
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
(2)	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		<u>8,250</u>
	Total		<u>22,700</u>

Notes to Accounts

		Rs in Lakhs		
1.	Share Capital			
	720 lakh Equity Shares of Rs 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2.	Reserves and Surplus			
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	<u>(3,300)</u>	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	<u>3,300</u>	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	<u>(550)</u>		
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	<u>150</u>	<u>450</u>	7,200
3.	Long-term borrowings			
	Secured			
	9 % Debentures			5,000

Working Note:

Bank Account

Receipts	Amount	Payments	Amount
	(Rs Lakhs)		(Rs Lakhs)
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	<u>450</u>
	<u>4,800</u>		<u>4,800</u>

Q.BB.RMP.204(A): (MTP Oct'20) (Buyback & Redemption)

The following was the summarized balance sheet of Bhoomi Ltd. as on 31st March, 2020:

Equity & liability	Rs. (In lakhs)	Assets	Rs. (In lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of Rs. 10 each	<u>80,000</u>	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.10 each Fully Paid up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		

9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April, 2020 the Company **redeemed all its Preference Shares** at a Premium of 10% and bought back 25% of its Equity Shares at Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,000 Lakhs and raised a Bank Loan amounting to Rs.16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buyback is authorized by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

SOLUTION:

Journal entries
In the books of Bhoomi Ltd.

		Dr.	Cr.
		Rs. in lakhs	
1	Bank A/c	Dr.	25,000
	To Investments A/c		24,000
	To Profit and Loss A/c		1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)		
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000
	To Preference Shareholders A/c		22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)		
3	Securities Premium A/c	Dr.	2,000
	To Premium payable on Redemption of Preference Shares A/c		2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)		
4	Equity Share Capital A/c	Dr.	16,000
	Premium payable on Buyback A/c	Dr.	16,000
	To Equity Share buy back A/c		32,000
	(Being the amount due on buy-back)		
5	Securities Premium A/c (6,400 - 2,000)	Dr.	4,400
	General Reserve A/c (balancing figure)	Dr.	11,600
	To Premium payable on Buyback A/c		16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)		
6	Bank A/c	Dr.	16,000
	To Bank Loan A/c		16,000
	(Being Loan taken from Bank to finance Buyback)		
7	Preference Shareholders A/c	Dr.	22,000
	Equity Shares buy back A/c	Dr.	32,000
	To Bank A/c		54,000
8	(Being payment made to Preference Shareholders and Equity Shareholders)		

General Reserve Account	Dr.	36,000	
To Capital Redemption Reserve Account			36,000
(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)			

Q.BB.RMP.205(A): (RTP May'24 and May'21) (Buyback and Bonus)

Mukti Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(Rs.)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital: 1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2020 the Company announced the buyback of 15,000 of its equity shares @ Rs. 15 per share. For this purpose, it sold all its investment for Rs. 2.50 lakhs. On 25th April, 2020, the company achieved the target of buy back.

On 1st May, 2020 the company issued one fully paid-up share of Rs. 10 each by way of **bonus** for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

SOLUTION:

In the books of Vriddhi Infra Ltd. Journal Entries

Date	Particulars	Dr.	Cr.
April 21	Bank Account Dr. To Investment Account To Profit and Loss Account (Being investment sold on profit)	2,50,000	2,00,000 50,000
April 25	Equity Share capital account Dr. Securities premium A/c Dr. To Equity shares buy back Account (Being the amount due to equity shareholders on buy back)	1,50,000 75,000	2,25,000
	Equity shares buy back A/c Dr. To bank A/c (Being the payment made on account of buyback of 15,000 Equity Shares)	2,25,000	2,25,000
	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	1,50,000	1,50,000
May 1	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1)	1,06,250	1,06,250

	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	Dr.	1,06,250
			1,06,250

Working Note:

$$\text{Amount of bonus shares} = \{(1,00,000 - 15,000) \times 1/8\} \times 10$$

$$= \text{Rs. } 1,06,250$$

Q.BB.RMP.206(A): (EXAM Nov'19, RTP Nov'21) (Buyback & Bonus)

X Ltd. furnishes the following summarized Balance Sheet as at 31 -03-2018.

Liabilities	(in Rs)	(in Rs)
Share Capital		
Equity Share Capital of Rs 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs 100 each fully paid up	<u>10,00,000</u>	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	<u>5,50,000</u>	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		<u>5,50,000</u>
Total		<u>1,21,50,000</u>
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	<u>15,75,000</u>	<u>20,75,000</u>
Total		<u>1,21,50,000</u>

The shareholders adopted the resolution on the date of the above-mentioned Balance Sheet to:

- (1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs 30 per share.
- (2) To finance the buy-back of shares, company:
 - (a) Issues 3000, 14% debentures of Rs 100 each at a premium of 20%.
 - (b) Issues 2500, 10% preference shares of Rs 100 each.
- (3) Sell investment worth Rs 1,00,000 for Rs 1,50,000.
- (4) Maintain a balance of Rs 2,00,000 in Revenue Reserve.
- (5) Later the company issue three fully paid-up equity share of Rs 20 each by way of **bonus share** for every 15-equity share held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

SOLUTION:

In the books of X Limited
Journal Entries

	Particulars	Dr.	Cr.
		Rs	Rs
1.	Bank A/c Dr.	3,60,000	
	To 14 % Debenture A/c		3,00,000
	To Securities Premium A/c		60,000
	(Being 14 % debentures issued to finance buy back)		
2.	Bank A/c Dr.	2,50,000	
	To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)		2,50,000
3.	Bank A/c Dr.	1,50,000	
	To Investment A/c		1,00,000
	To Profit on sale of investment (Being investment sold on profit)		50,000
4.	Equity share capital A/c (62,500 x Rs 20) Dr.	12,50,000	
	Securities premium A/c (62,500 x Rs 16) Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x Rs36)		22,50,000
	(Being the amount due to equity shareholders on buy back)		
5.	Equity shares buy back A/c Dr.	22,50,000	
	To Bank A/c		22,50,000
	(Being the payment made on account of buyback of 62,500 Equity Shares as per the Companies Act)		
6.	Revenue reserve Dr.	3,00,000	
	Securities premium Dr.	2,60,000	
	Profit and Loss A/c Dr.	4,40,000	
	To Capital redemption reserve A/c*		10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]		
7.	Capital redemption reserve A/c Dr.	7,50,000	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)		7,50,000
8.	Bonus shares A/c Dr.	7,50,000	
	To Equity share capital A/c		7,50,000
	(Being issue of 3 bonus equity share for every 15 equity shares held)		

*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other **specified securities**. Issue of debentures has been excluded for the purpose of “**specified securities**” and the entire amount of Rs 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

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

Particulars	Note No	Amount Rs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		1,05,60,000

Notes to Accounts

			Rs
1.	Share Capital		
	Equity share capital (Fully paid-up shares of Rs 20 each)		
	(2,50,000-62,500+37,500 shares)	45,00,000	
	10% preference shares @ Rs 100 each (10,00,000 + 2,50,000)	<u>12,50,000</u>	
2.	Reserves and Surplus		
	Capital Reserve	1,00,000	57,50,000
	Revenue reserve	2,00,000	
	Securities premium	12,00,000	
	Add: Premium on debenture	60,000	
	Less: Adjustment for premium paid on buy back (10,00,000)		
	Less: Transfer to CRR	<u>(2,60,000)</u>	Nil
	Capital Redemption Reserve		
	Transfer due to buy-back of shares from P&L 10,00,000		
	Less: Utilisation for issue of bonus shares <u>(7,50,000)</u>	2,50,000	
	Profit & Loss A/c	20,00,000	
	Add: Profit on sale of investment	50,000	
3.	Less: Transfer to CRR	<u>(4,40,000)</u>	16,10,000
	Dividend equalization reserve	<u>(5,50,000)</u>	<u>5,50,000</u>
	Long-term borrowings - 12% Debentures 12,50,000		
	- 14% Debentures	<u>3,00,000</u>	15,50,000

Working Notes:

- Amount of bonus shares = $[(2,50,000 - 25\%) \div 15] \times 20 = 37,500 \times 20 = 7,50,000$
- Cash at bank after issue of bonus shares

	Rs
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	<u>1,50,000</u>
	23,35,000
Less: Payment for buy back of shares	<u>(22,50,000)</u>
	<u>85,000</u>

Q.BB.SM.207(A): (Buyback, Redemption, ESOP, Investment in Own Debentures)

Extra Ltd. (a non-listed company) furnishes you with the following Balance Sheet as of 31st March, 20X1:

(in lakhs ₹)

Particulars		Notes	₹
1	Equity and Liabilities		
	Shareholders' funds		
A	Share capital	1	120
B	Reserves and Surplus	2	118
2	Non-current liabilities		
	Long term borrowings	3	4
3	Current liabilities		
A	Trade Payables		70
	Total		312
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		50
B	Non-current Investments		120
2	Current assets		
A	Cash and Cash equivalents		142
	Total		312

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity shares of ₹ 10 each fully paid	100
	9% Redeemable preference shares of ₹ 100 each fully paid	20
	Total	120
2	Reserves and Surplus	
	Capital reserves	8
	Revenue reserves	50
	Securities premium	60
	Total	118
3	Long term borrowings	
	10% Debentures	4

- (i) The company **redeemed the preference shares** at a premium of 10% on 1st April, 20X1.
- (ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances.
- (iii) Included in its investment were "**investments in own debentures**" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.
- (iv) The company had 1,00,000 **equity stock options outstanding** on the above- mentioned date, to the employees at ₹ 20 when the market price was ₹30 (This was included under

current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.

- (i) Pass the journal entries to record the above.
(ii) Prepare Balance Sheet as at 01.04.20X1.

