MESSAGE FOR STUDENTS AND REVISION STRETEGY (MUST READ)

Hi Everyone...
I hope when you are reading this note, you have completed your Syllabus.
Well Done!

But this is just the completion of lectures. You must go long away and make good strategy to revise this subject at least twice. (I am assuming that u have sufficient time).
Let me help you in making a good strategy for revision.

1. Target at least two revisions before Exam.
2. First Revision: When you will take your first revision, You have to practice maximum questions to retain the concepts.
3. Which questions to practice: Don't worry, I have given you the complete list of questions that should be covered in your practice and remember these are the minimum questions. You can practice more as per your confidence level.
4. While doing practice of questions, you may make some mistakes, don't worry, it's natural. But you must write those mistakes so that you should not repeat them subsequently.
5. If you have sufficient time before the exam, your first revision should be covered in 120 to 140 hours (but not less than 100 hours in any case).
6. Once the first revision is completed, you can target the Full Test if not given chapter wise test earlier.
7. Second Revision: Your second revision should be exactly half of the time allowed to you for first revision (i.e. approx. 60 to 70 Hours but not less than 50 hours in any case).
8. During the second revision, it is recommended that you should go with practice of selected exam level questions.
9. Sequence of Revision: You can follow any sequence, but I will recommend you two options:
   Option 1 – Same as Lecture wise Schedule
   Option 2 – Start with Few Small Topics then one Big Topic then again one Small topic and so on....

All the Best Guys

Tumhara Bhai
Jai Chawla
तुम लगे रहु मैं तुम्हारा अंत तक साथ दूंगा
Be in touch with me always for any guidance.

Exam Level Questions to be taken during Revision: (Minimum Questions to be practiced)

1	Framework for Preparation and Presentation of Financial Statements Question No. – 2, 6, 8, 15
2	Financial statements Question No. – 1, 7, 8, 9, 13, 21
3	Cash Flow Statement (AS 3) Question No. – Q203, 302, 306, 308, 309, 310, 401
4	Buyback of Securities Question No. – 203, 205, 206, 207, 302, 304, Case Scenario 1
5	Reconstruction of Companies Question No. – 206, 207,209, 211, 212, 213
6	Amalgamation of Companies (AS 14) Question No. – 104, 202, 203, 205, 301, 402, 501, 502, 503
7	Consolidated Financial Statements (AS 21) Question No. – 103, 104, 105, 202, 303, 305, 307, 402, 403, 501, 503,
8	Branch Accounts including Foreign Branches Question No. – 101, 201, 302, 304, 402, 403, 405, 406, 502, 503, 505, 603, 604, 605 Attempt Q 101 to 406 by All Methods of Dependent Branch

- All above questions need to be Practiced in Writing during 1st Revision to boost confidence.
- During second revision you can select 40% - 50% of above questions for writing.
- You can practice more questions also based on your level of confidence.

I hope you all will follow these instructions and report me about your preparation on 7887 7887 05 (whatsapp)

How To Ask
DOUBTS

HOW TO ASK STUDY RELATED DOUBTS ?

1. You can WhatsApp yourQuery/Doubt along with the image of Question and Solution if any. (7887 7887 05)

2. Normally Me & My Team will try to reply within a day or two but pls have some patience for 3-4 days, after that u can call us on the same number to remind if u haven't got any reply.

3. Doubts will be entertained only on WhatsApp orDedicated Telegram Groups of the batch if any.

Let's Stay Connected	Jai Chawla Sir	V'smart Academy
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Lets Follow Each other on Insta		
Connect with ur Faculty for New Updates on Telegram		

Volume I

ADV. ACCOUNT QUESTION BANK

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FRAMEWORK FOR PREPARATION AND
PRESENTATION OF FINANCIAL STATEMENTS ..... 1.1 to 1.10

Topic 2
PREPARATION OF FINANCIAL STATEMENTS ..... 2.1 to 2.56

Topic 3
CASH FLOW STATEMENTS (AS 7) ..... 3.1 to 3.54

Topic 4
BUYBACK OF SECURITIES ..... 4.1 to 4.44

Topic 5
ACCOUNTING FOR RECONSTRUCTION OF COMPANIES ..... 5.1 to 5.56

Topic 6
AMALGAMATION OF COMPANIES (AS 14) ..... 6.1 to 6.90

Topic 7
CONSOLIDATED FINANCIAL STATEMENT (AS 21) ..... 7.1 to 7.82

Topic 8
ACCOUNTING FOR BRANCHES
INCLUDING FOREIGN BRANCHES ..... 8.1 to 8.58

1. FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

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Quote:

"Failure will never overtake you
if your determination to succeed is strong enough"

SECTION A – QUESTIONS

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

Q.FRW.SM.01(A):

Carrying amount of a machine is 40,000 (Historical cost less depreciation). The machine is expected to generate Rs. 10,000 net cash inflow. The net realisable value (or net selling price) of the machine on current date is Rs. 35,000. The enterprise's required earning rate is 10% per year.

SOLUTION

The enterprise can either use the machine to earn Rs. 10,000 for 5 years. This is equivalent of receiving present value of Rs. 10,000 for 5 years at discounting rate 10% on current date. The value realised by use of the asset is called value in use. The value in use is the value of asset by present value convention.

Value in use = Rs. 10,000 (0.909 + 0.826 + 0.751 + 0.683 + 0.621) = Rs. 37,900

Net selling price = Rs. 35,000

The present value of the asset is Rs. 37,900, which is called its recoverable value. It is obviously not appropriate to carry any asset

at a value higher than its recoverable value. Thus, the asset is currently overstated by Rs. 2,100 (Rs. 40,000 – Rs. 37,900).

Q.FRW.SM.02(A): (Similar to MTP May'24)

Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity Rs. 8 lakhs, Rs. 3 lakh and Rs. 5 lakhs respectively. During accounting period, Mr. A has the following transactions:

1) Earned 10% dividend on 2,000 equity shares held of Rs. 100 each
2) Paid Rs. 50,000 to creditors for settlement of Rs. 70,000
3) Rent of the premises is outstanding Rs. 10,000
4) Mr. A withdrew Rs. 9,000 for his personal use.

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

SOLUTION

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

	Transactions	Assets Rs. Lakhs (a)	Liabilities Rs. Lakhs (b)	Equity Rs. lakhs (c) + (a – b)
	Opening	8.00	3.00	5.00
1)	Dividend earned	8.20	3.00	5.20
2)	Settlement of Creditors	7.70	2.30	5.40
3)	Rent Outstanding	7.70	2.40	5.30
4)	Drawings	7.61	2.40	5.21

Q.FRW.RMP.03(A): (RTP May20, MTP Nov19, Nov20& May21)

A Ltd. has entered into a binding agreement with Gamma Ltd. To buy a custom-made machine Rs. 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered & it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2.

SOLUTION

A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated, and the value of outflow can be reliably measured. In the given case, A Ltd. Should recognize a liability of Rs. 1,00,000 to Gamma Ltd.

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

Journal entry

Loss on change in production method To Gamma Ltd. (Loss due to change in production method)	**Dr.**	1,00,000	1,00,000
Profit and loss A/c To Loss on change in production method (Loss transferred to profit and loss account)	**Dr.**	1,00,000	1,00,000

Q.FRW.RMP.04(A): (MTP Nov20)

Medha Ltd. took a loan from bank for Rs.10,00,000 to be settled within 5 years in 10 equal half yearly installments with interest. First installment is due on 30.09.2020 of Rs. 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Medha Ltd. for the year ended 31stMarch, 2020 according to Schedule III.

SOLUTION

As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria:

i. It is expected to be settled in the company's normal operating cycle;
ii. It is held primarily for the purpose of being traded;
iii. It is due to be settled within twelve months after the reporting date; or
iv. The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Q.FRW.RMP.05(A): (MTP May'18, Nov'18; RTP May'22; MTP May'24)

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

SOLUTION:

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

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e., they must be neutral.

Q.FRW.RMP.06(A): (RTP Nov22; EXAM May19; EXAM Nov'20, EXAM JAN'25)

Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000

Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was Rs.3,25,000.
(2) Purchases and Sales in 2017-18 amounted to Rs.22,50,000 and Rs.27,50,000 respectively.
(3) The cost and net realizable value of stock on 31.03.2018 were Rs.2,00,000 and Rs.2,50,000 respectively.
(4) Expenses for the year amounted to Rs.78,000.
(5) Deferred Expenses are amortized equally over 5 years.
(6) Sundry Debtors on 31.03.2018 are Rs.1,50,000 of which Rs.5,000 is doubtful. Collection of another Rs.25,000 depends on successful re-installation of certain product supplied to the customer;
(7) Closing Sundry Creditors are Rs.75,000, likely to be settled at 10% discount.
(8) Cash balance as on 31.03.2018 is Rs.4,22,000.
(9) There is an early repayment penalty for the loan of Rs.25,000.

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

(1) Profit & Loss Account for the year 2017-18.
(2) Balance Sheet as on 31st March, 2018.

SOLUTION:

Profit and Loss Account for the year ended 2017-18(not assuming going concern)

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

Balance Sheet as at 31st March, 2018 (not assuming going concern)

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

*Assumed that Rs.78,000 includes interest on 10% loan amount for the year.

Q.FRW.RMP.07(A): (EXAM Nov'20 & MTP May'24)

What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?

SOLUTION

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

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

SECTION B– HOMEWORK QUESTIONS
(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)

Q.FRW.SM.01(B): (RTP Nov'18)

Mohan started a business on 1st April 20X1 with Rs. 12,00,000 represented by 60,000 units of Rs. 20 each. During the financial year ending on 31stMarch, 20X2, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 20X1-X2 if Financial Capital is maintained at historical cost.

SOLUTION

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

Thus, in order to maintain the capital intact Mohan can withdraw Rs. 6,00,000 as the maximum amount

Q.FRW.SM.02(B):

Balance Sheet of Anurag Trading Co. on 31stMarch, 20X1 is given below:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital	50,000	Fixed Assets	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenditure	15,000
	-	Bank	3,000
	1,33,000		**1,33,000**

Additional Information:

(i) Remaining life of fixed assets is 5 years with even use. The net realisable value of fixed assets as on 31st March, 20X2 was 64,000.
(ii) Firm'ssales&purchasesfortheyear20X1-X2amountedto5lacs& 4.50 lacs respectively.
(iii) The cost and net realisable value of the stock were 34,000 and Rs. 38,000 respectively.
(iv) General Expenses for the year 20X1-X2 were16,500.
(v) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 20X0-X1 i.e., 5,000 per year.
(vi) Out of debtors worth 10000, collection of 4000 depends on successful re design of certain product already supplied to the customer.
(vii) Closing trade payable is 10000 which likely to be settled at 95%.
(viii) There is pre-payment penalty of 2000 for bank loan outstanding.

Prepare profit & loss account for the year ended 31.3.20X2 by assuming it is not a Going concern.

SOLUTION

Profit and loss Account of Anurag trading Co.
For the year ended 31.3.20X2
(Assuming business is not going concern)

Particulars	Amount	Particulars	Amount
To opening stock	36000	By sales	500000
To purchase	450000	By trade payable	500
To general expenses	16500	By closing stock	38000
To depreciation (69000-65000)	5000		
To provision for doubtful debts	4000		
To deferred expenditure	15000		
To loan penalty	2000		
To net profit	10000		
	538500		**538500**

Q.FRW.RMP.3(B): (RTP - Nov18, Nov21; EXAM Dec21; MTP May19 & May21)

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

SOLUTION

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realisable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

Q.FRW.RMP.4(B): (RTP May19, May21)

(i) With regard to financial statements, name any five qualitative characteristics and elements.

(ii) Aman started a business on 1st April 2020 with Rs. 24,00,000 represented by 1,20,000 units of Rs. 20 each. During the financial year ending on 31st March, 2021, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2020-21 if Financial Capital is maintained at historical cost.

SOLUTION

(a) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b)

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

Q.FRW.RMP.5(B): (EXAM Jan21)

(a) Explain how financial capital is maintained at historical cost?

(b) Kishore started a business on 1st April 2019 with Rs. 15,00,000 represented by 75,000 units of Rs. 20 each. During the financial year ending on 31st March 2020, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost.

SOLUTION:

Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise

Maximum amount withdrawn by Kishore in year 2019-20 if financial capital is maintained at historical cost

Particular	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs.30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x Rs.20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus Rs. 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

Q.FRW.RMP.6(B): (RTP May19, Nov20)

With regards to financial statements name any four.

(1) Users

(2) Qualitative characteristics

(3) Elements

SOLUTION

1) **users of financial statement:**
   Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public.
2) **qualitative Characteristic of Financial Statements:**
   Understandability, Revenue, Compatibility, Reliability & Faithful Representation
3) **Elements of Financial Statements:**
   Assets, Liability, Equity, Income/Gain and Expenses/Losses

Q.FRW.RMP.7(B): (EXAM May18) (RTP May18)

Briefly explain the elements of financial statements.