SOLUTION

(₹ in lakhs)

Date	Particulars		Debit	Credit
20X1 1st April	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy-back A/c			90.00
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)			
	Bank A/c	Dr.	10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
	To Equity share capital A/c			5.00
	To Securities premium A/c			10.00
	(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)			
	Securities premium A/c	Dr.	2.00	
To Premium on redemption of preference shares A/c			2.00	
(Being premium on redemption of preference shares adjusted through securities premium)				

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs ₹)

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	75.00
B	Reserves and Surplus	2	66.20
2	Non-current liabilities		
	Long term borrowings	3	1.80
3	Current liabilities		
A	Other Current Liabilities	4	65.00
	Total		208
	Assets		
1	Non-current assets		
A	Property, plant and Equipment		50.00
B	Non-current Investments	5	118.00
2	Current assets		
A	Cash and Cash equivalents	6	40.00
	Total		208

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Equity shares of ₹ 10 each fully paid		100
	Less: Cancellation of bought back shares		(30)
	Add: Shares issued against ESOP		5
	Total		75
2	Reserves and Surplus		
	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	-
	Securities Premium		
	Opening balance	60.00	
	Less: Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	10.00	8.00
	Capital Redemption Reserve		50.00
	Total		66.20
3	Long term borrowings		
	10% Debentures		4.00
	Less: Cancellation of own debentures		(2.20)
	Total		1.80
4.	Other Current liabilities		
	Opening balance		70.00
	Less: Adjustment for ESOP outstanding		(5.00)
	Total		65.00
5.	Non-current investments		
	Opening balance		120.00
	Less: Investment in own debentures		(2.00)

	Total		118.00
6.	Cash and Cash Equivalents		
	Opening balance		142.00
	Less: Payment to preference shareholders		(22.00)
	Less: Payment to equity shareholders		(90.00)
	Add: Share price received against ESOP		10.00
	Total		40.00

SERIES 300
BUYBACK AS PER MAXIMUM LIMIT

Q.BB.SM.301(A): (Also in MTP – March18, August18, March19 & April19)

SMM Ltd. has the following capital structure as on 31st March, 20X1: ₹ in crore

	Particulars	Situation I	Situation II
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
(iii)	Infrastructure Development Reserve Statutory Reserve)	320	320
	Loan Funds	3,200	6,000

The company has offered buy-back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹3,200 crores)

₹ in crores				
	Particulars		Debit	Credit
(a)	Equity shares buy-back account	Dr.	720	
	To Bank account			720
	(Being payment for buy-back of 24 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buy-back account	Dr.	480	
	To Equity share buy-back account			720
	(Being cancellation of shares bought back)			

(c)	Securities Premium account	Dr.	400	480
	General Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buy-back account (Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			
	General Reserve / Profit & Loss A/c	Dr.	240	240
	To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
(a) Loan funds (₹)	3,200	6,000
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c) Present equity shareholders fund (₹)	2,880	2,880
(d) Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	N.A.
(e) Maximum permitted buy- back of Equity (₹) [(d) - (b)]	960	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- Face Value of Buyback shares is 10x
- CRR to be Created due to buyback equal to face value is 10x
- Premium on Buyback is 20x (30/- buyback price less Face Value 10/-)
- Therefore, total impact of Buyback on Current Equity would be 40x

Situation 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$2880 - 40x = 1600$$

$$X = 32 \text{ Crore Numbers of Buyback Shares}$$

Situation 2:

Since the present equity is less than minimum equity to be maintained, the company is not permitted to buy back any shares.

Q.BB.RMP.302(A): (EXAM May'23)

VIJ Ltd. has the following Capital Structure as on 31st March, 2022:

Particulars		(₹ in Lakhs)
Equity Share Capital (Shares of ₹ 10 each, fully Paid)		990
Reserves & Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1,800
Loan Funds		5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September, 2022 a proposal to buy-back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market rate.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and **also under a situation where the loan funds of the company were either ₹ 3,600 lakh or ₹ 4,500 lakh.**

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narration in the company's books in each situation.

Solution:

Statement determining the maximum number of shares to be bought back
(Number of shares)

Particulars	When loan fund is		
	₹ 5,400 lakhs	₹3,600 lakhs	₹4,500 lakhs
Shares Outstanding Test (W.N.1)	24.75	24.75	24.75
Resources Test (W.N.2)	18.75	18.75	18.75
Debt Equity Ratio Test (W.N.3)	Nil	11.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	11.25	Nil

Journal Entries for the Buy-Back
(applicable only when loan fund is ₹ 3,600 lakhs)

₹ in lakhs

	Particulars		Debit	Credit
(a)	Equity share capital account	Dr.	112.50	
	To Equity share buy- back account (Being cancellation of shares bought back)	Dr.	225.00	337.5
(b)	Equity share buy-back account To Bank account (Being buy-back of 11.25 lakhs equity shares of ₹10 each @ ₹30 per share)	Dr.	337.50	337.5

(c)	General reserve account	Dr.	112.50	112.50
	To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Notes:

1. In place of entry (a), Alternative set of entries can be given as follows:

₹ in lakhs				
Equity share capital A/c	Dr.	112.50	337.50	
Premium payable on buy-back	Dr.	225.00		
To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)				
Securities Premium A/c	Dr.		225.00	225.00
To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)		225.00		

2. In place of entry (c), Alternative set of entries can be given as follows:

₹ in lakhs				
Securities Premium A/c	Dr.	45.00	112.50	
General Reserve A/c	Dr.	67.50		
To Capital redemption reserve A/c (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)				

Working Notes:**1. Shares Outstanding Test**

Particulars	(Shares in lakhs)
Number of shares outstanding	99
25% of the shares outstanding	24.75

2. Resource Test

Particulars	
Paid up capital (₹ in lakhs)	990
Free reserves (₹ in lakhs) (720+270+270)	1260
Shareholders' funds (₹ in lakhs)	2250
25% of Shareholders fund (₹ in lakhs)	₹562.5 lakhs
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in lakhs)	18.75 lakhs shares

3. Debt Equity Ratio Test

Particulars	When loan fund is		
	₹ 5,400 lakhs	₹ 3,600 lakhs	₹ 4,500 lakhs

(a)	Loan funds (₹ in lakhs)	5,400	3,600	4,500
(b)	Minimum equity to be maintained after buyback in the ratio of 2:1 (₹ in lakhs)	2,700	1,800	2,250
(c)	Present equity shareholders fund (₹ in lakhs)	2,250	2,250	2,250
(d)	Future equity shareholder fund (₹ in lakhs)	N.A	2137.5 (2,250-112.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in lakhs) [(d) - (b)] ¹	Nil	337.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

Working Note:

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- Face Value of Buyback shares is 10x
- CRR to be Created due to buyback equal to face value is 10x
- Premium on Buyback is 20x (30/- buyback price less Face Value 10/-)
- Therefore, total impact of Buyback on Current Equity would be 40x

Situation 2:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$2250 - 40x = 1800$$

$$X = 11.25 \text{ lakhs Numbers of Buyback Shares}$$

Q.BB.SM.303(A):

Following is the Balance Sheet of Competent Limited as at 31st March, 20X1:

Particulars		Notes	₹
Equity and Liabilities			
1 Shareholders' funds			
A	Share capital	1	12,50,000
B	Reserves and Surplus	2	18,75,000
2 Non-current liabilities			
	Long term borrowings	3	28,75,000
3 Current liabilities			
A	Other Current Liabilities		16,50,000
Total			76,50,000
Assets			
1 Non-current assets			
A	Property, plant and Equipment	4	46,50,000
2 Current assets			



A	Other Current Assets	30,00,000
	Total	76,50,000

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity share capital (fully paid up shares of ₹ 10 each)	12,50,000
2	Reserves and Surplus	
	Securities premium	2,50,000
	Profit and loss account	1,25,000
	Revenue reserve	15,00,000
	Total	18,75,000
3	Long term borrowings	
	14% Debentures	18,75,000
	Unsecured Loans	10,00,000
	Total	28,75,000
4	Property, plant and equipment	
	Land and Building	19,30,000
	Plant and machinery	18,00,000
	Furniture and fitting	9,20,000
	Net carrying value	46,50,000

The company wants to buy-back 25,000 equity shares of ₹ 10 each, on 1st April, 20X1 at ₹ 20 per share. Buy-back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy-back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy-back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares and prepare the Balance Sheet after buy-back of shares.

SOLUTION

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

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

Particulars	
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	₹
(a)	Loan funds (₹) (18,75,000 + 10,00,000)	28,75,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	14,37,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Buyback Effect (Consider X as maximum no of buyback shares)	30X
(e)	Present Equity - Buyback Effect = Equity After Buyback $31,25,000 - 30X = 14,37,500$	
(f)	X = Maximum number of shares that can be bought back @ ₹ 20 per share	56,250 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

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

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	56,250
Maximum number of shares that can be bought back [least of the above]	31,250

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars	Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account	Dr. 5,00,000	
	To Bank account		5,00,000
	(Being buy-back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)		
(b)	Equity share capital account	Dr. 2,50,000	
	Securities premium account	Dr. 2,50,000	
	To Equity shares buy-back account		5,00,000
	(Being cancellation of shares bought back)		
(c)	Revenue reserve account	Dr. 2,50,000	
	To Capital redemption reserve account		2,50,000
	(Being transfer of free reserves to capital)		

	redemption reserve to the extent of nominal value of capital bought back through free reserves)		
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Balance Sheet of M/s. Competent Ltd. as at 31st March, 20X1

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	10,00,000
B	Reserves and Surplus	2	16,25,000
2	Non-current liabilities		
	Long term borrowings	3	28,75,000
3	Current liabilities		
A	Other Current Liabilities		16,50,000
	Total		71,50,000
	Assets		
1	Non-current assets		
A	Property, plant and equipment	4	46,50,000
2	Current assets		
A	Other Current Assets (30,00,000 – 5,00,000)		25,00,000
	Total		71,50,000

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		10,00,000
2	Reserves and Surplus		
	Profit and Loss A/c		1,25,000
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	(2,50,000)	-
	Capital Redemption Reserves		2,50,000
	Total		16,25,000
3	Long term borrowings		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	Property, plant and equipment		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

SECTION B – HOMEWORK QUESTIONS**(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)****SERIES 100****BASIC LEVEL QUESTIONS ON BUYBACK****Q.BB.RMP.101(B): (RTP Nov'22 & RTP SEP'24)**

Purpose Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of Rs. 10 each at Rs. 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of the Company's paid-up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of Rs. 10 each at par, the entire amount being payable with applications. The company uses Rs. 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

SOLUTION**Journal Entries in the books of Umesh Ltd.**

			Rs.	Rs.
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr. Dr.	16,00,000 32,00,000	48,00,000

Working Notes:**1. Calculation of amount used from General Reserve Account**

	Rs.
Amount paid for buy back of shares (4,00,000 shares x Rs. 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)	(10,00,000)
Less: Utilization of Securities Premium Account	(16,00,000)

Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
		62,00,000

2. Amount to be transferred to Capital Redemption Reserve account

	Rs.
Nominal value of shares bought back (4,00,000 shares x Rs.10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

SERIES 200 QUESTIONS ON BUYBACK & REDEMPTION

Q.BB.SM.201(B):

Dee Limited (a non-listed company) furnishes the following Balance Sheet as at 31st March, 20X1:



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

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	2,50,000 Equity shares of ₹ 10 each fully paid up	2,500
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy-	200

	back)	
	Total	2,700
2	Reserves and Surplus	
	Capital reserve	1,000
	Revenue reserve	3,000
	Securities premium	2,200
	Profit and loss account	3,500
	Total	9,700

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

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

SOLUTION

Journal Entries in the books of Dee Limited

(₹ in thousand)

	Particulars		Dr.	Cr.
(i)	Bank Account Profit and Loss Account To Investment Account (Being the investments sold at loss for the purpose of buy-back)	Dr. Dr.	2,200 800	3,000
(ii)	Equity Share buy-back Account To Bank Account (Being the payment made on buy-back)	Dr.	2,500	2,500
(iii)	Equity Share Capital Account Premium Payable on Buy-Back Account To Equity Shares Buy-Back Account (Being the buy-back amount allocated to equity share capital)	Dr. Dr.	500 2,000	2,500
(iv)	Securities premium Account To Premium payable on buy-back Account (Being the premium payable on buy-back adjusted against securities premium account)	Dr.	2,000	2,000
(v)	Revenue reserve Account To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)	Dr.	300	300

Balance Sheet of Dee Limited as at 1st April, 20X1 (After buy-back of shares)

(₹ in thousand)

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	2,200
B	Reserves and Surplus	2	6,900
2	Current liabilities		
A	Trade Payables		1,400
	Total		10,500
	Assets		

1		Non-current assets		
	A	Property, plant and Equipment		9,300
2		Current assets		
	A	Inventories		500
	B	Trade receivables		200
	C	Cash and Cash equivalents		500
		Total		10,500

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	2,50,000 Equity shares of ₹ 10 each fully paid up		2,000
	2,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy- back)		200
	Total		2,200
2	Reserves and Surplus		
	Capital reserve		1,000
	Capital redemption reserve		300
	Securities Premium	2,200	
	Less: Premium payable on buy-back of shares	(2,000)	200
	Revenue reserve	3,000	
	Less: Transfer to Capital redemption reserve	(300)	2,700
	Profit and loss A/c	3,500	
	Less: Loss on investment	(800)	2,700
	Total		6,900

Q.BB.RMP.202(B): (RTP May 18, May'22 & MTP Oct'18)

Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016:



Liabilities	Amount (Rs.)
Equity shares of Rs. 10 each, fully paid up	12,50,000
Bonus shares of Rs. 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long-term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2016 at Rs. 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has

been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

SOLUTION:

As per the information given in the question, buy-back of 25,000 shares @ Rs. 20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit (Rs.)	Credit (Rs.)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)	5,00,000	5,00,000
(b)	Equity shares capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000

**Balance Sheet of Complicated Ltd.
as on 1st April, 2016**

Particulars	Note No	Amount Rs.
EQUITY AND LIABILITIES		
1 Shareholders' funds		
a) Share capital	1	11,00,000
b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
a) Long-term borrowings	3	28,75,000
3 Current liabilities		
a) Other current liabilities	4	19,50,000
Total		81,50,000
ASSETS		
1 Non-current assets		
a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	1,10,000 Equity shares of Rs.10 each		11,00,000
2.	Reserves and Surplus		
	Profit and Loss A/c	1,25,000	
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	

	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long-term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

Q.BB.SM.203(B): (Buyback and Redemption)

Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores ₹)

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

Notes to accounts

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

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

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- Pass journal entries to record the above.
- Prepare balance sheet as at 1.4.20X1.

SOLUTION

Journal entries in the books of Anu Ltd.

₹ in crores

	Particulars	Dr.	Cr.
1st April, 20X1	12% Preference share capital A/c	Dr.	75
	To Preference shareholders A/c		75
	(Being preference share capital account transferred to shareholders account)		
	Preference shareholders A/c	Dr.	75
	To Bank A/c		75
	(Being payment made to shareholders)		
	Shares buy-back A/c	Dr.	25
	To Bank A/c		25
	(Being 50 lakhs equity shares bought back @ ₹ 50 per share)		
	Equity share capital A/c (50 lakhs x ₹ 10)	Dr.	5
	Securities premium A/c (50 lakhs x ₹ 40)	Dr.	20
	To Shares buy-back A/c		25
	(Being cancellation of shares bought back)		
	Revenue Reserve A/c	Dr.	80
	To Capital Redemption Reserve A/c (75+5)		80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)		

Balance Sheet of Anu Ltd as at 1.4.20X1

(in crores ₹)

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

	B	Cash and Cash equivalents	5	100
		Total		340

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed share capital		
	200 lakhs Equity shares of ₹ 10 each fully paid		20
	Total		20
2	Reserves and Surplus		
	Capital reserve		15
	Capital redemption reserve		80
	Securities premium	25	
	Less: Utilization for buy-back of shares	(20)	5
	Revenue Reserve	260	
	Less: transfer to Capital redemption reserve	(80)	180
	Total		280
3	Property, plant and Equipment		
	PPE: cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		-
4	Non-Current Investments		
	Non-current investments at cost		100
	(Market value ₹ 400 Crores)		
5	Cash and Cash Equivalents		
	Cash and Cash Equivalents as on 31.3.20X1		200
	Less: Bank payment for redemption and buy-back		(100)
	Total		100

Q.BB.SM.204(B): (Buyback & Bonus)

KG Limited furnishes the following Balance Sheet as at 31st March, 20X1:

Particulars		Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	1,200
	B Reserves and Surplus	2	810
2	Non-current liabilities		
	Long term borrowings	3	750
3	Current liabilities		
	A Trade Payables		745
	B Other Current Liabilities		195
	Total		3,700
	Assets		
1	Non-current assets		
	A Property, plant and equipment	4	2,026
	B Non-current Investments		74
2	Current assets		
	A Inventories		600
	B Trade receivables		260
	C Cash and Cash equivalents		740
	Total		3,700



Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	1,200
2	Reserves and Surplus	
	Securities premium	175
	General reserve	265
	Capital redemption reserve	200
	Profit & loss A/c	170
	Total	810
3	Long term borrowings	
	12% Debentures	750
4	Property, plant and equipment	
	Land and Building	1,800
	Plant and machinery	226
	Net carrying value	2,026

On 1st April, 20X1, the company announced the buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 20X1, the company achieved the target of buy-back. On 30th April, 20X1 the company issued one fully paid-up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

- (1) Pass necessary journal entries for the above transactions.
- (2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

SOLUTION**In the books of KG Limited Journal Entries**

Date	Particulars	Dr.	Cr.
20X1		(₹ in lakhs)	
April 1	Bank A/c Dr.	75	
	To Investment A/c		74
	To Profit on sale of investment		1
	(Being investment sold on profit)		
April 5	Equity share capital A/c Dr.	300	
	Securities premium A/c Dr.	150	
	To Equity shares buy-back A/c		450
	(Being the amount due to equity shareholders on buy-back)		
	Equity shares buy-back A/c Dr.	450	
	To Bank A/c		450
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)		
April 5	General reserve A/c Dr.	265	
	Profit and Loss A/c Dr.	35	
	To Capital redemption reserve A/c		300
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)		
April 30	Capital redemption reserve A/c Dr.	225	

	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)		225
	Bonus shares A/c	Dr.	225
	To Equity share capital A/c		225
	(Being issue of one bonus equity share for every four equity shares held)		

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

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	1,125
B	Reserves and Surplus	2	436
2	Non-current liabilities		
	Long term borrowings	3	750
3	Current liabilities		
A	Trade Payables		745
B	Other Current Liabilities		195
	Total		3,251
Assets			
1	Non-current assets		
A	Property, plant and equipment	4	2,026
2	Current assets		
A	Inventories		600
B	Trade receivables		260
C	Cash and Cash equivalents		365
	Total		3,251

Notes to accounts

No.	Particulars		₹
1	Share Capital		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		1,125
2	Reserves and Surplus		
	General Reserve	265	
	Less: Transfer to CR	(265)	-
	Capital Redemption Reserve	200	
	Add: Transfer due to buy-back of shares from P/L	35	
	Add; Transfer due to buy-back of shares from General Reserve	265	
	Less: Utilisation for issue of bonus shares	(225)	275
	Securities premium	175	
	Less: Adjustment for premium paid on buy-back	(150)	25
	Profit & Loss A/c	170	
	Add: Profit on sale of investment	1	
	Less: Transfer to CRR	(35)	136
	Total		436
3	Long term borrowings		
	12% Debentures		750
4	Property, Plant and Equipment		

Land and Building		1,800
Plant and machinery		226
Net carrying value		2,026

Working Notes:

- Amount of bonus shares = 25% of (1,200 – 300) lakhs = ₹ 225 lakhs
- Cash at bank after issue of bonus shares

Particulars	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: Payment for buy-back of shares	(450)
	365

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

Q.BB.RMP.205(B): (RTP Nov'21; MTP May'23) (Buyback & Bonus)

SM Limited gives the following information as on 31st March, 2020:



		Rs.
Share capital		
(60,000 Equity Shares of Rs. 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	Rs. 70,000	
General reserve	Rs. 63,000	
Profit and Loss	<u>Rs. 1,40,000</u>	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		
Term loan		40,000
Creditors		65,000
Provision for taxation		15,000
		12,93,000
Property plant and equipment		6,00,000
Non-current investment		1,50,000
Current assets:		
Stock	Rs. 2,00,000	
Debtors	Rs. 2,60,000	
Bank	Rs. <u>83,000</u>	5,43,000
		12,93,000

The shareholders adopted the resolution on 31st March, 2020 to:

- Buy back 25% of the paid-up capital @ Rs. 15 each.
- Issue 10% debentures of Rs. 60,000 at a premium of 10% to finance the buyback of shares.
- Maintain a balance of Rs. 20,000 in General Reserve.
- Sell investments worth Rs. 1,00,000 for Rs. 80,000.
- Buy back expenses were Rs. 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank.

SOLUTION

In the books of SM Limited
Journal Entries

	Particulars		Dr. Rs.	Cr. Rs.
1.	Equity share capital A/c (15,000 x Rs.10) Dr.		1,50,000	
	Premium on buyback A/c (15,000 x Rs.5) Dr.		75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x Rs.15) (Being the amount due to equity shareholders on buy back)			2,25,000
2.	Equity shares buy back/Equity shareholders A/c Dr.		2,25,000	
	To Bank A/c (Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			2,25,000
3.	Bank A/c Dr.		66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c (Being 14 % debentures issued to finance buy back)			6,000
4.	Buyback Expenses A/c Dr.		2,000	
	To Bank A/c (Buyback expenses paid)			2,000
5.	Bank A/C Dr.		80,000	
	Profit and Loss A/c (Loss on sale of investment) Dr.		20,000	
	To Investment A/c (Being investment sold at loss)			1,00,000
6.	General reserve Dr.		43,000	
	Profit and Loss A/C Dr.		1,07,000	
	To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			1,50,000
7.	Securities Premium Dr.		75,000	
	Profit and Loss A/c Dr.		2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c (Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			2,000

Bank Account

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been

excluded for the purpose of “specified securities” and the entire amount of Rs. 1,50,000 has been credited to CRR while solving the question.

SERIES 300
BUYBACK AS PER MAXIMUM LIMIT

Q.BB.RMP.301(B): (Exam July'21)

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (Rs.)	Situation 2 (Rs.)
Equity Share Capital (Shares of Rs. 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 25,00,000	Rs. 1,20,00,000
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is Rs. 25,00,000)

			Rs.	
	Particulars		Debit	Credit
(a)	Equity shares buy-back account	Dr.	12,52,500	
	To Bank account			12,52,500
	(Being payment for buy-back of 41,750 equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	4,17,500	
	Premium Payable on buy-back account	Dr.	8,35,000	
	To Equity shares buy-back account			12,52,500
	(Being cancellation of shares bought back)			

	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buy-back account (Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr.	6,00,000 2,35,000	8,35,000
(c)	General Reserve* To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr.	4,17,500	4,17,500

*Profit and Loss account balance amounting Rs. 2,10,000 may also be used and General Reserve may be debited for the balance amount.