SOLUTION

Elements of Financial Statements

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

Q.FRW.RMP.8(B): (EXAM July21)

A trader commenced business on April 1, 2020 with Rs. 1,20,000 represented by 6,000 units of a certain product at Rs. 20 per unit. During the year 2020-21 he sold these units at Rs. 30/- per unit and had withdrawn Rs. 60,000. The price of the product at the end of financial year was Rs. 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

SOLUTION:

Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).
Current cost of opening stock = (Rs. 1,20,000 / 100) x 125 Or 6,000 units x Rs. 25 = Rs. 1,50,000
Current cost of closing cash = Rs. 1,20,000 (Rs. 1,80,000 – Rs. 60,000)
Opening equity at closing current costs = Rs. 1,50,000
Closing equity at closing current costs = Rs. 1,20,000
Retained Profit = Rs. 1,20,000 – Rs. 1,50,000 = (-) Rs. 30,000
The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of Rs. 1, 20,000 is not sufficient to buy 6,000 units again at increased price of Rs. 25 per unit. The drawings should have been restricted to Rs. 30,000 (Rs. 60,000 – Rs. 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:
Current cost of opening stock = Rs. 1,80,000
Opening equity at closing current costs = Rs. 1,50,000
Retained Profit = Rs. 1,80,000 – Rs. 1,50,000 = Rs. 30,000
If the trader had not withdrawn any amount, then the retained profit would have been Rs. 30,000.



Student Notes:-

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 31st March, 2024 — Rs. 5 lakhs

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

The rates of equity dividend for the last 5 years immediately preceding the year 2023 – 24 are as 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) × 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 of the year	= ₹ 1,00,00,000
- 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.	31st March, 2020	31st March, 2019
EQUITY & LIABILITIES			
Share Capital	1		
Reserves and Surplus	2		
Employee Stock Option Outstanding	3		
Share Application Money Refundable	4		
Non-Current Liabilities			
Deferred Tax Liabilities (Arising from Indian Income Tax)	5		
Current Liabilities			
Trade Payable	6		
Total			
ASSETS			
Non-Current Assets			
PPE – Tangible	7		
Capital Work in Progress – (Including Capital Advance)	8		
Current Assets			
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 &b Lability			
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 No.	Rupees as at the end of 31st March 20X1
	(1)	(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		2,81,000
Total		**46,66,000**
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	80,000
Total		**46,66,000**

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	56,000	
Expenses		**43,24,000**	
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			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**
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: -

1. Share Capital consists of-
   (a) 1,20,000 Equity Shares of Rs. 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
2. 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		110,68,000
	written off (2,32,000)	29,68,000	
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	6,000
Loose Tools	46,000	Debts (1-4-20X1)	
Purchases (Adjusted)	4,20,000	Equity Share Capital	4,00,000
Salaries	1,20,000	General Reserve	80,000
Directors' Fees	20,000	Profit and Loss A/c	50,000
Rent	52,000	(1-4-20X1)	
Depreciation	40,000	Creditors	1,84,000
Bad Debts	12,000	Provision for depreciation:	
Investment	2,40,000	On Building 1,00,000	
Interest accrued on investment	4,000	On Machinery 1,10,000	2,10,000
Debenture Interest	56,000	14% Debentures	4,00,000
Advance Tax	1,20,000	Interest on Debentures	28,000
Sundry expenses	36,000	accrued but not due	
Debtors	2,50,000	Interest on Investments	24,000
Bank	60,000	Unclaimed dividend	10,000
	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		2,00,000
	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)	1,69,745
	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 Other bank balances		2,200 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	40,000
(Call unpaid Rs. 10,000)	19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e., Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	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
			1,20,000	**29,30,000**
	30,50,000			

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

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:

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

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

SOLUTION

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

		Note	(Rs.)
I	**Equity and Liabilities**		
(1)	**Shareholders' funds:**		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
(2)	**Non-current liabilities:**		
	Long term borrowings	3	4,50,000
(3)	**Current liabilities:**		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		**24,88,950**
II	**ASSETS**		
(1)	**Non- Current Assets:**		
	(a) 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	
	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	3,47,550
	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:

1. Inventory on 31st March,2019 Raw material Rs. 25,800 & finished goods Rs. 60,000.
2. Outstanding Expenses: Manufacturing Expenses Rs. 67,500 & Salaries & Wages Rs. 4,500.
3. Interest accrued on Securities Rs. 300.
4. General Charges prepaid Rs. 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long-term loan is Rs. 1,000.
7. 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 up10,50,000 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

	Total		**21,00,000**
	Cash and cash equivalents		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting Rs. 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		**29,08,500**

Q.FS.RMP.13(A): (EXAM July'21)

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

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

Additional Information:

(i) The authorised share capital of the company is: Rs.

5,000, 6% preference shares of Rs. 100 each 5,00,000

10,000, equity shares of Rs. 100 each 10,00,000

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

(ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

(iii) The company on the advice of independent valuer wishes to revalue the land at Rs. 36,00,000.

*This should have been given as 31.3.2021.

(iv) Suspense account of Rs. 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was Rs. 1,00,000 and the accumulated depreciation thereon being Rs. 30,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

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

1. 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.
2. 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 (1st 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:

(1) 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.

(2) Rent of Rs. 20,000 and wages of Rs. 1,56,500 are outstanding as on 31st March, 2022.

(3) Provide Depreciation @10% per annum on plant and Machinery, 10% on Furniture and 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) Director's fee		2,98,750 32,000
	Total		10,95,250

Note:

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

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

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)
2.	**Short-Term Borrowings**	16,03,000
	(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	10,50,000
(Secured by hypothecation of Plant & Machinery Repayable within one-year Rs. 2,00,000)	
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 31stMarch, 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**

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

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

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	36,500
III	**Total Revenue [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	4,24,500
V	**Total Expenses**		**32,03,500**
VI	**Profit before Tax (III-IV)**		4,50,000
VII	**Tax Expenses @ 30%**		(1,35,000)
	Profit for the period		**3,15,000**

Notes to Accounts:

1. Share Capital

Authorized Capital	50,00,000
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	40,000
(Call unpaid Rs. 10,000)	
	19,90,000

2. Reserves and Surplus

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

3. Other Current Liabilities

Outstanding Expenses [25,000+36,500]	61,500

4. Short-term Provisions

Provision for Tax	1,35,000

5. Property, Plant and Equipment

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

6. Trade Receivables

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

7. Cash & Cash Equivalent

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

8. Other Income

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

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	25,000
	15,04,000

10. Other Expenses

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

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 Ill. 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)	10	80.00
Other expenses		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
3	**Long-Term Borrowings**		807.20
	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		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00
	Depreciation and Amortisation expenses (10% of 510*)		51.00

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

Notes to accounts

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

	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	(10.00)	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	(159.00)	
	Closing balance		351.00
	Total		596.00
5	**Other Income**		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	(2.00)	1.00
6	**Other expenses:**		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	22.00	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 30th 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 Laon 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:

1. 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 Preference Equity	 27,000 1,92,000	2,19,000
iii) Interest payable Debentures interest Interest on Bank loan	 25,000 50,000	75,000
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

3 CASH FLOW STATEMENT (AS 3)

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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)
CASH FLOWS FROM OPERATING ACTIVITIES		
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**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		**(102)**
CASH FLOWS FROM FINANCING ACTIVITIES		
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. CashandCashEquivalentson31stMarch, 20X0 Rs2,00,000.
14. CashandCashEquivalentson31stMarch, 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
CASH FLOWS FROM OPERATING ACTIVITIES		
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**
CASH FLOWS FROM INVESTING ACTIVITIES		
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**
CASH FLOWS FROM FINANCING ACTIVITIES		
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 [(a)+ (b) + (c)]	**251**

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	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

	31st March	31st 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

1. Purchased investments for Rs 78,000.
2. Sold investments for Rs 1,02,000. These investments cost Rs 90,000.
3. Purchased plant assets for Rs 1,20,000.
4. Sold plant assets that cost Rs 10,000 with accumulated depreciation of Rs 2,000 for Rs 5,000.
5. Issued Rs 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
6. Repaid Rs 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of Rs 10 each.
8. 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**
CASH FLOWS FROM INVESTING ACTIVITIES		
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)**
CASH FLOWS FROM FINANCING ACTIVITIES		
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, 20X1disclosed

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**
CASH FLOWS FROM INVESTING ACTIVITIES		
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)**
CASH FLOWS FROM FINANCING ACTIVITIES		
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 during20X0-20X1	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)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for:		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		**(2895)**
CASH FLOWS FROM INVESTING ACTIVITIES		
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 (40)
Proceeds on sale 145

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	50000
	125000		**125000**

5. Capital Reserve Account

Particulars	Rs	Particulars	Rs
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		**700,000**

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**
II	**ASSETS**			
	(1) Non-current Assets			
	(a) Tangible Assets		2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		**35,000**	**10,000**
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		**5,66,000**	**4,37,000**

Note 1: Share Capital

Particulars	31.03.2019 (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	1,91,000
	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	31st March, 20X0 (Rs.)	31st 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	31st March, 20X0	31st 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 x 100 = 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 (balancing figure being investment sold)	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000		
		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 t 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	31st March, 20X0 (Rs.)	31st 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	31st March, 20X0	31st 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	(8,20,000)
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
   (a) Depreciation on Property, Plant and Equipment Rs. 7,00,000
   (b) Discount on issue of debentures written off Rs. 45,000
   (c) Interest on debentures paid Rs. 4,35,000
   (d) 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		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	

Interest received	70,000	
Payments for purchase of fixed assets (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 on15-07-2019	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 31st October,2019	90,000
Shares of Alpha Ltd. purchased on 1st January, 2019	60,000

SOLUTION

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

(i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and

(ii) 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

2. to employees Operating Cash flow
3. to its subsidiary companies Investing Cash flow

(ii) Investing made in subsidiary company and dividend received
Investing Cash flow

(iii) Dividend paid for the year
Financing Cash Outflow

(iv) TDS on interest income earned on investments made
Not a Cash Item

(v) TDS on interest earned on advance given to suppliers
Not a Cash Item

(vi) Insurance claim received of amount loss of fixed asset by fire
Extraordinary item to be shown under a separate heading as 'Cash inflow from investing activities.'

SERIES 200
DIRECT METHOD

Q.CFS.SM.201(B):

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.20X1

	Rs 000		Rs 000
Balance on 1.4.20X0	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.20X1	150
	3,250		**3,250**

SOLUTION

X Ltd.

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

Particulars	Rs '000	Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		**250**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		**(100)**
CASH FLOWS FROM FINANCING ACTIVITIES		

Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		**(50)**
Net increase in cash		100
Cash at 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 cores 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 31stMarch, 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 Increase in inventory	15,000 25,000	(40,000)
Cash generated from operations before taxes		**2,85,000**

Working Note:

Calculation of net profit earned during the year

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

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
Prepare 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

	18,40,000	19,76,000
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	80,000	56,000
	18,40,000	**19,76,000**

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	31st March, 20X1	31st 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	31st March, 20X1	31st 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 labilities**		
	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)	15000	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
Assets		**1,44,000**	**1,17,000**
Non-current assets			
(i) PPE (at W.D.V)	3	78,000	58,000
(ii) Long Term Investments		32,000	28,000
Current Assets			
(i) Inventory		14,000	8,000
(ii) Trade Receivables		8,000	6,000
(iii) Cash & Bank		12,000	17,000
		1,44,000	**1,17,000**

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 31st March, 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:
  (a) Depreciation on Property, Plant & Equipment Rs. 5 lakhs.
  (b) Discount on issue of Debentures written off Rs. 30,000.
  (c) Interest on Debentures paid Rs. 3,50,000.
  (d) Book value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).
  (e) 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	2,53100
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)
Cash flow from extraordinary items:		16,44,000
Compensation received in a suit filed		90,000
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	60,000	
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)	(8,00,000)	
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		1,96,300
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.	31st March,2021 (₹)	31st 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**

Notes to Accounts

Particulars	31st March,2021 (₹)	31st 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:

1. Dividend paid during the year ₹ 10,000
2. 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:

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

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

SOLUTION

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

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

Note:

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

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:-

1) Grant received for Business purpose Rs.7,50,000 & Charged to P&L.
2) Dividend received ₹ 6,00,000 out of which 1,50,000 is Pre-Acquisition.

3) Preferece 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 adjustement	(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 bld	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: -

4 BUYBACK OF SECURITIES

INDEX

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

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

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

SOLUTION

Journal Entries in the books of Umang Ltd.