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

2. Resources Test

Particulars	
Paid up capital (Rs.)	30,00,000
Free reserves (Rs.) (12,00,000+6,00,000+2,10,000)	<u>20,10,000</u>
Shareholders' funds (Rs.)	<u>50,10,000</u>
25% of Shareholders fund (Rs.)	Rs. 12,52,500
Buy-back price per share	Rs. 30
Number of shares that can be bought back	41,750 shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	When loan fund is	
		Rs. 25,00,000	Rs. 1,20,00,000
(a)	Loan funds (Rs.)	Rs. 25,00,000	Rs. 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs.) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (Rs.)	50,10,000	50,10,000

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- Face Value of Buyback shares is 10x
- CRR to be Created due to buyback equal to face value is 10x
- Premium on Buyback is 20x (30/- buyback price less Face Value 10/-)
- Therefore, total impact of Buyback on Current Equity would be 40x

Situation 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$50,10,000 - 40x = 12,50,000$$

$$X = 94,000 \text{ Numbers of Buyback Shares}$$

Situation 2:

Since the present equity is less than minimum equity to be maintained, the company is not permitted to buy back any shares.

Q.BB.SM.302(B):

Perrotte Ltd. has the following Capital Structure as on 31.03.2011:



S.No.	Particulars	(in crores)
1	Equity Share Capital (Shares of ₹ 10 each fully paid)	330
	Reserves and Surplus:	
2	General Reserve	240
3	Securities Premium Account	90
4	Profit & Loss Account	90
5	Infrastructure Development Reserve	180
6	Loan Funds	1800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2011 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and **also under a situation where the loan funds of the company were either Rs. 1,200 crores or Rs. 1,500 crores.**

Assuming that the entire buy back is completed by 09.12.2011, show the accounting entries in the company's books in each situation.

SOLUTION**Statement determining the maximum number of shares to be bought back**

Number of shares

Particulars	When loan fund is		
	₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
Shares Outstanding Test (W.N.1)	8.25	8.25	8.25
Resources Test (W.N.2)	6.25	6.25	6.25
Debt Equity Ratio Test (W.N.3)	Nil	3.75	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	3.75	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,200 crores)

₹ in crores

	Particulars	Debit	Credit
(a)	Equity share buy-back account	Dr. 112.5	
	To Bank account		112.5
	(Being buy-back of 3.75 crores equity shares of ₹ 10 each @ ₹ 30 per share)		
(b)	Equity share capital account	Dr. 37.5	
	Securities premium account	Dr. 75	
	To Equity share buy-back account		112.5
	(Being cancellation of shares bought back)		
(c)	General reserve account	Dr. 37.5	

	To Capital redemption reserve account		37.5
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)		

Working Notes:**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	33
25% of the shares outstanding	8.25

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	330
Free reserves (₹ in crores)	420
Shareholders' funds (₹ in crores)	750
25% of Shareholders fund (₹ in crores)	₹ 187.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	6.25 crores shares

3. Debt Equity Ratio Test

Particulars	When loan fund is		
	₹ 1,800 crores	₹ 1,200 crores	₹ 1,500 crores
(a) Loan funds (₹ in crores)	1,800	1,200	1,500
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	900	600	750
(c) Present equity shareholders fund (₹ in crores)	750	750	750
(d) Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	712.5 (750-37.5)	N.A.
(e) Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	112.5 (by simultaneous equation)	Nil
(f) Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	3.75 (by simultaneous equation)	Nil

Note:

- Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
- As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back. In the question, it is stated that the company has surplus funds to dispose of therefore, it is presumed that buy-back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for

calculation of future equity i.e., share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from present equity.

3. Calculation for Situation 2:

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- a) Face Value of Buyback shares is $10x$
- b) CRR to be Created due to buyback equal to face value is $10x$
- c) Premium on Buyback is $20x$ ($30/-$ buyback price less Face Value $10/-$)
- d) Therefore, total impact of Buyback on Current Equity would be $40x$

Situation 1:

Present Equity – Impact of Buyback on Equity = Minimum Equity to be maintained

$$750 - 40x = 600$$

$$X = 3.75 \text{ crore Number of Buyback Shares}$$

SECTION C – CASE SCENERIO MCQs

Case Scenario 1:

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31st March, 2023:

- A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000
- Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

- i. By using the Shares Outstanding Test the number of shares that can be bought back
 - (a) 1,25,000
 - (b) 31,250
 - (c) 25,000
 - (d) 30,000

- ii. By using the Resources Test determine the number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062

- iii. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062

- iv. On the basis of all three tests determine Maximum number of shares that can be bought back:
 - (a) 25,000
 - (b) 31,250
 - (c) 28,750
 - (d) 39,062

(i)	(ii)	(iii)	(iv)
(b)	(d)	(c)	(c)

Case Scenario 2:

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- **Equity Share Capital:** The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹10 and fully paid.
- **Reserves & Surplus:** Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- **Loan Funds:** The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

- (i) What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
- (a) ₹ 12,95,000
 (b) ₹ 21,00,000
 (c) ₹ 32,50,000
 (d) ₹ 6,00,000
- (ii) What is the maximum permitted buy-back of equity for Kumar Ltd.?
- (a) ₹ 38,85,000
 (b) ₹ 42,00,000
 (c) ₹ 12,95,000
 (d) ₹ 59,85,000
- (iii) How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
- (a) 43,000
 (b) 1,29,500
 (c) 2,00,000
 (d) 78,000

(i)	(ii)	(iii)
(b)	(a)	(b)



Student Notes:-

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Quote:

**“The Past can-not be changed.
The Future is yet in your power”**

SECTION - A**(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class)****SERIES 100****BASICS****Q.CFS.SM.101(A): (RTP May20)**

Classify the following activities as Operating Activities, Investing Activities, Financing Activities & Cash Equivalents.



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

SOLUTION

- (a) Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.
- (b) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.
- (c) Financing Activities: b, d, i, n, r, y, z, cc & dd.
- (d) Cash Equivalent: ff.



Q.CFS.SM.102(A):

Classify the following activities as per AS 3 Cash Flow Statement:

- (i) Interest paid by financial enterprise
- (ii) Tax deducted at source on interest received from subsidiary company
- (iii) Deposit with Bank for a term of two years
- (iv) Insurance claim received towards loss of machinery by fire
- (v) Bad debts written off

SOLUTION

- (i) Interest paid by financial enterprise
Cash flows from operating activities
- (ii) TDS on interest received from subsidiary company
Cash flows from investing activities
- (iii) Deposit with bank for a term of two years
Cash flows from investing activities
- (iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'
- (v) Bad debts written off
It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

SERIES 200
DIRECT METHOD

Q.CFS.SM.201(A): (RTP May21)

The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		(Rs '000)
Balance at 1.3.20X1		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31.3.20X2		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 20X2 in accordance with AS-3 (Revised).

The company does not have any cash equivalents.

SOLUTION**Hills Ltd.**

**Cash Flow Statement for the year ended
31st March, 20X2 (Using direct method)**

Particulars		(Rs '000)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Q.CFS.SM.202(A):

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of the following information:

Company sold goods for cash only.

1. Gross Profit Ratio was 30% for the year, gross profit amounts to Rs 3,82,500.
2. Opening inventory was lesser than closing inventory by Rs 35,000.
3. Wages paid during the year Rs 4,92,500.
4. Office and selling expenses paid during the year Rs 75,000.
5. Dividend paid during the year Rs 30,000 (including dividend distribution tax.)
6. Bank loan repaid during the year Rs 2,15,000 (included interest Rs15,000)
7. Trade payables on 31stMarch, 20X0 exceed the balance on 31st March, 20X1 by Rs 25,000.
8. Amount paid to trade payables during the year Rs 4,60,000.
9. Tax paid during the year amounts to Rs 65,000 (Provision for taxation as on 31.03.20X1 Rs 45,000).
10. Investments of Rs 7,00,000 sold during the year at a profit of Rs20,000.
11. Depreciation on fixed assets amounts to Rs 85,000.
12. Plant and machinery purchased on 15thNovember, 20X0 for Rs 2,50,000.
13. Cash and Cash Equivalent on 31stMarch, 20X0 Rs2,00,000.
14. Cash and Cash Equivalent on 31stMarch, 20X1 Rs6,07,500.

SOLUTION

M/s MNT Ltd.
Cash Flow Statement for the year ended
31st March, 20X1 (Using direct method)

Particulars	Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash sales (₹ 3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid (including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

Q.CFS.SM.203(A):

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

- (1) Sales for the year amounted to Rs135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to Rs55 crores out of which credit purchase was 80%.



- (3) Administrative and selling expenses amounted to Rs18 crores and salary paid amounted to Rs 22 crores.
- (4) The Company redeemed debentures of Rs20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs1.5 crores.
- (5) Dividend paid during the year amounted to Rs11.7 crores (including Dividend distribution tax) was also paid.
- (6) Investment costing Rs12 crores were sold at a profit of Rs2.4 crores.
- (7) Rs8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs12 crores but the vendor took over the old plant at a value of Rs10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:

	Rs in crores 1.4.20X0	Rs in crores 31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	

SOLUTION

Gamma Ltd.
Cash Flow Statement for the year ended
31st March, 20X1 (Using direct method)

Particulars	Rs in crores	Rs in crores
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+(55x80%)23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 - 10)	(11)	
Net cash used in investing activities		3.4
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Q.CFS.RMP.204(A): (RTP May'18)

A company provides you the following information:

- (i) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs. 262 crores.
- (ii) Receipts from credit customers during the year, aggregated Rs. 134 crores.



- (iii) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.
Balance in creditors as on
1.4.2016 Rs. 84 crores
31.3.2017 Rs. 92 crores
- (iv) Suppliers of other consumables and services were paid Rs. 19 crores in cash.
- (v) Employees of the enterprises were paid 20 crores in cash.
- (vi) Fully paid preference shares of the face value of Rs. 32 crores were redeemed. Equity shares of the face value of Rs. 20 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of Rs. 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) Rs26 crores were paid by way of income tax.
- (ix) A new machinery costing Rs. 25 crores was purchased in part exchange of old machinery. The book value of the old machinery was Rs. 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs. 15 crores. The balance was paid in cash to the vendor.
- (x) Investment costing Rs. 18 cores were sold at a loss of Rs. 2 crores.
- (xi) Dividends amounting Rs. 15 crores (including dividend distribution tax of Rs. 2.7 crores) was also paid.
- (xii) Debenture interest amounting Rs. 2 crore was paid.
- (xiii) On 31st March 2016, Balance with Bank and Cash on hand was Rs. 2 crores.

On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method).

SOLUTION

Cash flow statement (using direct method) for the year ended 31st March, 2017

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

Working Note:

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

	(Rs. in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176



Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees	251
[(a)+ (b) + (c)]	

SERIES 300 INDIRECT METHOD

Q.CFS.SM.301(A): (MTP May'23)

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 20X2?



10% Debentures issued:	As on 01-04-20X1	Rs. 1,10,000
	As on 31-03-20X2	Rs. 77,000

Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.

Unpaid Interest on Debentures:	As on 01-04-20X1	Rs. 275
	As on 31-03-20X2	Rs. 1,175

Debtors of Rs. 36,000 were written off against the Provision for Doubtful Debts A/c during the year.

10% Bonds (Investments):	As on 01-04-20X1	Rs. 3,50,000
	As on 31-03-20X2	Rs. 3,50,000
	As on 31-03-20X2	Rs. 10,500

SOLUTION

Cash Flow Statement of M/s Gagan Ltd. for the year ended March 31, 20X2

A	CASH FLOW FROM OPERATING ACTIVITIES	
	Net Profit as per Profit & Loss A/c	xxxx
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	CASH FLOW FROM INVESTING ACTIVITIES	
	Interest on Investments [35,000-10,500]	24,500
C	CASH FLOW FROM FINANCING ACTIVITIES	
	Interest on Debentures paid [11,000 - (1,175 - 275)] -outflow	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium] - outflow	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

Q.CFS.SM.302(A):

Following are the extracts of Balance Sheet of Ajay Ltd.:

		31.3.20X1	31.3.20X2
	Equity and Liabilities	Rs	Rs
	Shareholder's funds		
a.	Share Capital	1	5,00,000

b.	Reserves & surplus	2	50,000	90,000
	Non-current liabilities			
a.	Long-term borrowings	3	5,00,000	7,50,000
	Current liabilities			
a.	Other current liabilities	4	---	5,000
	Assets			
	Non-current assets			
a.	Intangible assets	5	2,05,000	1,80,000

Notes to accounts

		31.03.20X1 (Rs.)	31.03.20X2 (Rs.)
1	Share Capital		
	50,000 Equity Shares of Rs. 10 each	5,00,000	5,00,000
2	Reserves & Surplus		
	Profit & Loss A/c	50,000	90,000
3	Long-term borrowings		
	10% Debentures	5,00,000	7,50,000
4	Other current liabilities		
	Unpaid Interest	--	5,000
5	Intangible assets		
	goodwill	2,05,000	1,80,000

You are required to show the related items in Cash Flow Statement, if Discount on issue of Debentures amounting to Rs 10,000 has been written off during the year.

SOLUTION

An Extract of Cash Flow Statement for the year ending 31.3.20X2

	Rs
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss Alc.	(50,000)
Add: Goodwill amortisation	25,000
Interest on Debentures	75,000
Discount	10,000
Net Cash from Operating Activities	1,50,000

Cash flows from financing activities:

Proceeds from debentures	2,40,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,70,000

Q.CFS.SM.303(A):

The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 20X1:

Income Statement

		Rs
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
Gross Margin		1,78,000
Operating Expenses		
(Including Depreciation Expense of Rs 37,000)		(1,47,000)
Other Income / (Expenses)		31,000
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	

Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Comparative Balance Sheets

	31 st March	31 st March
Assets		
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Current Assets:		
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
	9,65,000	7,49,000
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current liabilities:		
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income taxes payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 20X0-X1

- Purchased investments for Rs 78,000.
- Sold investments for Rs 1,02,000. These investments cost Rs 90,000.
- Purchased plant assets for Rs 1,20,000.
- Sold plant assets that cost Rs 10,000 with accumulated depreciation of Rs 2,000 for Rs 5,000.
- Issued Rs 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
- Repaid Rs 50,000 of bonds at face value at maturity.
- Issued 15,000 shares of Rs 10 each.
- Paid cash dividends Rs 8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method

SOLUTION

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 20X1

Particulars	Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	

Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		46,000

***Working Note:**

Rs

Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	5,000
	12,000
Less: Income tax liability at the end of the year	(3,000)
	9,000

Q.CFS.SM.304(A):

The balance sheets of Sun Ltd. for the years ended 31st March 20X1 and 20X0 were summarised as:

	20X1	20X0
	Rs	Rs
Equity Share Capital	60,000	50,000
Reserves:		
Profit and Loss Account	5,000	4,000
Current Liabilities:		
Trade payables	4,000	2,500
Other Current Liabilities	-	1,000
Taxation	1,500	1,000
Total	70,500	58,500
Fixed Assets (at W.D.V.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current Assets		

Inventory	17,000	14,000
Trade receivables	8,000	6,000
Bank and Cash	4,000	8,500
Total	70,500	58,500

Notes to accounts

		20X1 (Rs.)	20X0 (Rs.)
1	Share Capital		
	Equity Shares of Rs.10 each	60,000	50,000
2	Reserve & surplus		
	Profit and Loss Account	5,000	4,000
3	Other current liabilities		
	Dividend Payable	-	1,000
4	Property, plant and equipment (at WDV)		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	12,500	8,000
	Total	39,500	29,000
5	Cash and cash equivalents		
	Cash and Bank	4,000	8,500

The profit and loss account for the year ended 31st March, 20X1 disclosed

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

Further information is available

	Fixtures	Vehicles
	Rs	Rs
Depreciation for year	1,000	2,500
Disposals:		
Proceeds on disposal	—	1,700
Written down value	—	(1,000)
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

SOLUTION

Sun Ltd.
Cash Flow Statement
for the year ended 31st March, 20X1

Particulars	Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	

Income taxes paid (W.N.1)	(1,000)	
Net cash generated from operating activities		2,800
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of vehicles	1,700	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
Net cash from financing activities		7,000
Net decrease in cash and cash equivalents		(4,500)
Cash and cash equivalents at beginning of period (See Note)		8,500
Cash and cash equivalents at end of period (See Note)		4,000
Note to the Cash Flow Statement		
Cash and Cash Equivalents	31.3.20X1	31.3.20X0
Bank and Cash	4,000	8,500
Cash and cash equivalents	4,000	8,500

Working Notes:

	Particulars	Rs	Rs
1.	Income taxes paid		
	Income tax expense for the year		1,500
	Add: Income tax liability at the beginning of the year		1,000
			2,500
	Less: Income tax liability at the end of the year		(1,500)
			1,000
2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		-
			3,000
3.	Fixed assets acquisitions		
		Fixtures	Vehicles
		Rs	Rs
	W.D.V. at 31.3.20X1	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
	Acquisitions during 20X0-20X1	7,000	8,000

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

Q.CFS.SM.305(A):

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 20X1:

	(Rs in lakhs)
Net Profit	25,000
Dividend (including dividend tax) paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

SOLUTION

**Star Oils Limited Cash Flow Statement
for the year ended 31st March, 20X1**

Particulars	(Rs in lakhs)	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for:		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2895)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Receipt of grant for capital projects	12	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,622)



CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from calls in arrear	2	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	27,502
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note:

(1) Book value of the assets sold	185
Less: Loss on sale of assets	<u>(40)</u>
Proceeds on sale	<u>145</u>

Assumption: Interest income on investments Rs 2,506 has been received during the year.

Q.CFS.SM.306(A):

From the following Balance Sheet & information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

Balance Sheet

	31stMarch, 20X1	31stMarch, 20X0
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	–	2,00,000
Capital Redemption Reserve	1,00,000	–
Capital Reserve	1,00,000	–
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	–
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	15,00,000	12,50,000
	31st March,20X1	31st March,20X0
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12,50,000

Additional Information:

- (i) A piece of land has been sold out for Rs 1,50,000 (Cost – Rs 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
- (ii) On 1st April, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.
- (iii) Part of the investments (Cost – Rs 50,000) was sold for Rs 70,000.
- (iv) Pre-acquisition dividend received Rs 5,000 was adjusted against cost of investment.



- (v) Directors have declared 15% dividend for the current year.
 (vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.
 (vii) Income-tax liability for the current year was estimated at Rs 1,35,000.
 Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

SOLUTION

Cash Flow Statement of Ryan Limited
For the year ended 31st March, 20X1

Particulars	Rs	
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxation (W.N.1)	2,45,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.3)	(20,000)	
Interest on debentures (W.N.4)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Trade payables	5,000	
Increase in accrued liabilities	10,000	
Extraordinary items	(1,10,000)	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,13,000
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

Working Notes:

1. Net Profit before taxation

Particulars	Rs
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	20,000



Provision for taxation	1,35,000
Dividend payable	90,000
Net Profit before taxation	2,75,000

2. Land and Building Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		3,00,000			3,00,000

3. Plant and Machinery Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	5,00,000	By	Cash (Sale)	90,000
To	Profit and loss account	40,000	By	Depreciation	1,35,000
To	Debentures	1,00,000	By	Balance c/d	7,65,000
To	Bank	3,50,000			
		9,90,000			9,90,000

4. Investments Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	80,000	By	Cash (Sale)	70,000
To	Profit and loss account	20,000	By	Dividend (Pre acquisition)	5,000
To	Bank (Balancing figure)	25,000	To	Balance C/d	50,000
		125,000			125,000

5. Capital Reserve Account

Particulars		Rs	Particulars		Rs
To	Balance c/d	70,000	By	Profit on revaluation of land	70,000
		70,000			70,000

6. General Reserve Account

Particulars		Rs	Particulars		Rs
To	Capital redemption reserve	1,00,000	By	Balance b/d	2,50,000
To	Balance c/d	1,50,000			
		2,50,000			2,50,000

7. Dividend payable Account

Particulars		Rs	Particulars		Rs
To	Bank (Balancing figure)	1,50,000	By	Balance b/d	60,000
To	Balance c/d	-	By	Profit & loss account	90,000
		1,50,000			1,50,000

8. Provision for Taxation Account

Particulars		Rs	Particulars		Rs
To	Bank (Balancing figure)	1,00,000	By	balance b/d	60,000
To	Balance c/d	95,000	By	Profit & loss account	1,35,000
		1,95,000			1,95,000

9. Other Current Assets Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	65,000	By	Balance c/d	1,00,000
To	Bank (Balancing figure)	35,000			
		1,00,000			1,00,000

Q.CFS.RMP.307(A): (RTP Nov19) (Similar to Q306A)

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

**Balance Sheets**

	Particulars	Note	31.03.2019 (Rs.)	31.03.2018 (Rs.)
I	EQUITY AND LIABILITIES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000
	(c) Short term Provisions (provision for tax)	4	32,000	28,000
	Total		5,66,000	4,37,000
	ASSETS			
	(1) Non-current Assets			
	(a) Tangible Assets		2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
II	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

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

Note 2: Reserves and Surplus

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

Note 3: Current Liabilities

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

Note 4: Tangible Assets

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
Land & Building	75,000	1,00,000



Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

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

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

	Particulars	Rs.	Rs.
I	Cash Flow from Operating Activities		
A.	Closing balance as per Profit and Loss Account		27,000
	Less: Opening balance as per Profit and Loss Account		(18,000)
	Add: Dividend declared during the year		37,000
	Add: Interim dividend paid during the year		10,000
	Add: Transfer to reserve		10,000
	Add: Provision for Tax		32,000
B.	Net profit before taxation and extra-ordinary item		98,000
C.	Add: Items to be added		
	Depreciation	18,000	
	Loss on sale of Plant	3,000	
	Goodwill written off	13,000	34,000
D.	Less: Dividend Income		(1,500)
E.	Operating profit before working capital changes [B + C - D]		1,30,500
F.	Add: Decrease in Current Assets and Increase in Current Liabilities		
	Decrease in Inventories	7,000	
	Increase in Trade Payables	21,000	28,000
G.	Less: Increase in Trade Receivables		(33,000)
H	Cash generated from operations (E+F-G)		1,25,500
I	Less: Income taxes paid		(28,000)
J	Net Cash from (used in) operating activities		97,500
II.	Cash Flows from investing activities:		
	Purchase of Plant		(1,34,000)
	Sale of Land		50,000
	Sale of plant		12,000
	Purchase of investments		(25,600)
	Dividend Received		2,100