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

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

On 5thApril, 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:

1. In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.
2. Calculation of amount of Buy Back of Share: ₹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		1,000
	Total		**22,700**
(II)	**ASSETS**		
(1)	**Non-Current Assets**		
	PPE		14,000
(2)	**Current Assets:**		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		8,250
			22,700

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	(3,300)	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,300	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)		
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	7,200
3.	**Long-term borrowings**			
	Secured			
	9 % Debentures			5,000

Working 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)	450
	4,800		**4,800**

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	80,000	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.	2,50,000	
	To Investment Account			2,00,000
	To Profit and Loss Account			50,000
	(Being investment sold on profit)			
April 25	Equity Share capital account	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back Account			2,25,000
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	2,25,000	
	To bank A/c			2,25,000
	(Being the payment made on account of buyback of 15,000 Equity Shares)			
	General reserve A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			
May 1	Capital redemption reserve A/c	Dr.	1,06,250	
	To Bonus shares A/c (W.N.1)			1,06,250

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

Working Note:

Amount of bonus shares = {(1,00,000 – 15,000) X 1/8} X 10

= 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	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		**1,21,50,000**
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		**1,21,50,000**

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 15equity 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)		12,50,000	
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	(2,60,000)	Nil	
	Capital Redemption Reserve			
3.	Transfer due to buy-back of shares from P&L 10,00,000			
	Less: Utilisation for issue of bonus shares (7,50,000)		2,50,000	
	Profit & Loss A/c	20,00,000		
	Add: Profit on sale of investment	50,000		
	Less: Transfer to CRR	(4,40,000)	16,10,000	
	Dividend equalization reserve	(5,50,000)	5,50,000	27,10,000
	Long-term borrowings - 12% Debentures 12,50,000			
	- 14% Debentures	3,00,000		15,50,000

Working Notes:

1. Amount of bonus shares = [(2,50,000 -25%)3/15] x 20 = 37,500 x 20=7,50,000
2. 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	1,50,000
	23,35,000
Less: Payment for buy back of shares	(22,50,000)
	85,000

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	₹
		Equity and Liabilities		
1		**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	₹
1		**Equity and Liabilities**		
		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)			

	Securities Premium account	Dr.	400	
	General Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buy-back account			480
	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve / Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(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:

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

2880 - 40x = 1600

X = 32 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	Dr.	225.00	
	(Being cancellation of shares bought back)			337.5
(b)	Equity share buy-back account	Dr.	337.50	
	To Bank account			337.5
	(Being buy-back of 11.25 lakhs equity shares of ₹10 each @ ₹30 per share)			

(c)	General reserve account 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)	Dr.	112.50	112.50

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	
Premium payable on buy-back	Dr.	225.00	
To Equity shares buy-back A/c			337.50
(Being the amount due on buy-back of equity shares)			
Securities Premium A/c	Dr		
To Premium payable on buy-back			
(Being premium payable on buy-back charged from Securities premium)		225.00	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	
General Reserve A/c	Dr.	67.50	
To Capital redemption reserve A/c			112.50
(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

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:

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 2:

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

2250 - 40x = 1800

X = 11.25 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)		

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

Working Notes:

1. Calculation of amount used from General Reserve Account

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

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

2. Amount to be transferred to Capital Redemption Reserve account

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

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 May18, 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:

(i) Pass journal entries to record the above.

(ii) 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:

1. Amount of bonus shares = 25% of (1,200 – 300) lakhs = ₹ 225 lakhs
2. 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	Rs. 1,40,000	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. 83,000	5,43,000 **12,93,000**

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

i. Buy back 25% of the paid-up capital @ Rs. 15 each.
ii. Issue 10% debentures of Rs. 60,000 at a premium of 10% to finance the buyback of shares.
iii. Maintain a balance of Rs. 20,000 in General Reserve.
iv. Sell investments worth Rs. 1,00,000 for Rs. 80,000.
v. 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)			2,25,000
	(Being the amount due to equity shareholders on buy back)			
2.	Equity shares buy back/Equity shareholders A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			
3.	Bank A/c	Dr.	66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c			6,000
	(Being 14 % debentures issued to finance buy back)			
4.	Buyback Expenses A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Buyback expenses paid)			
5.	Bank A/C	Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment)	Dr.	20,000	
	To Investment A/c			1,00,000
	(Being investment sold at loss)			
6.	General reserve	Dr.	43,000	
	Profit and Loss A/C	Dr.	1,07,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
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			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

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	2,000
To 10% Debentures and Securities premium	66,000	shares	2,000
		By Balance c/d	
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)	20,10,000
Shareholders' funds (Rs.)	50,10,000
25% of Shareholders fund (Rs.)	Rs. 12,52,500
Buy-back price per share	Rs. 30
Number of shares that can be bought back	41,750 shares

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

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

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

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

X = 94,000 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:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
2. 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 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 31 st 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:-

5 ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

INDEX

S.NO.	TOPIC	PG.NO.	No. Of. Questions
	SECTION A – QUESTIONS		
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SECTION A – QUESTIONS

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

SERIES 100
BASIC LEVEL QUESTIONS

Q.IR.SM.101(A):

C Ltd. had ₹ 5,00,000 authorized capital on 31-12-20X1 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 20X2 the Company decided to convert the issued shares into stock. But in June, 20X3 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

SOLUTION

Journal Entries

			₹	₹
20X2 June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
20X3 June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated…)			

Notes to Balance Sheet

	₹
As on 31-12-20X1	
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
4,000 Equity Shares of ₹ 100 each fully called up	4,00,000
As on 31-12-20X2	**₹**
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
Equity Stock- 4,000 Equity Shares of ₹ 100 converted into Stock	4,00,000
As on 31-12-20X3	**₹**
Share Capital	
Authorized	
50,000 Equity Shares of ₹ 10 each	5,00,000
Issued and Subscribed	
40,000 Equity Shares of ₹ 10 each fully called up	4,00,000

Q.IR.SM.102(A):

As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

1. The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of ₹ 50 each), the following-
   - **a)** 15,000 Fully paid equity shares of ₹ 10 each;
   - **b)** 12% fully paid preference shares to the extent of 2/5 of total equity shares;
   - **c)** To pay them ₹ 50,000 and transfer the remaining to the reconstruction account
2. 8% Preference share capital - ₹ 3,00,000
   To write down the value of preference shares to ₹ 50 (original face value ₹ 100).
3. 14% debentures of the nominal value of ₹ 2,00,000 along with accrued interest ₹ 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme.

Solution

Journal entries in the books of Getting better Co.

Date	Particulars		Dr.	Cr.
			₹	₹
	Share capital A/c (₹ 50) To Share capital A/c (₹10) To 12% Preference share capital A/c	Dr.	5,00,000	 1,50,000 2,00,000 50,000
	To Ban A/c To Reconstruction A/c (Being 15,000 equity shares of ₹ 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)			1,00,000
	Preference Share capital A/c (₹ 100) To Preference share capital A/c (₹ 50) To Reconstruction A/c (Being the preference share capital reduced and forfeited as per reconstruction scheme)	Dr.	3,00,000	1,50,000 1,50,000
	14% Debenture A/c Interest accrued on Debentures A/c To Bank A/c To Reconstruction A/c (Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)	Dr. Dr.	2,00,000 56,000	 64,000 1,92,000
	Reconstruction A/c To Capital Reserve A/c (Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)	Dr.	4,42,000	 4,42,000

Q.IR.SM.103(A):

The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, the following:

- New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
- 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
- ₹ 40,000, 8% Debentures.

(ii) An issue of ₹ 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at ₹ 1,40,000 was completely written off.

(iv) Plant and machinery which stood at ₹ 2,00,000 was written down to ₹1,50,000.

(v) Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

SOLUTION

Journal Entries

		Dr.	Cr.
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (₹ 10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Capital Reduction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures A/c			1,00,000
(Being allotment of 10% first Debentures)			
Capital Reduction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Ac count			50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

Q.IR.RMP.104(A): (Exam July21) (MTP May21, May20, May22, Nov22)

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

i. The shareholders to receive in lieu of their present holding at 7,50,000 shares of Rs. 10 each, the following:

- New fully paid Rs. 10 Equity Shares equal to 3/5th of their holding.
- Fully paid Rs. 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of Rs. 250,000.

ii. Goodwill which stood at Rs. 2,70,000 is to be completely written off.

iii. Plant & Machinery to be reduced by Rs. 1,00,000, Furniture to be reduced by Rs. 88,000 and Building to be appreciated by Rs. 1,50,000.

iv. Investment of Rs. 6,00,000 to be brought down to its existing market price of Rs. 1,80,000.

v. Write off Profit & Loss Account debit balance of Rs. 2,25,000.

In case of any shortfall, the balance of General Reserve of Rs. 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

SOLUTION

Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (Rs. 10) A/c			45,00,000
To 6% Preference Share Capital (Rs. 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.

SERIES 200
HIGH LEVEL QUESTIONS

Q.IR.SM.201(A):

The following is the summarized Balance Sheet of X Ltd. as on 31st March, 20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	36,00,000
	B	Reserves and Surplus	2	(14,40,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	6,00,000
3		**Current liabilities**		
	A	Trade Payables		3,00,000
	B	Short term borrowings - Bank overdraft		6,00,000
		Total		**36,60,000**
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	30,00,000
	B	Intangible assets	5	90,000
2		**Current assets**		
	A	Inventories		2,60,000
	B	Trade receivables		2,80,000
	c	Cash and cash equivalents		30,000
		Total		**36,60,000**

Notes to accounts

		₹
1	**Share capital**	
	24,000 Equity Shares of ₹ 100 each	24,00,000
	12,000, 10% Preference Shares of ₹ 100 each	12,00,000
	Total	36,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss Account	(14,40,000)
		(14,40,000)
3	**Long-term borrowings**	
	10% debentures	6,00,000
		6,00,000
4.	**Property, plant and Equipment**	
	Land and Building	12,00,000
	Plant and Machinery	18,00,000
		30,00,000
5	**Intangible assets**	
	Goodwill	90,000

On the above date, the company adopted the following scheme of reconstruction:

i. The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.

ii. The debenture holders took over Inventories and Trade receivables in full Satisfaction of their claims.
iii. The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
iv. The debit balance of profit and loss account and intangible assets are to be eliminated.
v. Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet

SOLUTION

In the books of X Ltd.
Journal Entries

31st March, 20X1				₹
(i)	Equity Share Capital A/c (₹ 100)	**Dr.**	24,00,000	
	To Equity Share Capital A/c (₹ 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being 24,000 equity shares of ₹ 100 each reduced to ₹ 40 each fully paid up)			
(ii)	10% Preference Share Capital A/c (₹ 100)	**Dr.**	12,00,000	
	To 10% Pref. Share Capital A/c (₹ 75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being 12,000 Preference shares of ₹ 100 each reduced to ₹ 75 each fully paid up)			
(iii)	10% Debentures A/c	**Dr.**	6,00,000	
	To Inventories A/c			2,60,000
	To Trade receivables A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being debenture holders given Inventories and Trade receivables in full settlement of their claims)			
(iv)	Land & Building A/c	**Dr.**	3,60,000	
	To Capital Reduction A/c			3,60,000
	(Being Land & Building appreciated by 30%)			
(v)	Capital reduction A/c	**Dr.**	5,000	
	To Cash A/c			5,000
	(Being expenses of reconstruction			
(vi)	Capital Reduction A/c	**Dr.**	20,70,000	
	To Goodwill A/c			90,000
	To Profit and Loss A/c			14,40,000
	To Plant & Machinery A/c			5,40,000
	(Being various losses written off, assets written down through Capital Reserve A/c)			
(vii)	Capital Reduction	**Dr.**	85,000	
	To Capital Reserve A/c (Bal. Fig.)			85,000
	(Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)			

Balance Sheet (And Reduced) of X Ltd. as at 31st March, 20X1

	Particulars	**Notes No**	**₹**
	Equity and Liabilities		
1	**Shareholders' funds**		
A	Share capital	**1**	18,60,000
B	Reserves and Surplus	**2**	85,000

2		**Current liabilities**		
	A	Trade Payables		3,00,000
	B	Short term borrowings		6,00,000
		Total		**28,45,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment		
		Tangible assets	**3**	28,20,000
2		**Current assets**		
	A	Cash and cash equivalents (30,000 -5,000)		25,000
		Total		**28,45,000**

Notes to accounts

1.	**Share Capital**		
	Equity share capital		
	24,000 equity shares of ₹ 40 each fully paid up		9,60,000
	Preference share capital		
	12,000, 10% Preference shares of ₹75 each fully paidup		9,00,000
	Total		**18,60,000**
2.	**Reserves and Surplus**		
	Capital Reserve		**85,000**
3.	**Tangible assets**		
	Land and Building	15,60,000	
	Plant and Machinery	12,60,000	
	Total		**28,20,000**

Q.IR.RMP.202(A): (RTP – May 19, Nov 22 & MTP March 18, April21)

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (Rs in lakh)
EQUITY & LIABILITIES		
Shareholders' Funds		
Shares' Capital	**1**	1,400
Reserves & Surplus	**2**	(522)
Non-Current Liabilities		
Long term Borrowings	**3**	700
Current Liabilities		
Trade Payables	**4**	102
Other Liabilities	**5**	24
Total		**1704**
ASSETS		
Non-Current Assets		
Property, Plant & Equipment		
Tangible Assets	**6**	750
Current Assets		
Current Investments	**7**	200

Inventories	**8**	300
Trade Receivables	**9**	450
Cash & Cash Equivalents	**10**	4
Total		**1704**

Notes to Accounts:

		Rs in Lakhs
(1)	**Share Capital**	
	Authorised:	
	200 lakh shares of Rs 10 each	2,000
	8 lakh, 8% Preference Shares of Rs 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of Rs 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of Rs 100 each, fully paid up	400
	Total	**1400**
(2)	**Reserves and Surplus**	
	Debit balance of Profit & Loss A/c	(522)
(3)	**Long Term Borrowings**	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	**Trade Payables**	
	Trade payables for Goods	102
(5)	**Other Current Liabilities**	
	Interest Accrued and Due on 6% Debentures	24
(6)	**Tangible Assets**	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	**Current Investment**	
	Investment in Equity Instruments	200
(8)	**Inventories**	
	Finished Goods	300
(9)	**Trade Receivables**	
	Trade receivables for Goods	450
(10)	**Cash and Cash Equivalents**	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs 80 each and Equity Shares to Rs 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs 400 lakh.