	Net cash used in investing activities		(95,500)
III.	Cash Flows from Financing Activities:		
	Proceeds from issue of equity share capital		1,00,000
	Redemption of preference shares		(50,000)
	Interim Dividend (inclusive of DDT) paid		(10,000)
	Final dividend (inclusive of DDT) paid		(27,000)
	Net cash from financing activities		13,000
IV.	Net increase in cash and cash equivalents (I+II+III)		15,000
V.	Cash and cash equivalents at beginning of period		17,000
VI.	Cash and cash equivalents at end of period (IV+V)		32,000

Land and Building Account

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

Plant and Machinery Account

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

Investments Account

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

Q.CFS.SM.308(A):

The Balance Sheet of New Light Ltd. for the years ended 31st March, 20X0 and 20X1 are as follows:



		Notes	31 st March, 20X0 (Rs.)	31 st March, 20X1 (Rs.)
	Equity and liabilities			
1	Shareholders' funds			
	A Share capital	1	16,00,000	18,80,000
	B Reserves and Surplus	2	8,40,000	11,00,000
2	Non-current liabilities			
	A Long term borrowings	3	4,00,000	2,80,000
3	Current liabilities			
	A Other current liabilities	4	6,00,000	5,20,000
	B Short term provision (Provision for tax)		3,60,000	3,40,000
	Total		38,00,000	41,20,000

		Assets			
1		non-current assets			
	A	Property, plant and Equipment	5	22,80,000	26,40,000
	B	Non-Current investment		4,00,000	3,20,000
2		Current assets			
	A	Cash and Cash equivalents		10,000	10,000
	B	Inventory		2,16,000	3,00,000
	C	Other current assets		8,94,000	8,50,000
		Total		38,00,000	41,20,000

Notes to accounts

No.	Particular	31 st March, 20X0	31 st March, 20X1
1	Share capital		
	Equity share capital	12,00,000	16,00,000
	10% Preference share capital	4,00,000	2,80,000
	Total	16,00,000	18,80,000
2	Reserves and Surplus		
	General reserve	6,00,000	7,60,000
	Profit and Loss account	2,40,000	3,40,000
	Total	8,40,000	11,00,000
3	Long term borrowings		
	9% Debentures	4,00,000	2,80,000
	Total	4,00,000	2,80,000
4	Other current liabilities		
	Dividend payable	1,20,000	-
	Current Liabilities	4,80,000	5,20,000
	Total	6,00,000	5,20,000
5	Property, plant and equipment		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	(9,20,000)	(11,60,000)
	Net carrying value	22,80,000	26,40,000

Additional information:

- (i) The company sold one fixed asset for Rs 1,00,000, the cost of which was Rs 2,00,000 and the depreciation provided on it was Rs 80,000.
- (ii) The company also decided to write off another fixed asset costing Rs 56,000 on which depreciation amounting to Rs 40,000 has been provided.
- (iii) Depreciation on fixed assets provided Rs 3,60,000.
- (iv) Company sold some investment at a profit of Rs 40,000.
- (v) Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
- (vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was Rs 2,16,000. The inventory on 31.3.20X1 was correctly valued at Rs 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

SOLUTION

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 20X1

A. Cash Flow from operating activities	Rs.
Profit after appropriation	
Increase in profit and loss A/c after inventory adjustment [Rs. 3,40,000 – (Rs. 2,40,000 + Rs. 24,000)]	76,000
Transfer to general reserve	1,60,000



Dividend payable	1,60,000
Provision for tax	3,40,000
Net profit before taxation and extraordinary Item	5,76,000
Adjustments for:	
Depreciation	3,60,000
Loss on sale of fixed assets	20,000
Decrease in value of fixed assets	16,000
Profit on sale of investment	(40,000)
Premium on redemption of preference share capital	6,000
Interest on debentures	36,000
Premium on redemption of debentures	6,000
Operating profit before working capital changes	9,80,000
Increase in current liabilities (Rs. 5,20,000 – Rs. 4,80,000)	40,000
Increase in other current assets [Rs. 11,50,000 – (Rs. 11,10,000 + Rs. 24,000)]	(16,000)
Cash generated from operations	10,04,000
Income taxes paid	(3,60,000)
Net Cash generated from operating activities	6,44,000
B. CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of fixed assets (W.N.3)	(8,56,000)
Proceeds from sale of fixed assets (W.N.3)	1,00,000
Proceeds from sale of investments (W.N.2)	1,20,000
Net Cash from investing activities	(6,36,000)
C. CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from issuance of share capital	4,00,000
Redemption of preference share capital (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Dividend paid	(1,20,000)
Interest on debentures	(36,000)
Net Cash from financing activities	(8,000)
Net increase/decrease in cash and cash equivalent during the year	Nil
Cash and cash equivalent at the beginning of the year	10,000
Cash and cash equivalent at the end of the year	10,000

Working Notes:

1. Revaluation of inventory will increase opening inventory by Rs. 24,000. $2,16,000/90 \times 100 = \text{Rs. } 24,000$

Therefore, opening balance of other current assets would be as follows:

Rs. 11,10,000 + Rs. 24,000 = Rs. 11,34,000

Due to under valuation of inventory, the opening balance of profit and loss account be increased by Rs. 24,000.

The opening balance of profit and loss account after revaluation of inventory will be Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000

2. Investment Account

Particulars	Rs	Particulars	Rs
To Balance b/d	4,00,000	By Bank A/c	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000	(balancing figure being investment sold)	
		By Balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

Particulars	Rs	Particulars	Rs
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000
To Bank A/c (Balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000
		By Profit and loss A/c (loss on sale of assets)	20,000
		By Accumulated depreciation A/c	40000
		By Profit and loss A/c (assets written off)	16000
		By Balance c/d	38,00,000
	40,56,000		40,56,000

4. Accumulated Depreciation Account

Particulars	Rs	Particulars	Rs
To Fixed assets A/c	80,000	By Balance b/d	9,20,000
To Fixed assets A/c	40,000	By Profit and loss A/c (depreciation for the period)	3,60,000
To Balance c/d	11,60,000		
	12,80,000		12,80,000

ICAI's View on Preference Dividend: Preference Dividend is not declared on Balance Sheet date because it is not shown as payable on Closing Balance sheet. Hence, if not declared from P&L then must not be paid and to be ignored.

Alternate View: If it is cumulative Preference Share Capital, dividend must have been declared & already paid on 31/3

- (a) Added to CFOA since declared out of P&L.
- (b) Deduct from Financing Activity since Paid in cash.

Q.CFS.SM.309(A):

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:

		Notes	31 st March, 20X0 (Rs.)	31 st March, 20X1 (Rs.)
	Equity and liabilities			
1	Shareholders' funds			
	A Share capital		50,00,000	50,00,000
	B Reserves and Surplus		26,50,000	36,90,000
2	Non-current liabilities			
	A Long term borrowings	1	-	9,00,000
3	Current liabilities			
	A Short term borrowings (Bank loan)		1,50,000	3,00,000
	B Trade payable		8,80,000	8,20,000
	C Other current liabilities	2	4,80,000	2,70,000
	Total		91,60,000	1,09,80,000
	Assets			
1	non-current assets			
	A Property, plant and Equipment	3	21,20,000	32,80,000
2	Current assets			
	A Current investment		11,80,000	15,00,000
	B Inventory		20,10,000	19,20,000
	C Trade receivable	4	22,40,000	26,40,000
	D Cash and Cash equivalents		15,20,000	15,20,000

E	Other current assets (prepaid expenses)		90,000	1,20,000
	Total		91,60,000	1,09,80,000

Notes to accounts

No.	Particular	31 st March, 20X0	31 st March, 20X1
1	Long term borrowings		
	9% Debentures (issued at the end of year)	-	9,00,000
	Total	-	9,00,000
2	Other current liabilities		
	Dividend payable	1,50,000	-
	Liabilities for expenses	3,30,000	2,70,000
	Total	4,80,000	2,70,000
3	Property, plant and equipment		
	Plant and equipment	27,30,000	40,70,000
	Less: Depreciation	(6,10,000)	(7,90,000)
	Net carrying value	21,20,000	32,80,000
4	Trade receivables		
	Gross amount	23,90,000	28,30,000
	Less: provision for doubtful debts	(1,50,000)	(1,90,000)
	Total	22,40,000	26,40,000

Additional Information:

- (i) Net profit for the year ended 31st March, 20X1, after charging depreciation Rs 1,80,000 is Rs 10,40,000.
- (ii) Trade receivables of Rs 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

SOLUTION**Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1**

CASH FLOWS FROM OPERATING ACTIVITIES		Rs.
Net Profit		10,40,000
Add: Adjustment for Depreciation (Rs. 7,90,000 – Rs. 6,10,000)		1,80,000
Increase in Provision for Doubtful Debts (Rs. 4,20,000 – Rs. 1,50,000)		2,70,000
Operating Profit Before Working Capital Changes		14,90,000
Add: Decrease in Inventories (Rs. 20,10,000 – Rs. 19,20,000)		90,000
		15,80,000
Less: Increase in Current Assets		
Trade Receivables (Rs. 30,60,000 – Rs. 23,90,000)		6,70,000
Prepaid Expenses (Rs. 1,20,000 – Rs. 90,000)		30,000
Decrease in Current Liabilities:		
Trade Payables (Rs. 8,80,000 – Rs. 8,20,000)		60,000
Expenses Outstanding (Rs. 3,30,000 – Rs. 2,70,000)		60,000
Net Cash from Operating Activities		7,60,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Current Investments		(3,20,000)
Purchase of Plant & Equipment (Rs. 40,70,000 – Rs. 27,30,000)		(13,40,000)
Net Cash Used in Investing Activities		(16,60,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank Loan Raised (Rs. 3,00,000 – Rs. 1,50,000)		1,50,000
Issue of Debentures		9,00,000
Payment of Dividend		(1,50,000)
Net Cash Used in Financing Activities		9,00,000

Net Increase in Cash During the Year	-
Add: Cash and Cash Equivalents as on 1.4.20x0 (Rs. 15,20,000 + Rs. 11,80,000)	15,20,000
Cash and Cash Equivalents as on 31.3.20x1 (Rs. 18,20,000 + Rs. 15,00,000)	15,20,000

Note:

1. Bad debts amounting Rs 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.
2. Current investments (i.e., Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

Q.CFS.RMP.310(A): (EXAM Nov'20; MTP Nov'21)

The following figures have been extracted from the books of Manan Ltd. for the year ended 31.03.2020. You are required to prepare the Cash Flow Statement as per AS 3 using Indirect method.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs. 30 Lakhs
 - (a) Depreciation on Property, Plant and Equipment Rs. 7.5 Lakhs
 - (b) Discount on issue of debentures written off Rs. 45,000
 - (c) Interest on debentures paid Rs. 5,25,000
 - (d) Book value of investments Rs. 4.50 Lakhs (Sale of investment for Rs. 4,80,000)
 - (e) Interest received on investments Rs. 90,000
- (ii) Compensation received Rs. 1,35,000 by the company in a suit filed
- (iii) Income tax paid during the year Rs. 15,75,000
- (iv) 22,500, 10% preference shares Rs. 100 each were redeemed on 02-04-2019 at a premium of 5%
- (v) Further, the company issued 75,000 equity shares at Rs. 10 each at a premium of 20% on 30.03.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption
- (vii) Dividend on equity shares paid on 31.01.2020 for the year 2018-19 Rs. 7.50 Lakhs (including dividend distribution tax) and interim dividend paid Rs. 2.5 Lakhs for the year 2019-20.
- (viii) Land was purchased on 02.04.2019 for Rs. 3,00,000 for which, the company issued 22,000 Equity Shares at Rs. 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2019	As on 31.03.2020
	Rs.	Rs.
Inventory	18,00,000	19,77,000
Trade Receivables	3,87,000	3,79,650
Cash in Hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

SOLUTION

Manan Ltd. Cash Flow Statement
For the year ended 31st March, 2020

	Rs.	Rs.
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before income tax and extra ordinary items:		30,00,000
Adjustments for:	7,50,000	
Depreciation on Property, plant and equipment		
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extra ordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
CASH FLOW FROM INVESTING ACTIVITIES;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	(36,000)	
Net cash flow from investing activities		5,34,000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000+2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020		16,950

Q.CFS.RMP.311(A): (EXAM Jan21) (Similar to Q310)

The following information was extracted from the books of S Ltd. for the year ended 31.03.2020.

- (1) Net profit before taking into account income tax and after taking into account the following items was Rs. 30 Lakhs
- Depreciation on Property, Plant and Equipment Rs. 7,00,000
 - Discount on issue of debentures written off Rs. 45,000
 - Interest on debentures paid Rs. 4,35,000
 - Investment of Book value Rs. 3,50,000 sold for 3,75,000



- (e) Interest received on investments Rs.70,000
- (2) Income tax paid during the year Rs.12,80,000
- (3) The company issued 60,000 equity shares of Rs. 10 each at a premium of 20% on 10.04.2019
- (4) 20,000 9% Preference Shares of Rs. 100 were redeemed on 31st March 2020 at a premium of 5%
- (5) Dividend paid during the year amounted to Rs. 11,00,000 (Including dividend distribution tax)
- (6) A new plant costing 7 Lakhs was purchased in part exchange of an old plant on 1st January 2020. The book value of the old plant was Rs. 8 Lakhs but the vendor took over the old plant at a value of Rs. 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March 2020.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was 14,76,000. The Inventory on 31.03.2019 was correctly valued at Rs. 13,50,000
- (8) Current assets and current liabilities in the beginning and at the end of the years 2019-2020 were as:

	As on 01.04.2019	As on 31.03.2020
	Rs.	Rs.
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash in Hand	2,40,700	3,70,500
Trade payables	2,84,700	2,87,300
Outstanding expenses	97,000	1,01,400

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

SOLUTION

S Ltd.

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

Cash flows from operating activities		
Net profit before taxation*		30,00,000
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital change		12,49,000
Changes in working capital (Excluding cash and bank balance):		42,49,000
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	

Interest received	70,000	
Payments for purchase of fixed assets (7,00,000 – 6,00,000)	(1,00,000)	
Net cash used in investing activities		3,45,000
Cash flows from financing activities		
Redemption of Preference shares	(21,00,000)	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		3,70,500

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

SERIES 400
MISC. QUESTIONS

Q.CFS.SM.401(A):

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

Extract of Balance sheet

		Particular	Notes	31.3.20X1 (Rs. In lakhs)	31.3.20X0 (Rs. In lakhs)
		Equity and Liabilities			
1		Current liabilities			
	A	Trade Payables		250	230
	B	Short term Provisions	1	200	180
	C	Other current liabilities	2	70	50
		Assets			
1		Current assets			
	A	Inventories		200	180
	B	Trade Receivable		400	250
	C	Other current assets	3	195	180

Statement of Profit and Loss of ABC Ltd.
for the year ended 31st March, 20X1

	Particulars	Notes	Rs. In lakhs
I	Revenue from operations		4,150
II	Other income	4	100
III	Total income (I + II)		4250
	Expenses:		
	Purchase on Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		200

IV	Total expenses		3,540
V	Profit before tax (III -IV)		710
VI	Tax expense:		
	Current tax		200
VII	Profit for the year from continuing operations		510

Appropriations

Balance of profit and loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		20X1 (Rs. In lakhs)	20X0 (Rs. In lakhs)
1	Short term provision		
	Provision for tax	200	180
2	Other current liabilities		
	Outstanding wages	50	40
	Outstanding expenses	20	10
	Total	70	50
3	Other current assets:		
	Advance tax	195	180
4	Other income:		
	Interest and dividend	100	
5	Finance cost:		
	Interest	60	

Compute cash flow from operating activities using both direct and indirect method.

SOLUTION

By direct method

Computation of Cash Flow from Operating Activities

Particulars	Rs in lakhs	Rs in lakhs
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150+250-400	4,000
Cash payments:		
Cash purchases & payment to Trade payables Purchases + Opening Trade payables – Closing Trade payables	2,400+230-250	2,380
Wages and salaries paid	800+40-50	790
Cash expenses	200+10-20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A – B)		445

By Indirect Method

Computation of Cash Flow from Operating Activities

	Rs in lakhs	Rs in lakhs
By Indirect method		
Profit before tax		710
Add: Non-cash items: Depreciation		100
Add: Interest: Financing cash outflow		60
Less: Interest and Dividend: Investment cash inflow		(100)
Less: Tax paid		(195)



Working capital adjustments		
Trade receivables	250-400 = (150)	
Inventories	180-200 = (20)	
Trade payables	250-230 =20	
Outstanding wages	50-40=10	
Outstanding expenses	20-10 =10	(130)
Cash flow from operating activities		445

Q.CFS.RMP.402(A): (MTP Nov 20)

What do you mean by the term “cash and cash equivalent” as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.



Particulars	Amount (Rs.)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India (Conversion Rate: on the day of deposit Rs.69/USD; Rs.70/USD as on 31-03-2019)	\$ 1,000
Debentures purchased of Rs.10 lacs of A Ltd., which are redeemable on 31 st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1 st January, 2019	60,000

SOLUTION

As per AS 3, Cash and cash equivalents consists of:

- Cash in hand and deposits repayable on demand with any bank or other financial institutions and
- Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	Rs.
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account (\$1,000 x Rs.70)	70,000
	1,80,000

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

SECTION B – HOMEWORK QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)

SEREIS 100**BASICS****Q.CFS.SM.101(B):**

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

- (a) Brokerage paid on purchase of investments
- (b) Underwriting commission paid
- (c) Trading commission received
- (d) Proceeds from sale of investment
- (e) Purchase of goodwill
- (f) Redemption of preference shares
- (g) Rent received from property held as investment
- (h) Interest paid on long-term borrowings
- (i) Marketable securities (having risk of change in value)
- (j) Refund of income tax received

SOLUTION**Classification of activities with reference to AS 3**

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as Investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Not a Cash equivalent
j.	Refund of Income tax received	Operating activities

Q.CFS.SM.102(B):

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



- a) Loans and Advances given to the following and interest earned on them:
 1. To suppliers
 2. To employees
 3. To its subsidiary companies
- b) Investment made in subsidiary Smart Ltd. and dividend received
- c) Dividend paid for the year
- d) TDS on interest income earned on investments made
- e) TDS on interest earned on advance given to suppliers
- f) Insurance claim received against loss of fixed asset by fire Discuss in the context of AS 3 Cash Flow Statement

SOLUTION**(i) Loans and advances given and interest earned**

1. to suppliers Operating Cash flow



Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at beginning of the period		50
Cash at end of the period		150

Q.CFS.RMP.202(B): (RTP Nov'21) (Similar to Q204)

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

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

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

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

Balance in creditors as on

1.4.2020 Rs. 126 crores

31.3.2021 Rs. 138 crores

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

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

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

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

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

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

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

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

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

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

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

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	
Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	
Debenture interest paid	(3)	

Dividend Paid	(22.5)	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

Working Note:**Calculation of cash paid to suppliers of goods and services and to employees**

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

Q.CFS.RMP.203(B): (MTP May20) (Similar to Q201)

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

Summary Cash Account

	Rs. in '000	Rs. in'000
Balance as on 01.04.2019		210
Receipts from Customers		16,596
Sale of Investments (Cost Rs. 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		768
		19,476
Payment to Suppliers	12,204	
Purchase of Investments	78	
Purchase of Fixed Assets	1,380	,
Wages & Salaries	414	
Selling & Administration Expenses	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance as on 31.03.2020		972

SOLUTION:**Cash Flow Statement of Tom & Jerry Ltd. For the year ended 31st March, 2020**

Cash flows from operating activities	(Rs. '000)
Cash receipts from customers	16,596
Cash payments to suppliers	(12,204)



Cash paid to employees		(414)
Other cash payments (for Selling & Administrative expenses)	(690)	
Cash generated from operations	3,288	
Income taxes paid	(1,458)	
Net cash from operating activities		1,830
Cash flows from investing activities		
Payments for purchase of fixed asset	(1,380)	
Proceeds from sale of fixed assets	768	
Purchase of investments	(78)	
Sale of investments	102	
Net cash used in investing activities		(588)
Cash flows from financing activities		
Proceeds from issue of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	(480)	
Net cash used in financing activities		(480)
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		210
Cash and cash equivalents at end of period		972

Q.CFS.RMP.204(B): (EXAM May'19)

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



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

SOLUTION

PQR Ltd.
Cash Flow Statement for the year ended 31st March, 2019
(Using direct method)

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

(ii) Cash Flow from Operating Activities by indirect method

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

Working Note:**Calculation of net profit earned during the year**

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

SERIES 300
INDIRECT METHOD

Q.CFS.RMP.301(B): (RTP May'24)

From the following particulars calculate cash flows from Operating activities:

Particulars	₹
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional Information:

	31. 3. 22 ₹	31. 3. 23 ₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepaid Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

SOLUTION**Calculation of Cash Flow from Operating Activities**

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

Q.CFS.SM.302(B):

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

Balance Sheets of Mr. Zen

Liabilities	As on 1.4.20X0	As on 1.4.20X1
	Rs	Rs
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000



	<u>18,40,000</u>	<u>19,76,000</u>
Assets		
Land	6,00,000	8,80,000
Plant and Machinery	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	<u>80,000</u>	<u>56,000</u>
	<u>18,40,000</u>	<u>19,76,000</u>

Additional information:

A machine costing Rs 80,000 (accumulated depreciation there on Rs 24,000) was sold for Rs 40,000. The provision for depreciation on 1.4.20X0 was Rs 2,00,000 and 31.3.20X1 was Rs 3,20,000. The net profit for the year ended on 31.3.20X1 was Rs 3,60,000.