(6) All investments sold out for Rs 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs.600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Reconstruction Account; and

Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

SOLUTION

Journal Entries in the books of Lion Ltd.

	Particulars	Debit (Rs in lakhs)	Credit (Rs in lakhs)
1	8% Pref. share capital A/c (Rs 100 each) Dr. To 8% Pref. share capital A/c (Rs 80 each) To Capital Reduction A/c (Being the preference shares of Rs 100 each reduced to Rs 80 each as per the approved scheme)	400	 320 80
2	Equity share capital A/c (Rs.10 each) To Equity share capital A/c (Rs 2 each) To Capital Reduction A/c (Being the equity shares of Rs 10 each reduced to Rs 2 each)	1,000	 200 800
3	Capital Reduction A/c Dr. To Equity share capital A/c (Rs 2 each) (Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of Rs 2 each)	32	 32
4	6% Debentures A/c Dr. To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	300	 300
5	Accrued debenture interest A/c Dr. To Bank A/c (Being appreciation in the value of freehold property)	24	 24
6	Freehold property A/c Dr. To Capital Reduction A/c (Being investment sold at profit)	150	 150
7	Bank A/c Dr. To Investment A/c To Capital Reduction A/c (Being Investment Sold)	250	 200 50
8	Director's loan A/c Dr. To Equity share capital A/c (Rs 2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of Rs 2 each)	300	 90 210
9	Capital Reduction A/c Dr. To Profit and loss A/c To Trade receivables A/c (450 x 40%)	972	 522 180

	To Inventories-in-trade A/c (300x 80%) To Bank A/c (600 x 5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)		240 30
10	Capital Reduction A/c Dr. To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)	286	286

(b) Capital Reduction Account Dr.

	(Rs in lakhs)		(Rs in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		**1,290**

(c) Notes to Balance Sheet

		(Rs in lakhs)	(Rs in lakhs)
1. Share Capital			
Authorised:			
200 lakhs Equity shares of Rs 2 each			400
8 lakhs 8% Preference shares of Rs 80 each			640
			1,040
Issued:			
161 lakhs equity shares of Rs2 each			322
4 lakhs Preference Shares of Rs 80 each			320
			642
2. Tangible Assets			
Freehold Property	550		
Less: Utilized to pay Debenture holders	(300)		
	250		
Add: Appreciation	150		400
Plant and Machinery			200
			600

Q.IR.RMP.203(A): (EXAM Nov19 and May19) (RTP May23) (Similar in ICAI Module)

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019.

Particulars	Amount (Rs)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of Rs 50 each	7,50,000
(b) 18,750 Equity shares of Rs 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250

Trade Payables	2,58,750
Other Liabilities	43,750
Total	**21,42,500**
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	**21,42,500**

(**Note:** Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their Rs 50 shares should be reduced to Rs 5 by cancellation of Rs 45.00 per share. They have also agreed to subscribe for three new equity shares of Rs 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each Rs 50 preference share, 4 new 6% preference shares of Rs 10 each, plus 3 new equity shares of Rs 5.00 each, all credited as fully paid.

(iii) Lenders to the company for Rs 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of Rs 10 each and 7,500 new equity shares of Rs 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of Rs 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, Rs 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off Rs 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to Rs 8,12,500 for preference share capital and Rs 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

SOLUTION

In the books of Fortunate Ltd. Journal Entries

	Particulars		**Debit (Rs)**	**Credit (Rs)**
1.	Equity share capital A/c (Rs 50)	Dr.	9,37,500	
	To Equity share capital A/c (Rs 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of Rs 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (Rs 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	

	To 6% Preference share capital (Rs 10)			6,00,000
	To equity share capital (Rs 50)			2,25,000
	(Being 8% preference shares of Rs 50 each converted to 6% preference shares of Rs 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	6% Preference share capital A/c (15,000 x Rs 10)			1,50,000
	To Equity share capital A/c (7,500 x Rs 5)			37,500
	(Being loan to the extent of Rs 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x Rs 5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced) as on 31.3.2019

		Particulars	Notes	Rs
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	15,12,500
2		**Non-current liabilities**		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		**Current liabilities**		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		**20,93,750**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		**Current assets**		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		**20,93,750**

Notes to accounts:

			Rs
1	**Share Capital**		
	Authorized capital:		
	81,250 Preference shares of Rs 10 each	8,12,500	
	1,87,500 Equity shares of Rs 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of Rs 5 each	7,62,500	
	75,000, 6% Preference shares of Rs 10 each	7,50,000	15,12,500
2	**Property, Plant and Equipment**		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	**Intangible assets**		
	Trademarks and goodwill		2,36,250
4	**Cash and cash equivalents**		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Q.IR.SM.204(A):

The Balance Sheet of Vaibhav Ltd. as on 31st March 20X1 is as follows:

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

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes Rs. 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at Rs. 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

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

SOLUTION

Journal Entries in the books of Vaibhav Ltd.

		₹	₹
i	Equity share capital A/c (₹ 100) A/c **Dr.**	2,00,00,000	
	To Equity share capital A/c (₹ 40) A/c		80,00,000
	To Capital reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		
ii	6% Cumulative Preference Share capital (₹100) A/c **Dr.**	1,00,00,000	
	To 6% Cumulative Preference share Capital (₹ 60) A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹60 each as per reconstruction scheme)		
iii	5% Debentures (₹ 100) A/c **Dr.**	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
iv	Sundry Creditors A/c **Dr.**	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
v	Provision for Taxation A/c **Dr.**	2,00,000	
	Capital Reduction A/c **Dr.**	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
vi	Capital Reduction A/c **Dr.**	199,00,000	
	To P & L A/c		12,00,000
	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
vii	Liability for Taxation A/c **Dr.**	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31st March, 20X1

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	**1**	164,00,000
	B	Reserve and Surplus	**2**	26,00,000
2		**Non-current liabilities**		
	A	Long-term borrowings		
3		**Current liabilities**	**3**	56,00,000

	A	Trade Payables (1,00,00,000 less 40,00,000		60,00,000
		Total		**3,06,00,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment		
		Tangible assets	**4**	200,00,000
		Investments	**5**	19,00,000
2		**Current assets**	**6**	87,00,000
		Total		**3,06,00,000**

Notes to accounts

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

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences Share capital	40,00,000
To Fixed Assets	50,00,000	By 5% Debentures	24,00,000
To Current assets	1,10,00,000	By Sundry creditors	16,00,000
To Investment	1,00,000		

To Capital Reserve (Bal.fig.)	26,00,000		
	2,00,00,000		**2,00,00,000**

Q.IR.SM.205(A):

Following is the Summary Balance Sheet of ABC Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	26,00,000
	B	Reserves and Surplus	2	(4,05,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	12,00,000
3		**Current liabilities**		
	A	Trade Payables		5,92,000
	B	Short term borrowings - Bank overdraft		1,50,000
		Total		**41,37,000**
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	11,50,000
	B	Intangible assets	5	70,000
	C	Non-current investment	6	68,000
2		**Current assets**		
	A	Inventory		14,00,000
	B	Trade receivables		14,39,000
	C	Cash and cash equivalents		10,000
		Total		**41,37,000**

Notes to accounts:

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

		70,000
6	**Non-current investments**	
	Investments (market value of ₹ 55,000)	68,000

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Inventory equal to Rs. 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.

(iv) Investment value to be reduced to market price.

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

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

SOLUTION

In the Books of ABC Ltd.

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	**Dr.**	6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Alternate Entry may exist			
9% Debenture holders A/c	**Dr.**	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	**Dr.**	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	**Dr.**	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	**Dr.**	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	**Dr.**	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000

To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		**5,72,000**

Balance Sheet of ABC Ltd. (And Reduced) As on 31st March 20X1

Particulars	**Note No**	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		**28,74,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant Equipment	4	2,50,000
(b) Intangible assets	5	70,000
(c) Non-current investments	6	55,000
(2) Current assets		
(a) Current investments		
(b) Inventories (₹ 14,00,000 – ₹ 5,00,000)		9,00,000
(c) Trade receivables		14,39,000
(d) Cash and cash equivalents		
Cash at Bank (W. N.)		1,60,000
Total		**28,74,000**

Notes to Accounts

		₹
1	**Share capital** 2,00,000 Equity shares of ₹10 each fully paid-up	20,00,000
2	**Reserve and Surplus** Capital Reserve	1,54,000
3	**Long Term Borrowing** 11 % Debentures (₹4,20,000+ ₹3,00,000)	7,20,000
		3,20,000
4	**Property, plant & Equipment**	
	Plant & Machinery 9,00,000	
	Less: Adjustment on scheme of Reconstruction 9,00,000	-
	Furniture & Fixtures	2,50,000
5	**Intangible Assets**	
	Patents & Copyrights	70,000
		3,20,000
6	**Non-Current Investments** Investment (₹68,000 - ₹ 13,000)	55,000

Working Note:

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

Q.IR.RMP.206(A): (RTP May21)

Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows:

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	55,000
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
				5,05,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		**Current assets**		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to accounts:

1	**Share Capital**	Rs.
	Equity share capital:	
	20,000 Equity Shares of Rs. 10 each	2,00,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years)	1,50,000
		3,50,000
2	**Reserves and surplus**	
	Securities premium	10,000
	Profit and loss account (debit balance)	(80,000)
		(70,000)
3	**Long-term borrowings**	
	Secured	
	9% Debentures (secured on the freehold property	50,000
	Accrued interest on 9% debentures	5,000
		55,000
4	**Property, Plant and Equipment**	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	1,30,000
		3,35,000
5	**Intangible assets**	

	Goodwill	50,000
		50,000
6	**Non-current investments**	
	Non-Trade investments at cost	40,000
		40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i) The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.

ii) One new equity share of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.

iii) The balance on Securities Premium Account was utilized and was transferred to capital reduction account.

iv) The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the balance to the company after deducting the amount due to them.

v) Plant and Machinery was written down to Rs. 1,00,000.

vi) Non-trade Investments were sold for Rs. 32,000.

vii) Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.

viii) A contingent liability of which no provision had been made was settled at Rs. 7,000 and of this amount, Rs. 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

SOLUTION:

In the books of Recover Ltd

Journal entries

Particulars	Dr. Rs.	Cr. Rs.
8% Cumulative Preference share capital (Rs. 10) A/c Dr. To 8% Cumulative Preference share capital (Rs. 2.5) A/c To Capital reduction (Rs. 7.5) A/c (Preference shares being reduced to shares of Rs. 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)	1,50,000	 37,500 1,12,500
Equity share capital A/c (Rs. 10) Dr. To Equity Share capital A/c (Rs. 1) To Capital reduction A/c (Rs. 9) (Equity shares reduced to Rs. 1 per share with the remaining amount transferred to capital reduction as a part of the internal reconstruction scheme.)	2,00,000	 20,000 1,80,000
Capital reduction A/c Dr. To Equity share capital A/c (Equity shares of Rs. 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)	48,000	 48,000
Securities Premium A/c Dr. To Capital reduction A/c (Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)	10,000	 10,000
9% Debentures A/c Dr. Accrued interest on debentures A/c Dr. Bank A/c Dr. Capital reduction A/c Dr.	50,000 5,000 20,000 45,000	

To Freehold property A/c (Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			1,20,000
Capital reduction A/c To Plant and Machinery Ac To Goodwill A/c To Inventory A/c (The assets written off as a part of the internal reconstruction scheme)	Dr.	90,000	 30,000 50,000 10,000
Bank A/c Capital reduction A/c To Investments A/c (Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)	Dr. Dr.	32,000 8,000	 40,000
Contingent Liability A/c To Bank A/c (Contingent liability paid as a part of the internal reconstruction scheme)	Dr.	7,000	 7,000
Bank A/c Capital reduction A/c To Contingent Liability A/c (The insurance company remitting part of the contingency payment amount)	Dr. Dr.	6,300 700	 7,000
Capital reduction A/c To Profit and loss A/c (Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).	Dr.	80,000	 80,000
Capital reduction A/c To Capital reserve A/c (The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)	Dr.	30,800	 30,800

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
				3,06,300
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300

				3,06,300

Notes to Accounts

1	**Share Capital**	**Rs.**
	Equity share capital:	
	68,000 Equity Shares of Rs. 1 each	68,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 2.5 each	3,75,00
		1,05,500
2	**Reserves and surplus**	
	Capital Reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

Q.IR.RMP.207(A): (MTP – March19)

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarized balance sheet as on 31-3-2017 and the information supplied, you are required to prepare

(i) Journal entries reflecting the scheme of reconstruction,

(ii) Capital reduction account,

(iii) Cash account in the books of Lili Ltd.