SOLUTION

**Cash Flow Statement of Mr. Zen as per AS 3
for the year ended 31.3.20X1**

Particulars	Rs	
(i) CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit (given)		3,60,000
Adjustments for		
Depreciation on Plant & Machinery (W.N.2)	1,44,000	
Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in inventories	80,000	
Increase in trade receivables	(1,60,000)	
Increase in trade payables	32,000	(48,000)
Net cash generated from operating activities		4,72,000
(ii) CASH FLOW FROM INVESTING ACTIVITIES		
Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
Net cash used in investing activities		(2,40,000)
(iii) CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

Working Notes:

1. Plant & Machinery A/c

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

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

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

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

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

Q.CFS.SM.303(B):

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:



	Particulars	Notes	31 st March, 20X1	31 st March, 20X0
	Equity and Liability			
1	Shareholders' funds			
A	Share capital		10,00,000	8,00,000
B	Reserves and Surplus	1	3,00,000	2,10,000
2	Non-current liabilities			
A	Long term borrowings	2	2,00,000	-
3	Current liabilities			
A	Trade payables		7,00,000	8,20,000
B	Other current liabilities	3	-	1,00,000
C	Short term provision (Provision for tax)		1,00,000	70,000
	Total		23,00,000	20,00,000
	Assets			
1	Non-current assets			
A	Property, plant and Equipment	4	13,00,000	9,00,000
B	Non-Current investments		1,00,000	-
2	Current assets			
A	Inventories		4,00,000	2,00,000
B	Trade receivables		5,00,000	7,00,000
C	Cash and cash equivalents			2,00,000
	Total		23,00,000	20,00,000

Notes to accounts

No.	Particulars	31 st March, 20X1	31 st March, 20X0
1	Reserves and Surplus		
	Revenue reserve	2,00,000	1,50,000
	Profit and Loss account	1,00,000	60,000
	Total	3,00,000	2,10,000
2	Long term borrowings		
	Debentures (issued at end of year)	2,00,000	-
3	Other current liabilities		
	Dividend payable	-	1,00,000
4	Property, plant and equipment		
	Plant and machinery	7,00,000	5,00,000

Land and building	6,00,000	4,00,000
Net carrying value	13,00,000	9,00,000

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
 - (ii) At the year end, one old machine costing 50,000 (WDV 20,000) was sold for Rs 35,000. Purchase was also made at the year end.
 - (iii) Rs 50,000 was paid towards Income tax during the year.
 - (iv) Building under construction was not subject to any depreciation.
- Prepare Cash flow Statement.

SOLUTION

**Grow More Ltd Cash Flow Statement
for the year ended 31st March, 20X1
Cash Flow from Operating Activities**

Particulars	Rs	
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	2,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	1,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		1,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		2,00,000
(-) Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		NIL

Working Notes:

1. Provision for taxation account

Particulars	Rs	Particulars	Rs
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	1,50,000		1,50,000

2. Plant and Machinery account

Particulars		Rs	particulars		Rs
To	Balance b/d	5,00,000	By	Depreciation	1,25,000
To	Profit and Loss A/c (profit on sale of machine)	15,000	By	Cash (sale of machine)	35,000
To	Cash (Balancing figure)	3,45,000	By	Balance c/d	7,00,000
		8,60,000			8,60,000

Q.CFS.RMP.304(B): (RTP Nov'18, Nov'22)

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

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

Notes to accounts

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

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

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

Further Information is available:

1. Depreciation on Building for the year Rs. 1,000
2. Depreciation on Furniture & Fixtures for the year Rs. 2,000



3. Depreciation on Cars for the year Rs. 5,000. One car was disposed during the year for Rs. 3,400 whose written down value was Rs. 2,000.
 4. Purchases investments for Rs. 6,000.
 5. Sold investments for Rs. 10,000, these investments cost Rs. 2,000.
- Prepare Cash Flow Statements for the year ended 31st March, 2022 as per AS-3 (revised) using indirect method.

SOLUTION**Max Ltd.****Cash Flow Statement for the year ended 31stMarch, 2018**

	Rs	Rs
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(4,000)	
Net cash generated from operating activities (A)		(2,400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Net cash from financing activities(C)		20,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

Working Notes:**1. Calculation of Income taxes paid**

	Rs
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (Rs)	Car (Rs)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	-	2,000
	36,000	32,000

Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Q.CFS.RMP.305(B): (RTP May'20)

The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.



- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs20 lakhs:
- Depreciation on Property, Plant & Equipment Rs. 5 lakhs.
 - Discount on issue of Debentures written off Rs. 30,000.
 - Interest on Debentures paid Rs. 3,50,000.
 - Book value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).
 - Interest received on investments Rs. 60,000.
- (ii) Income tax paid during the year Rs. 10,50,000.
- (iii) 15,000, 10% preference shares of Rs. 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividend paid for the year 2017-2018 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2018-2019.
- (v) Land was purchased on 2.4.2018 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 10 each at a premium of 20% to the land owner as consideration.
- (vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 31.3.2018	As on 31.3.2019
	Rs	Rs
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

- (vii) Compensation received Rs. 90,000 by the company in a suit filed.

SOLUTION

X Ltd.

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

	Rs	Rs
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)

Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>90,000</u>
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	<u>60,000</u>	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	<u>(8,00,000)</u>	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		<u>1,96,300</u>
Cash and cash equivalents as on 31.3.2019		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

Q.CFS.RMP.306(B): (RTP May'23)

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

Particulars	Note No.	31 st March, 2021 (₹)	31 st March, 2020 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000

Total		7,53,000	3,90,000
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Notes to Accounts

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

Additional Information:

- Dividend paid during the year ₹ 10,000
- Depreciation charges during the year ₹ 40,000.

SOLUTION:**Fox Ltd.****Cash Flow Statement for the year ended 31st March, 2021**

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

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



Working Note:

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

Q.CFS.RMP.307(B): (EXAM Dec'21)

Following are the extract from the balance sheet of ABC Ltd.

Liabilities	31.03.2020	31.03.2021
Equity share capital	25,00,000	35,60,000
10% preference share capital	7,00,000	6,00,000
Securities premium account	5,00,000	5,50,000
Profit & loss a/c	20,00,000	28,00,000



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

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

Show how the related items will appear in the cash flow statement of ABC Ltd. as per AS-3 (Revised)

SOLUTION

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

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

Note:

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

SERIES 400
MISC. QUESTIONS

Q.CFS.RMP.401(B): (MTP May'18)

Prepare Cash Flow from Investing Activities of Creative Furnishings Limited for the year ended 31-3-2017.



Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

SOLUTION

Cash Flow Statement from Investing Activities of Creative Furnishings Limited for the year ended 31-03-2017

Cash generated from investing activities	Rs.	Rs.
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	74,400	
Cash used in investing activities (before extra-ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra-ordinary item)		(1,48,100)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

Q.CFS.RMP.402(B): (EXAM Nov'19) (MTP May'21)

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

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



Interest received on investment (TDS of Rs 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on. 1 st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs 9,600)	90,000

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

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

Note:

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

SECTION C – MASTER QUESTIONS

Question 1:

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

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

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

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

Additional Information:-

- Grant received for Business purpose Rs.7,50,000 & Charged to P&L.
- Dividend received ₹ 6,00,000 out of which 1,50,000 is Pre-Acquisition.



- 3) Preference Shares were redeemed at 10% premium & Premium is w/f in P&L.
- 4) Tax paid during the year 30,00,000.
- 5) Interim Dividend paid 4,00,000.
- 6) P&M of Org. Cost of 4,00,000 with Accumulated Depreciation of 2,50,000 was 37,500 sold at 25% Profit.
- 7) New P&M purchased, 60% payment in Cash & remaining in the form of Issue of ESC.
- 8) Depreciation on P&M is 3,75,000.
- 9) Opening Inventory is measured at Cost less 50%. Closing Inventory is measured at cost + 25%
- 10) Advertisement Expenditure of 5,00,000 W/off directly from GR.
- 11) Bad-debts during the year charged to Profit and Loss A/c 3,00,000.
- 12) Exchange Loss due to Remeasurement of creditors as per AS 11 - 1,00,000 transfer to P&L.
- 13) Other Incomes includes Income from Instagram & YouTube 2,50,000 (considered as Extraordinary)
- 14) Investments were sold at 5% Profit.
- 15) Other incomes includes total Interest Earned 2,00,000 on which TDS is deducted. TDS 20,000 is a part of Closing Prepaid Expense in Balance Sheet.
- 16) Loss due to theft = 15,000 cash (Extraordinary)
- 17) Tax Refund = 50,000

Prepare Statement of Cash Flows as per Indirect Method.

SOLUTION:

Statement of Cash Flows

1) Cash Flows from Operating Activities:

Particulars	Amount
Difference of P&L	7,00,000
(+) Transfer to GR	10,00,000
(+) Interim Dividend declared and Paid	4,00,000
(+) Final Dividend Declared in CY	7,00,000
(+) Premium on Redemption w/o in Profit and Loss A/c	5,000
Net Profit After Tax (NPAT)	28,50,000
(-) Stock adjustment	
Opening Stock adjustment	(40,00,000)
Closing Stock adjustment	(10,00,000)
(+) Tax provision	26,50,000
Net Profit Before Tax	5,00,000
(+/-) Adjustment for:-	
(+) Depreciation	3,75,000
(-) Gain on sale of P&M	(37,500)
(-) Advertisement Expenses Paid	(2,00,000)
(-) Gain on sale of Investment	(1,92,500)
(-) Post Acquisition Dividend Received	(4,50,000)
(+) Loss due to theft (extra-ordinary)	15,000
(+) Bad debts (Non-Cash)	3,00,000
(+) Ex. Loss on Creditors	1,00,000
(-) Insta & YT Income (Extra-ordinary)	(2,50,000)

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

2) Cash Flow from Investing Activity:

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

3) Cash Flow from Financing Activity:

(-) Interim Dividend Paid	(4,00,000)
(-) Final Dividend of PY Paid in CY	(5,50,000)
(-) Redemption of PSC	(5,50,000)
(+) Issue of ESC	16,20,000
(+) Bank Loan raised	6,00,000
(-) Interest on Bank Loan	(6,84,000)
(-) Loan Repaid to Nidhi	9,00,000
Net Cash used in Financing Activity (c)	86,4,000
Net cash outflow during the Year (a+b+c)	2,05,000
(+) Opening balance of Cash & CE	6,50,000
Closing balance of Cash & CE	4,45,000

Working Note - 1

Tax a/c

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

Working Note - 2

Plant & Machine (Gross)

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

Provision for Depreciation

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

Working Note - 3

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

Working Note - 4

Advertisement Expense (Asset)

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

WN-5

General Reserve

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

Working Note - 6

Investment A/c

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

Working Note – 7

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



Student Notes: -