Summarized Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	Rs.	Assets	Rs.
Share Capital		**Fixed Assets**	
30,000 Equity shares of RS.10	3,00,000	Trademarks and Patents.	1,10,000
each.	4,00,000	Goodwill at cost	36,100
40,000 8% Cum. Pref. shares		Freehold Land	1,20,000
Rs.10 each		Freehold Premises	2,44,000
		Plant and Equipment	3,20,000
Reserves and Surplus	10,000	**Investment**	
Securities Premium Account	(1,38,400)	(Marked to market)	64,000
Profit and Loss Account		**Current Assets**	
Secured Borrowings		Inventories:	76,000
9% Debentures (100/-) 1,20,000	1,25,400	Raw materials and packing	
Accrued Interest 5,400		materials 60,000	
Current liabilities	1,20,000	Finished goods 16,000	
Trade payables	50,000	Trade receivables	1,20,000
Tax payable	2,23,100		
Temporary bank overdraft			
	10,90,100		**10,90,100**

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital ofRs.7 lakhs). Both classes of shares are of Rs.10 each.

(2) The preference shares are to be reduced to Rs. 5 each and equity shares reduced by Rs. 3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.
(3) Trade Investments are to be liquidated in open market.
(4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).
(5) Expenses for the scheme were Rs. 10,000.
(6) The debenture holders took over freehold land at Rs. 2,10,000 and settled the balance after adjusting their dues.
(7) Un-provided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500.
(8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.
(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.
(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose

SOLUTION

In the books of Lili Ltd. Journal Entries

Sr. No.	Particulars		Dr.	Cr.
1	Equity Share Capital A/c (Rs.10)	Dr.	3,00,000	
	To Capital Reduction A/c			90,000
	To Equity Share Capital A/c (Rs.7)			2,10,000
	(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)			
2	8% Cum. Preference Share Capital A/c (Rs. 10)	Dr.	4,00,000	
	To Capital Reduction A/c			2,00,000
	To Preference Share Capital A/c (Rs. 5)			2,00,000
	(Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			
3	Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
	Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
	To Equity Share Capital A/c (21,000 x Rs. 10)			2,10,000
	To Pref. Share Capital A/c (20,000 x Rs.10)			2,00,000
	(Being post reduction, both classes of shares reconsolidated into Rs.10 each)			
4	Cash Account	Dr.	64,000	
	To Trade Investments			64,000
	(Being trade investments liquidated in the open market)			
5	Capital Reduction Account	Dr.	32,000	
	To Equity Share Capital Account			32,000
	(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6	Capital Reduction Account	Dr.	10,000	
	To Cash Account			10,000
	(Being expenses of reconstruction scheme paid in cash)			
7	9% Debentures Account	Dr.	1,20,000	
	Accrued Interest Account	Dr.	5,400	
	To Debenture holders Account			1,25,400
	(Being amount due to debenture holders)			
8	Debenture holders Account	Dr.	1,25,400	

9	Cash Account (2,10,000 – 1,25,400) Dr. To Freehold Land To Capital Reduction Account (2,10,000 – 1,20,000) (Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)		84,600	 1,20,000 90,000
10	Capital Reduction Account Dr. To Cash Account (Being contingent liability of Rs.54,000 paid)		54,000	 54,000
11	Cash Account Dr. To Capital Reduction Account (Being pending insurance claim received)		12,500	 12,500
12	Capital Reduction Account Dr. To Trademarks and Patents To Goodwill To Raw materials & Packing materials To Trade receivables (Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)		1,68,100	 1,10,000 36,100 10,000 12,000
13	Cash Account Dr. To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)		1,26,000	 1,26,000
14	Bank Overdraft Account Dr. To Cash Account (Being cash balance utilized to pay off bank overdraft)		2,23,100	 2,23,100
	Capital Reduction Account Dr. To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)		1,28,400	 1,28,400

Capital Reduction Account

Particulars	Rs.	Particulars	Rs.
To Equity share capital	32,000	By Preference share capital	2,10,000
To Cash (Contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		**3,92,500**

Cash Account

Particulars	Rs.	Particulars	Rs.
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000 – 1,25,400)	84,600	By Expenses	10,000
To Capital reduction (Insurance claim)	12,500	By Temporary bank overdraft - From available cash	

		(64,000 + 84,000 + 12,500 - 54,000-10,000) 97,100 - From proceeds of equity shares capital (2,23,100-97,100) 1,26,000	2,23,100
To Equity share capital 12,600 shares @ Rs. 10 each	1,26,000		
	2,87,100		**2,87,100**

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

Q.IR.RMP.208(A): (Exam Nov22)

The following is the Balance sheet of Purple Limited as at 31st March, 2022:

Balance Sheet of Purple Limited as at 31st March, 2022

		Particulars	Notes	Rs
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	15,00,000
	b	Reserves & Surplus	2	(3,00,000)
2		**Current liabilities**		
	A	Trade Payables		2,20,000
	b	Short Term Borrowings – Bank Overdraft		2,00,000
		Total		**16,20,000**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	3	10,20,000
	b	Intangible assets	4	1,20,600
2		**Current assets**		
	a	Inventories		1,70,000
	b	Trade receivables		3,01,800
	c	Cash and cash equivalents		7,600
		Total		**16,20,000**

Notes to accounts:

			Rs
1	**Share Capital**		
	90,000 Equity Shares of Rs. 10 each fully paid	9,00,000	
	6% Preference Share Capital	6,00,000	15,00,000
2	**Reserves & Surplus**		
	Profit & Loss account		(3,00,000)
3	**Property, Plant and Equipment**		
	Land and Building	5,40,000	
	Plant & Machinery	4,80,000	10,20,000
4	**Intangible assets**		
	Goodwill	84,600	
	Patents	36,000	1,20,600

Dividends on Preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.

(ii) The value of equity shares is brought down to Rs. 8 per share.

(iii) The arrears of dividend on preference shares are cancelled.

(iv) The debit balance of Goodwill account is written off entirely.

(v) Land & Building and Plant & Machinery are revalued at 85% and 80% of their respective book values.

(vi) Book debts amounting to Rs. 14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of Rs. 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The Remaining balance of Said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down patents.

(ix) A secured loan of Rs. 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

SOLUTION:

Journal Entries In the books of Purple Ltd.

	Particulars		Debit (₹₹)	Credit (₹₹)
1.	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000
	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)			
2.	Equity share capital A/c (₹ 10)	Dr.	9,00,000	
	To Equity share capital A/c (₹ 8)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being equity capital reduced to nominal value of ₹ 8 each)			
3.	Capital Reduction A/c	Dr.	3,30,000	
	To Goodwill A/c			84,600
	To Land and Building A/c			81,000
	To Plant and Machinery A/c			96,000
	To Trade Receivables A/c (Book debts)			14,400
	To Patents A/c (Bal. fig.)			24,000
	To Profit and loss A/c			30,000
	(Being losses and assets written off to the extent required)			
4.	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5.	Bank overdraft A/c	Dr.	2,00,000	

	To Bank A/c			2,00,000
	(Being Bank overdraft repaid)			

Capital Reduction Account

	Particulars	₹		Particulars	₹
To	Goodwill A/c	84,600	By	Equity Share Capital A/c	1,80,000
To	Land & Building A/c	81,000	By	6% Preference Share Capital A/c	1,50,000
To	Plant and Machinery A/c	96,000			
To	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts) A/c	14,400			
To	Profit & Loss A/c	30,000			
To	Patents A/c (Bal. fig.)	24,000			
		3,30,000			**3,30,000**

Balance Sheet of Purple Ltd. (and reduced) as at 31.3.2022

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	11,70,000
	b	Reserves and surplus	2	(2,70,000)
2		**Current liabilities**		
	a	Short term borrowings (Secured Bank Loan)		4,80,000
	b	Trade Payables		2,20,000
		Total		**16,00,000**
		Assets		
1		**Non-current assets**		
	a	Property, plant and equipment	3	8,43,000
	b	Intangible assets	4	12,000
2		**Current Assets**		
	a	Inventory		1,70,000
	b	Trade receivables	5	2,87,400
	c	Cash and cash equivalents (7,600+4,80,000-2,00,000)		2,87,600
		Total		**16,00,000**

Notes to Accounts:

			₹
1.	**Share Capital**		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of ₹ 8 each fully paid	7,20,000	

	8% Preference share capital*	4,50,000	11,70,000
2.	**Reserves and Surplus**		
	Profit and Loss Account (Dr. balance)		(2,70,000)
3.	**Property plant and equipment**		
	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	8,43,000
4.	**Intangible assets**		
	Patent ₹ (36,000 - 24,000)		12,000
5.	**Trade Receivables**		
	Sundry Debtors	3,01,800	
	Less: Bad debts	(14,400)	2,87,400

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

Rate of return	6% on Preference Shares
Dividend	(6/100) x ₹6,00,000=₹36,000
Rate of return	8% on Preference Shares
Dividend	(8/100) x X = ₹36,000 X = (36,000/8) x 100 = 4,50,000
New Preference Share Capital	₹ 4,50,000
Old Preference Share Capital	₹ 6,00,000
Amount taken to capital Reduction A/C. (6,00,000-4,50,000)	₹1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

3. Calculation of Amount written off on Land & Building and Plant & Machinery

Land & Building	= (85/100) x 5,40,000	= ₹ 4,59,000
Plant & Machinery	= (80/100) x 4,80,000	= ₹ 3,84,000
Reduced by:		
Land & Building	= (5,40,000 - 4,59,000)	= ₹ 81,000
Plant & Machinery	= (4,80,000 - 3,84,000)	= ₹ 96,000

Q.IR.SM.209(A): (Removed from ICAI New Syllabus Material)

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 20X1:

	₹
Property, plant and equipment (Cost₹ 3,90,000) - estimated at	1,50,000
Cash in hand of the receiver	2,70,000
Charged under debentures	4,20,000

Uncalled capital	1,80,000
Deficiency	7,50,000
6,000 shares of ₹ 60 each, ₹ 30 paid up	1,80,000
First debentures	3,00,000
Second debentures	6,00,000
Unsecured trade payables	4,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs.3,00,000 and is an unsecured trade payables for Rs. 60,000. The following scheme of reconstruction is proposed:

1. A is to cancel Rs. 2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs. 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

SOLUTION:

Journal Entries

Particulars		Debit	Credit
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Capital reduction A/c			2,10,000
(Being cancellation of debt upto ₹ 2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Capital reduction A/c			2,70,000
(Being B's liability discharged)			
Unsecured trade payables A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000

To Capital reduction A/c (Being settlement of unsecured creditors)			1,12,500
Share call A/c To Share capital A/c (Being final call money due)	Dr.	1,80,000	 1,80,000
Bank A/c To Share call A/c (Being final call money received)	Dr.	1,80,000	 1,80,000
Share capital A/c (Face value ₹ 60) To Share capital (Face value ₹ 7.50) To Capital reduction A/c (Being share capital reduced to ₹ 7.50 each)	Dr.	3,60,000	 45,000 3,15,000
Capital reduction A/c To Profit and loss A/c To Capital Reserve (Being reconstruction surplus used to write off losses and balance transfer to capital reserve)	Dr.	9,07,500	 8,70,000 37,500

Working Notes:

1.	Settlement of claim of remaining unsecured creditors	₹
	75% of ₹ 3,00,000	2,25,000
	Considering their claim for share of ₹ 60 each	
	2,25,000/60 =3,750 shares	
	Less: Number of shares to be issued	
	3,750 x 4= 15,000 shares of ₹ 7.5 each	
	Total value= 15,000 x 7.50	(1,12,500)
	Transferred to Capital reduction A/c	1,12,500

2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.

	₹	₹
Asset		
Fixed assets	3,90,000	
Cash	2,70,000	6,60,000
Less: Capital & Liabilities:		
Share capital	1,80,000	
1st Debenture	3,00,000	
2nd Debenture	6,00,000	
Unsecured trade payables	4,50,000	(15,30,000)
Profit and loss A/c (Debit balance)		**(8,70,000)**

Q.IR.RMP.210(A): (RTP Nov18, Nov20 & May22)

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

Particulars	Amount in Rs.
Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
Reserves and Surplus:	

Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

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

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

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

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

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

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

SOLUTION

Journal Entries in the Books of Z Ltd.

			Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures payable A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000

	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

		Rs.			Rs.
To	Reconstruction (Y)	1,00,000	By	Balance b/d (overdraft)	1,00,000
To	Reconstruction(Z)	60,000	By	Reconstruction A/c	15,000
To	Reconstruction A/c (Refund of earlier fees by directors)	1,00,000		(Capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		2,60,000			**2,60,000**

Reconstruction Account

		Rs.			Rs.
To	Bank (penalty)	15,000	By	Equity Share Capital A/c	25,00,000

To	Bank (Reconstruction expenses)	15,000	By	9% Pref. Share Capital A/c	10,00,000
To	Goodwill	11,00,000	By	Mr. Y (Settlement)	5,78,000
To	Patent	5,00,000	By	Mr. Z (Settlement)	3,82,000
To	P & L A/c	14,60,000	By	Trade Payables A/c	1,70,000
To	P & M	6,50,000	By	Director's loan	60,000
To	Furniture and Fixtures	1,00,000	By	Bank	1,00,000
To	Trade investment	50,000	By	Provision for tax	25,000
To	Inventory	2,50,000	By	Land and Building	2,00,000
To	Trade Receivables	1,00,000			
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			**50,15,000**

Q.IR.RMP.211(A): (MTP Oct20, May22)

The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:

	(Rs.)
Authorized and subscribed capital:	
20,000 Equity shares of Rs. 100 each fully paid	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Interest payable thereon	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Property, plant and equipment:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

i) Each share be sub-divided into 10 fully paid up equity shares of Rs. 10 each.

ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

iii) Out of shares surrendered 20,000 shares of Rs. 10 each shall be converted into 10% Preference shares of Rs. 10 each fully paid up.

iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 2,00,000 which are converted out of shares surrendered.

v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.

vi) Balance of Profit and Loss account to be written off.

vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

SOLUTION:

Sr. No.	Particulars	Dr.	Cr.
1	Equity Share Capital A/c (Rs.10) Dr. To Share Surrender A/c To Equity Share Capital (Rs. 10) A/c (Sub-division of 20,000 equity shares of Rs. 100 each into 2,00,000 equity shares of Rs. 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	20,00,000	 10,00,000 10,00,000
2	15% Debentures Account Dr. Interest payable A/c (proportionate 50%) Dr. To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	3,00,000 45,000	 3,45,000
3	Trade payables A/c Dr. To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	1,04,000	 1,04,000
4	Share Surrender A/c Dr. To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	10,00,000	 2,00,000 78,000 7,22,000
5	Reconstruction A/c Dr. To Profit & Loss A/c To Capital Reserve A/c 11,000 (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,71,000	 11,60,000 11,000

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

Q.IR.SM.212(A): (Jan'25 Exam)

Sustain Limited is incurring losses due to adverse market conditions. It decided to reorganize its capital structure. The summarized Balance Sheet of the company as on 31st March, 2024 is as follows:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	10,00,000

	B	Reserves and Surplus	2	(20,50,000)
2		**Non-current liabilities**		
		Long-term borrowings	3	4,50,000
3		**Current liabilities**		
	A	Trade Payables		1,30,000
	B	Short term borrowing – Bank Overdraft		65,000
	C	Other Current Liabilities (Interest payable on Debentures)		45,000
	D	Short term provision (Provision for Income Tax)		1,00,000
		Total		**15,40,000**
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	8,50,000
	B	Intangible assets	5	60,000
	C	Non- Current investments	6	2,80,000
2		**Current assets**		
	A	Inventories		1,20,000
	B	Trade Receivables		2,30,000
		Total		**15,40,000**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	50,000 Equity Shares of ₹ 10 each fully paid up	5,00,000
	25,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	2,00,000
	Preference share capital:	
	30,000 8% Cumulative shares of ₹ 10 each (Perference dividend has been in arrears for 3 years)	3,00,000
		10,00,000
2	**Reserves and Surplus**	
	Profit and Loss account (debit balance)	(2,50,000)
		(2,50,000)
3	**Long-term borrowings**	
	Secured:	
	10% Debentures of ₹ 100 each	4,50,000
		4,50,000
4	**Property, Plant and Equipment**	
	Freehold property	1,00,000
	Plant and machinery	7,50,000
		8,50,000
5	**Intangible assets**	
	Goodwill	60,000
		60,000
6	**Non-current Investments**	
	Non-trade investments at cost	2,80,000
		2,80,000

Subsequent to approval by court and all interested parties, the following scheme of reconstruction were agreed:-

1) Uncalled capital is to be called up in full and such shares and other fully paid-up equity shares to be reduced to ₹ 5 per share.
2) The preference shareholders will accept a reduction of ₹ 2.5 per share, in exchange the rate of dividend is to be increased to 9%
3) Preference shareholders will forgo their claim of dividend for one year and one equity share of ₹ 5 each is to be issued for the remaining arrears of dividend.
4) Mr. X holds 10% debentures for ₹ 2,50,000. He is also a creditor for ₹ 50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay ₹ 20,000 to the company and to receive new 12% debentures for the balance amount.
5) The remaining claim of the debenture holders, including outstanding interest to be reduced to 60%. In consideration of the reduction, the debenture holders are to receive new 9% preference shares at new face value.
6) The taxation liability is to be settled at ₹ 1,20,000.
7) Market value of Non-current Investments is ₹ 2,50,000. Investments to be brought to their market value.
8) Inventory equal to ₹ 1,00,000 at book value will be taken over by remaining creditors in fill settlement of their claim.
9) A bad debt provision of 2% is to be created on trade receivables.
10) Plant and machinery is to be written down by 20%
11) The company will further issue 12% debentures for such amount which is sufficient to pay off bank overdraft and other outstanding liabilities and maintain its cash / bank balance at ₹ 85,000.
12) The amount available by the scheme shall be utilized in writing of Goodwill, debit balance of profit and loss a/c and balance of inventory.

You are required to:

(a) Show the journal entries, necessary to record the above transaction in the company's books and

(b) Prepare a note to show revised Share capital Structure of the company after completion of the scheme.

Q.IR.RMP.213(A): (RTP May20)

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

					Rs
A.	**EQUITY & LIABILITIES**				
	1.	**Shareholders' Fund:**			
		(a)	**Share Capital:**		
			9,000 7% Preference Shares of Rs 100 each fully paid		9,00,000
			10,000 Equity Shares of Rs 100 each fully paid		10,00,000
		(b)	**Reserve & Surplus:**		
			Profit & Loss Account		(2,00,000)
	2.	**Non-current liabilities:**			
			"A" 6% Debentures (Secured on Bombay Works)		3,00,000
			"B" 6% Debentures (Secured on Chennai Works)		3,50,000
	3.	**Current Liabilities and Provisions:**			
		(a)	Workmen's Compensation Fund:		

			Bombay Works	10,000
			Chennai Works	5,000
		(b)	Trade Payables	1,25,000
			TOTAL	**24,90,000**
B.	**ASSETS:**			
	Non- current Assets:			
	1.	**PPE**:		
			Bombay Works	9,50,000
			Chennai Works	7,75,000
	2.	**Investment:**		
			Investments for Workman's Compensation Fund	15,000
	3.	**Current Assets:**		
		(a)	Inventories	4,50,000
		(b)	Trade Receivables	2,50,000
		(c)	Cash at Bank	50,000
			TOTAL	**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

1. Paid up value of 7% Preference Share to be reduced to Rs 80, but the rate of dividend being raised to 9%.
2. Paid up value of Equity Shares to be reduced to Rs 10.
3. The directors to refund Rs 50,000 of the fees previously received by them.
4. Debenture holders forego their interest of Rs 26,000 which is included among the trade payables.
5. The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
6. "B" 6% Debenture holders agreed to take over the Chennai Works of Rs 4,25,000 and to accept an allotment of 1,500 equity shares of Rs 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs 10 each fully paid at par to Star Ltd.
7. The Chennai Workmen's compensation fund disclosed that there were actual liabilities of Rs 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
8. Inventory was to be written off by Rs 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs 20,000.
9. Chennai works completely written off.
10. Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

SOLUTION

In the books of Star Ltd.

Journal Entries

	Particulars		Amount Rs.	Amount Rs.
(i)	7% Preference share capital (Rs. 100)	Dr.	9,00,000	
	To 9% Preference share capital (Rs. 80)			7,20,000
	To Capital reduction A/c			1,80,000

	(Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)		
(ii)	Equity share capital A/c (Rs. 100 each) Dr. To Equity share capital A/c (Rs. 10 each) To Capital reduction A/c (Being reduction of nominal value of one share of Rs. 100 each to Rs. 10 each)	10,00,000	 1,00,000 9,00,000
(iii)	Bank A/c Dr. To Capital reduction A/c (Being directors refunded the fee amount)	50,000	 50,000
(iv)	Trade payables A/c (Interest on debentures) Dr. To Capital reduction A/c (Being interest forgone by the debenture holders)	26,000	 26,000
(v)	No entry required		
(vi) a	'B' 6% Debentures A/c Dr. To Debentures holders A/c (Being amount due to Debentures holders)	3,50,000	 3,50,000
b	Debentures holders A/c Dr. To Chennai Works A/c To Equity share capital A/c (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)	4,40,000	 4,25,000 15,000
c	Equity share of Zia ltd. A/c Dr. To Debentures holders A/c (Being 9,000 equity shares of Zia Ltd. Issued by Debentures holders)	90,000	 90,000
(vii) a	Chennai Works – Workmen Compensation Fund Dr. To Capital reduction A/c (Being difference due to reduced amount of actual liability transferred to capital reduction account)	4,000	 4,000
b	Bank A/c Dr. To Investment for Workmen Compensation Fund To Capital reduction A/c (Being investment for Workmen Compensation Fund sold @ 10% profit)	15,400	 14,000 1,400
c	Trade Payables A/c Dr. To Bank A/c (Being part payment made to trade payables)	15,400	 15,400
(viii)	Capital reduction A/c Dr. To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)	2,10,000	 20,000 1,90,000
(ix)	Capital reduction A/c Dr. To Profit & Loss A/c To PPE– Chennai Works (Being assets revalued and losses written off)	5,50,000	 2,00,000 3,50,000*
(x)	Capital reduction A/c Dr. To PPE– Bombay Works To Capital reserve A/c (Being assets revalued and remaining amount transferred to capital reserve account)	4,01,400	 2,67,600 1,33,800

SECTION B– HOMEWORK QUESTIONS
(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)

SERIES 100
BASIC LEVEL QUESTIONS

Q.IR.SM.101(B):

On 31-12-20X1, B Ltd. had 20,000, ₹ 10 Equity Shares as authorised capital and the shares were all issued on which ₹ 8 was paid up. In June, 20X2 the company in general meeting decided to sub-divide each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 20X3 the company in general meeting resolved to consolidate 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

SOLUTION

Journal Entries

		₹	₹
20X2 June	Equity Share Capital (10) A/c **Dr.**	1,60,000	
	To Equity Share Capital (5) A/c		1,60,000
	(Being the sub-division of 20,000 shares of 10 each with 8 paid up into 40,000 shares 5 each with 4 paid up by resolution in general meeting dated)		
20X3 June	Equity Share Capital (5) A/c **Dr.**	1,60,000	
	To Equity Share Capital (100) A/c		1,60,000
	(Being consolidation of 40,000 shares of 5 with 4paid up into 2,000, 100 shares with 80 paid up)		

Notes to Balance Sheet

Liabilities:	₹
As on 31-12-20X1	
1. Share Capital	
Authorised:	
20,000 Equity Shares of 10 each	2,00,000
Issued and Subscribed:	
20,000 Equity Shares of 10 each 8 per share called up	1,60,000
As on 31-12-20X2	
1. Share Capital	
Authorised:	
40,000 Equity Shares of 5 each	2,00,000
Issued and Subscribed:	
40,000 Equity Shares of 5 each 4 per share called up	1,60,000
As on 31-12-20X3	₹
1. Share Capital	
Authorised:	
2,000 Equity Shares of 100 each	2,00,000
Issued and Subscribed:	
20,000 Equity Shares of 100 each 80 per share called up	1,60,000

Note: Some accountants prefer not to make any entry as the amount remains same. Even when an entry is passed it applies only to the called-up portion, and not to uncalled or unissued portion of share capital.

Q.IR.SM.102(B):

Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court-

1. Furniture and Fixtures which stood at the books at ₹ 1,50,000 to be written down to ₹ 95,000. The freehold premises which was valued at ₹ 7,00,000 showed an appreciation of ₹ 55,000.
2. Plant and machinery showed fall in value of ₹ 89,000, to be recorded in the books. Investment at ₹ 2,00,000 was brought down to the existing market value at ₹ 1,05,000.
3. Debenture holders accepted to receive the following in lieu of their present 9% debentures of ₹ 2,50,000-
   a. 1/5th of the total to be paid in cash to them.
   b. To take over the land and buildings of value ₹ 72,000.
   c. To forgo the remaining unpaid portion as a policy of reconstruction.

Write off the profit and loss A/c debit balance at ₹ 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of ₹ 1,50,000 can be utilized to write off the losses under reconstruction scheme.

Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

SOLUTION

Journal entries in the books of Parth Ltd.

		Dr.	Cr.
		₹	₹
Reconstruction A/c	Dr.	2,39,000	
To Furniture and Fixtures A/c			55,000
To Plant and machinery A/c			89,000
To Investment A/c			95,000
(Writing off overvalued assets as per Reconstruction Scheme dated.)			
Freehold premises A/c	Dr.	55,000	
To Reconstruction A/c			55,000
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)			
9% Debentures A/c	Dr.	2,50,000	
To Bank A/c			50,000
To Land and building A/c			72,000
To Reconstruction A/c			1,28,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Being the loss written off as per reconstruction scheme)			
General reserve A/c	Dr.	1,26,000	
To Reconstruction A/c			1,26,000
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

SERIES 200
HIGH LEVEL QUESTIONS

Q.IR.SM.201(B):

The Balance Sheet of A & Co. Ltd. as at 31-3-20X2 is as follows:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	11,50,000
	B	Reserves and Surplus	2	(5,35,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	3,75,000
3		**Current liabilities**		
	A	Trade Payables		3,00,000
	B	Short term borrowings - Bank Overdraft		1,95,000
	C	Other current liabilities	4	1,22,500
		Total		**16,07,500**
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	5	4,75,000
	B	Intangible assets	6	1,67,500
	C	Non-current investments	7	55,000
2		**Current assets**		
	A	Inventories		4,25,000
	B	Trade receivables		4,85,000
		Total		**16,07,500**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital:	
	75,000 Equity Shares of ₹ 10 each	7,50,000
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000
		11,50,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss Account	(5,35,000)
		(5,35,000)
3	**Long-term borrowings**	
	Secured	
	6% Debentures (secured on the freehold property)	3,75,000
		3,75,000
4	**Other current liabilities**	
	Loan from directors	1,00,000
	Interest payable on 6% debentures	22,500
		1,22,500

5	**Property plant and Equipment**	
	Freehold property	4,25,000
	Plant	50,000
		4,75,000
6	**Intangible assets**	
	Goodwill	1,30,000
	Patents	37,500
		1,67,500
7	**Non-current investments**	
	Investments at cost	55,000
		55,000

The Court approved a Scheme of re-organization to take effect on 1-4-20X2, whereby:

(i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.

(iii) Interest payable on debentures to be paid in cash.

(iv) Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(v) Patents and Goodwill to be written off.

(vi) Inventory to be written off by ₹ 65,000.

(vii) Amount of ₹ 68,500 to be provided for bad debts.

(viii) Remaining freehold property after giving to debenture holders, to be re-valued at ₹ 3,87,500.

(ix) Investments be sold for ₹ 1,40,000.

(x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.

(xi) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

SOLUTION

Journal of A & Co. Ltd.

			Dr.	Cr.
			₹	₹
20X2	Equity Share Capital A/c (₹ 10)	Dr.	7,50,000	
April 1	To Capital Reduction A/c			6,00,000
	To Equity Share Capital A/c (₹ 2)			1,50,000
	(Reduction of equity shares of ₹ 10 each to shares of ₹ 2 each as per Reconstruction Scheme dated...)			
”	6% Cum. Preference Share Capital A/c (₹ 100)	Dr.	4,00,000	
	To Capital Reduction A/c			1,00,000
	To Pref. Share Capital A/c (₹ 75)			3,00,000
	(Reduction of preference shares of ₹ 100 each to shares of ₹ 75 each as per reconstruction scheme)			
”	Capital Reduction Account	Dr.	24,000	
	To Equity Share Capital Account			24,000
	(Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amount due, ₹ 96,000)			

"	Freehold Property A/c			Dr.	82,500	
	To Capital Reduction A/c					82,500
	(Appreciation in the value of property:					
		Book value	**Revalued Figure**			
		₹ 1,00,000	₹ 1,20,000			
		₹ 3,25,000	₹ 3,87,500			
	Total	**₹ 4,25,000**	**₹ 5,07,500**			
	Profit on revaluation: ₹ 82,500)					
"	6% Debentures A/c			Dr.	1,20,000	
	To Freehold Property A/c					1,20,000
	(Claims of debenture-holders, in part, in respect of principal discharged by transfer of freehold property vide Scheme of Reconstruction)					
"	Interest payable A/c			Dr.	22,500	
	To Bank A/c					22,500
	(Debenture interest paid)					
"	Bank A/c			Dr.	1,30,000	
	To 8% Debentures A/c					1,30,000
	(8% Debentures issued for cash)					
"	Bank A/c			Dr.	1,40,000	
	To Investment A/c					55,000
	To Capital Reduction A/c					85,000
	(Sale of Investment for ₹ 1,40,000 cost being ₹ 55,000; profit credited to Capital Reduction Account)					
"	Directors' Loan A/c			Dr.	1,00,000	
	To Equity Share Capital A/c					90,000
	To Bank A/c					5,000
	To Capital Reduction A/c					5,000
	(Directors' loan discharged by issue of equity shares of ₹ 90,000, cash payments of ₹ 5,000 and surrender of ₹ 5,000, vide Scheme of Reconstruction)					
"	Capital Reduction A/c			Dr.	8,48,500	
	To Patents					37,500
	To Goodwill					1,30,000
	To Inventory					65,000
	To Provision for Doubtful Debts					68,500
	To Bank					12,500
	To Profit & Loss Account					5,35,000
	(Writing off patents, goodwill, profit and loss account and reducing the value of stock, making the required provision for doubtful debts and payment for cancellation of capital commitments)					

Note: Penalty charges for cancellation of the contract amounts to ₹ 12,500 (2,50,000X5%) being paid in cash.

Balance Sheet of A & Co. Ltd. (And Reduced) as at 1st April, 20X2

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		

	A	Share capital	1	5,64,000
2		**Non-current liabilities**		
	A	Long-term borrowings	2	3,85,000
3		**Current liabilities**		
	A	Trade Payables		3,00,000
				12,49,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	3	4,37,500
	B	Intangible assets	4	-
2		**Current assets**		
	A	Inventories		3,60,000
	B	Trade receivables	5	4,16,500
	C	Cash and cash equivalents		35,000
		Total		**12,49,000**

Notes to accounts

1	**Share Capital**		
	Equity share capital		
	1,32,000 Equity shares of ₹ 2 each (of the above 57,000 shares have been issued for consideration other than cash)		2,64,000
	Preference share capital		
	4,000 6% Preference shares of ₹ 75 each		3,00,000
	Total		**5,64,000**
2	**Long-term borrowings**		
	Secured		
	6% Debentures		2,55,000
	8% Debentures		1,30,000
	Total		**3,85,000**
3	**Property, plant and equipment**		
	Freehold property	4,25,000	
	Add: Appreciation under scheme of Reconstruction	82,500	
	Less: Disposed of	(1,20,000)	3,87,500
	Plant		50,000
	Net carrying value		4,37,500
	Intangible assets		
	Goodwill	1,30,000	
	Less: Written off under scheme of Reconstruction	(1,30,000)	
	Net carrying value		**NIL**
4	**Patents**	**37,500**	
	Less: Written off under scheme of Reconstruction	(37,500)	-
	Net carrying value	**-**	**NIL**
5	**Trade Receivables**	**4,85,000**	
	Less: Provision for doubtful debts	68,500	
			4,16,500

Q.IR.RMP.202(B): (Exam Nov18, RTP Nov21)

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(Rs in '000)

	Amount
Liabilities	
Equity Shares of Rs 10 each	35,000
8%, Cumulative Preference Shares of Rs 100 each	17,500
6% Debentures of Rs 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	**84,350**
Assets	
Fixed Assets	43,750
Investments (Market value Rs 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	**84,350**

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.
(ii) The Taxation Liability is settled at Rs 5,25,000 out of current Assets.
(iii) The balance of Profit and Loss Account to be written off.
(iv) All the existing equity shares are reduced to Rs 4 each.
(v) All preference shares are reduced to Rs 60 each.
(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs 100 each and exchange them for fresh debentures of Rs 80 each. Each old debenture is exchanged for one new debenture.
(vii) Balance of Current Assets left after settlement of taxation liability are revalued at Rs 15,750.
(viii) Fixed Assets are written down to 80%.
(ix) One of the creditors of the Company for Rs 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

SOLUTION

Journal Entries in the books of SK Ltd.

		Rs '000	Rs '000
(i)	Equity share capital (Rs 10) A/c Dr.	35000	
	To Equity Share Capital (Rs 4) A/c		14000
	To Capital Reduction A/c		21000
	(Being conversion of equity share capital of Rs 10 each into Rs 4 each as per reconstruction scheme)		
(ii)	8% Cumulative Preference Share capital (Rs 100) A/c Dr.	17500	
	To 8% Cumulative Preference Share Capital (Rs 60) A/c		10500
	To Capital Reduction A/c		7000
	(Being conversion of 6% cumulative preference shares capital of Rs 100 each into Rs 60 each as per reconstruction scheme)		
(iii)	6% Debentures (Rs 100) A/c Dr.	14000	
	To 9% Debentures (Rs 80) A/c		11200
	To Capital Reduction A/c		2800
	(Being 9% debentures of Rs 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		

(iv)	Sundry Creditors A/c	Dr.	7000	
	To Equity Share Capital (Rs 4) A/c			3500
	To Capital Reduction A/c			3500
	(Being a creditor of Rs 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of Rs 4 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	350	
	Capital Reduction A/c	Dr.		175
	To Liability for Taxation A/c			525
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Liability for Taxation A/c	Dr.	525	
	To Current Assets (Bank A/c)			525
	(Being the payment of tax liability)			
(vii)	Capital Reduction A/c	Dr.	34125	
	To P & L A/c			2100
	To Fixed Assets A/c			8750
	To Current Assets A/c			18725
	To Investments A/c			175
	To Capital Reserve A/c (Bal. fig.)			4375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			

Working Note:

Capital Reduction Account

To Liability for taxation A/c	175	By Equity share capital	21,000
To P & L A/c	2,100	By 8% Cumulative preferences	7,000
To Fixed Assets	8,750	Share capital	
To Current assets	18,725	By 6% Debentures	2,800
To Investment	175	By Sundry creditors	3,500
To Capital Reserve (Bal. fig.)	4,375		
	34,300		**34,300**

Q.IR.RMP.203(B): (RTP – May18 & Nov19)

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
HARE CAPITAL		Goodwill	22,00,000
0,000 shares of Rs. 50 each fully paid up	25,00,000		
,00,000 shares of Rs. 50 each Rs. 40 paid p	40,00,000	Land & Building	42,70,000
apital Reserve	5,00,000	Machinery	8,50,000
% Debentures of Rs. 100 each	4,00,000	Computers	5,20,000
2% Debentures of Rs. 100 each	6,00,000	Inventories	3,20,000
rade payables	12,40,000	Trade receivables	10,90,000
utstanding Expenses	10,60,000	Cash at Bank	2,68,000
		Profit & Loss Account	7,82,000

otal	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	**7,00,000**	**3,00,000**

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid-up equity shares of 40 each for Rs. 12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

SOLUTION

Journal Entries in the books of Platinum Ltd.

Sr. No	PARTICULARS		DR. Rs.	CR. Rs.
1	Bank A/c (1,00,000 x Rs. 10)	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
2	Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
	To Equity share capital (Rs. 40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			
3	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at Rs.40 each)			
4	Trade payables A/c	Dr.	12,40,000	
	To Equity share capital A/c			750000
	To Bank A/c (4,90,000 x 70%)			343000
	To Capital Reduction A/c			147000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			

5	8% Debentures A/c Dr. 12% Debentures A/c Dr. To Shiv A/c (Being cancellation of 8% and 12% debentures of Shiv)	3,00,000 4,00,000	 700000
6	Bank A/c Dr. To Shiv A/c (Being new debentures subscribed by Shiv)	1,00,000	 100000
7	Shiv A/c Dr. To 15% Debentures A/c To Capital Reduction A/c (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)	8,00,000	 600000 200000
8	8% Debentures A/c Dr. 12% Debentures A/c Dr. To Ganesh A/c (Being cancellation of 8% and 12% debentures of Ganesh)	1,00,000 200000	 300000
9	Ganesh A/c Dr. To 15% Debentures A/c To Capital Reduction A/c (Being issuance of new 15% debentures and balance to capital reduction account as per reconstruction transferred scheme)	3,00,000	 250000 50000
10	Land and Building (51,84,000 – 42,70,000) Dr. Inventories Dr. To Capital Reduction A/c (Being value of assets appreciated	9,14,000 30,000	 9,44,000
11	Outstanding expenses A/c Dr. To Bank A/c (Being outstanding expenses paid in cash)	10,60,000	 1060000
12	Capital Reduction A/c Dr. To Machinery A/c To Computers A/c To Trade receivables A/c To Goodwill A/c To Profit and Loss A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)	33,41,000	 130000 120000 109000 2200000 782000
13	Capital Reserve A/c Dr. To Capital Reduction A/c (Being debit balance of capital reduction account adjusted against capital reserve)	5,00,000	 500000

Balance Sheet (as reduced) as on 31.3.2019

	Particulars	Notes	Rs. Amount
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	**1**	80,00,000
2	**Non-current liabilities**		
a	Long-term borrowings	**2**	8,50,000

	Total		**88,50,000**
	Assets		
1	**Non-current assets**		
a	Property, Plant and Equipment		
	Tangible assets	**3**	63,04,000
2	**Current assets**		
a	Inventories		3,50,000
b	Trade receivables		9,81,000
c	Cash and cash equivalents		12,15,000
	Total		**88,50,000**

Notes to accounts

	PARTICULARS		**Amt. (Rs.)**
1.	**Share Capital**		
	2,00,000 Equity shares of Rs. 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

Cash at Bank Account

Particulars	**Rs. AMT**	**Particulars**	**Rs. AMT**
TO Balance b/d	2,68,000	BY Trade Creditors A/c	3,43,000
TO Equity Share capital A/c	10,00,000	BY Outstanding expenses A/c	10,60,000
TO Equity Share Capital A/c	12,50,000	Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		**26,18,000**

Capital Reduction Account

Particulars	**Rs. AMT**	**Particulars**	**Rs. AMT**
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		**33,41,000**

Q.IR.SM.204(B): (Similar to Q206)

Recover Ltd. decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 20X1 is as follows-

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		**Non-current liabilities**		
	A	Current liabilities	3	50,000
3		**Trade Payables**		
	A	Short term Borrowings –		80,000
	B	Bank overdraft		90,000
	C	Other Current Liabilities (Interest Payable on Debentures)		5,000
				5,05,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		**Current assets**		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to accounts:

1	**Share Capital**	₹
	Equity share capital:	
	20,000 Equity Shares of ₹ 10 each	2,00,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of ₹ 10	
	each (preference dividend has been in arrears for	1,50,000
	4 years)	
		3,50,000
2	**Reserves and surplus**	
	Profit and loss account (debit balance)	(70,000)
		(70,000)
3	**Long-term borrowings**	
	Secured	
	10% Debentures (secured on the freehold	50,000

	property)	
		50,000
4	**Property, Plant and Equipment**	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	1,30,000
		3,35,000
5	**Intangible assets**	
	Goodwill	50,000
		50,000
6	**Non-current investments**	
	Non-Trade investments at cost	40,000
		40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i. The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.
ii. One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.
iii. The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.
iv. Plant and Machinery was written down to ₹ 1,00,000.
v. Non-trade Investments were sold for ₹ 32,000.
vi. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.
vii. A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

Solution

Journal entries in the books of Recover Ltd

Particulars		**Dr.**	**Cr.**
		₹	**₹**
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Reconstruction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to reconstruction account as pe r internal reconstruction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Reconstruction A/c (₹ 9)			1,80,000

(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
10% Debentures A/c	Dr.	50,000	
Interest payable on debentures A/c	Dr	5,000	
Bank A/c	Dr.	20,000	
Reconstruction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the reconstruction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Reconstruction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to reconstruction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Reconstruction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Accumulated losses written off to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	30,800	
To Capital reserve A/c			30,800

(The balance reconstruction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 20X1 (and reduced)

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term borrowings - Bank Overdraft		90,000
		Total		**3,06,300**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	Share Capital	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
2	Reserves and surplus	1,05,500
	Capital reserve	30,800
3	Property, Plant and Equipment	
	Leasehold property	85,000
	Plant and machinery	1,00,000
4	Cash and cash equivalents	1,85,000
	Bank A/c (20,000+32,000-7000+6,300)	51,300

6 AMALGAMATION OF COMPANIES (AS 14)

INDEX

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SECTION – A

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

SERIES 100
CALCULATION OF PC

Q.AMG.SM.101(A):

Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 20X1:

		Particulars		Notes	₹ (000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	100,00
	B	Reserves and Surplus		2	12,50
2		**Non-current liabilities**			
	A	Long-term borrowings		3	40,00
3		**Current liabilities**			
	A	Trade Payables			20,00
			Total		**172,50**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		4	105,50
	B	**Non-current investments**		5	5,00
2		**Current assets**			
	A	Inventories			23,00
	B	Trade receivables			24,00
	C	Cash and Cash equivalents			15,00
			Total		**172,50**

Notes to accounts

1	**Share Capital**		**₹ in ('000)**
	Equity share capital		
	7,50,000 Equity Shares of ₹ 10 each		75,00
	25,000 14% Preference Shares of ₹ 100 each		25,00
			100,00
2	**Reserves and Surplus**		
	General reserve		12,50
			12,50
3	**Long-term borrowings**		
	Secured 14% Debentures		40,00
			40,00
4	**Property, plant and Equipment**		
	Land and Building		50,00
	Plant and machinery		45,00
	Furniture		10,50
			105,50

5	**Non-current investments**		
	Investments at cost		5,00
			5,00

Other Information:

(i) Y Ltd. takes over X Ltd. on 10th April, 20X1.

(ii) Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.

(iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. **However, the entry should be made at par value only**. The nominal value of each equity share of Y Ltd. is ₹ 10.

Compute the purchase consideration.

SOLUTION:

Computation of Purchase consideration	**(₹in '000)**	**Form**
For Preference Shareholders of X Ltd.	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (2/3 × 7,50,000) × ₹ 10	5,000	5,00,000 Equity shares of Y Ltd. of ₹ 10 each
Total Purchase consideration	**8,000**	

Note: Consideration for debenture holders should not be included above. Such debentures will be taken over by Y Ltd. and then discharged.

Q.AMG.RMP.102(A): (EXAM Nov22)

Star Limited agreed to take over Moon Limited on 1st April,2022. The terms and conditions of takeover were as follows:

(i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.

(ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.

(iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

(i) to give the meaning of "consideration for the amalgamation' as per AS-14, and

(ii) Calculate the amount of purchase consideration.

SOLUTION

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

Computation of Purchase consideration	**(₹)**	**Form**
For Preference Shareholders of Moon Ltd. (25,000 × ₹ 70)	17,50,000	25,000
		Preference
For equity shareholders of Moon Ltd. (70,000 × ₹ 110)	77,00,000	70,000
		Equity shares of Star Ltd.
	1,25,000	Cash

Total Purchase consideration	95,75,000	

Q.AMG.RMP.103(A): (EXAM May'23)

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an Authorized share capital of ₹ 40,00,000 dividend into 8,00,000 equity shares of ₹ 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

Computation of Purchase consideration	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd. (₹)	Y Ltd. (₹)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹ 1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 profit	37,79,240	35,90,000

7.5 % Debentures in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

You are required to:

(1) Compute the amount of debenture and shares to be issued to X Ltd. and Y Ltd.

(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation

Solution

Computation of amount of Debentures and Shares to be issued:

(i) Average Net Profit

	X Ltd.	Y Ltd.
(42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
(26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

(a) Ratio of distribution

X Ltd. : Y Ltd.

1 1

(b) Number of shares

X Ltd. : 3,10,000

Y Ltd. : 3,10,000

6,20,000

(c) Amount of shares

3,10,000 shares of Rs. 5 each = Rs. 15,50,000

3,10,000 shares of Rs. 5 each = Rs. 15,50,000

(iii)

Capital Employed (after revaluation of assets)	**X Ltd. (Rs.)**	**Y Ltd. (Rs.)**
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	**54,77,500**
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	**36,75,000**

(iv) Debentures Issued

	X Ltd. (Rs.)	**Y Ltd. (Rs.)**
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	$1,65,000 \times \frac{100}{7.5}$	$1,47,000 \times \frac{100}{7.5}$
	22,00,000	**19,60,000**

Balance Sheet of XY Ltd.

As at 31st March 2023 (after amalgamation)

Particulars		**Note No**	**Rs.**
I.	**Equity and Liabilities**		
(1)	Shareholders' Funds		
(a)	Share Capital	1	31,00,000
(b)	Reserves and Surplus	2	5,40,000
(2)	Non-Current Liabilities		
(a)	Long-term borrowings	3	41,60,000
(3)	Current Liabilities		
(a)	Trade Payables	4	76,35,250
Total			**1,54,35,250**
II.	**Assets**		
(1)	Non-current assets		
(a)	PPE	5	1,10,00,000
(2)	Current assets		
(a)	Other current assets	6	44,35,250
Total			**1,54,35,250**

Notes to Accounts

			Rs.
1	**Share Capital**		
	Authorized		
	8,00,000 Equity Shares of Rs. 5 each		40,00,000
	Issued and Subscribed		
	6,20,000 Equity Shares of Rs. 5 each		31,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2	**Reserve and Surplus**		
	Capital Reserve		5,40,000
3	**Long-term borrowings**		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000
4	**Current Liabilities:**		
	Trade Payables		

	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5	**Property, Plant and Equipment:**		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6	**Other Current Assets:**		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

		X Ltd.	**Y Ltd.**	**Total**
		Rs.	**Rs.**	**Rs.**
(1)	**Purchase Consideration**			
	Equity Shares Issued	15,50,000	15,50,000	31,00,000
	7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
		37,50,000	35,10,000	72,60,000
(2)	**Capital Reserve**			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	14,40,250*	44,35,250
		1,00,95,000	**53,40,250**	**1,54,35,250**
	Less: Current Liabilities	(58,32,750**)	(18,02,500)	(76,35,250)
		42,62,250	**35,37,750**	**78,00,000**
(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
(c)	**Capital Reserve [(a) - (b)]**	**5,12,250**	**27,750**	**5,40,000**

* 15,77,500–1,37,250 = 14,40,250
** 59,70,000–1,37,250 = 58,32,750

Note: In Working note 2 given above, the mutual owings amounting Rs. 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings. In that case, this working note will be presented in the following manner:

	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	15,77,500	45,72,500
		1,00,95,000	54,77,500	1,55,72,500
	Less: Current Liabilities	(59,70,000)	(18,02,500)	(77,72,500)
		41,25,000	36,75,000	78,00,000
(b)	Purchase Consideration	37,50,000	35,10,0000	72,60,000
(c)	Capital Reserve [(a) - (b)]	3,75,000	1,65,000	5,40,000

Q.AMG.SM.104(A): (Exam May'24)

Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you:

Particulars	**Intelligent Limited**	**Diligent Limited**
	(Rs.)	(Rs.)
Equity Share Capital of Rs. 100 each	12,00,000	10,00,000
8% Preference shares of Rs. 100 each	3,00,000	2,00,000

Trade Payable	12,00,000	4,00,000
Retirement Gratuity Fund (Long Term)	3,00,000	2,00,000
Profit and Loss Account		
Opening balance	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50000
Land and Buildings	10,00,000	8,00,000
Plant and Machinery	10,00,000	6,00,000
Inventories	7,00,000	4,00,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

On 1st April 2024, both the companies agreed to amalgamate and form a new company "Genius Limited' with an authorized capital of Rs. 40,00,000 divided into 30,000 equity shares of Rs. 100 each and 10,000 8% preference shares of Rs. 100 each.

The amalgamation has to be carried out on the basis of following agreement:

(1) Assets of both the companies were to be revalued as follows:

Particulars	**Intelligent Limited**	**Diligent Limited**
	(Rs.)	(Rs.)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes Rs. 1,00,000 due to diligent Ltd. And the trade receivables of Diligent Limited shows Rs. 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner:

(i) Issue 22,0000 Equity shares of Rs. 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) Preference shareholders of both companies are issued equivalent number of 10% preference shares of Rs. 100 each of Genius Limited at a price of 125 per share.

(iii) 12% debentures of Rs. 100 each in Genius Limited at per to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to

(a) Compute the amount of shares & Debentures to be issued to Intelligent Limited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.

Solution:

Computation of shares and debentures to be issued

		Intelligent Ltd.	**Diligent Ltd.**
(i) Equity shares	22,000 x 7/11 = 14,000(W.N.1)	14,00,000	
	22,000 x 4/11 =8,000(W.N.1)		8,00,000
(ii)Preference shares	$\left(\frac{3,00,000}{100} x\ 125\right)$	3,75,000	
	$\left(\frac{2,00,000}{100} x\ 125\right)$		2,50,000
(iii) Debentures	Refer (W.N.3)	17,50,000	11,25,000

Total Purchase Consideration (i + ii + iii)	35,25,000	21,75,000

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	₹
I.	**Equity and Liabilities**		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000
(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		15,00,000
	Total		77,00,000
II.	Assets		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr. No.	Particular	₹
1.	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of ₹ 100 each	30,00,000
	b) Preference Share Capital	
	10% 10,000 Preference Shares ₹ 100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	22,000 Equity Shares of ₹100 each	22,00,000

	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	27,00,000
2.	Reserves & Surplus	
	Securities Premium	1,25,000
3.	Long term borrowings	
	12% Debentures of ₹100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Total	7,00,000	4,00,000

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.
No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

2. Calculation of Net assets as on 31.3.2024

Particulars	**Intelligent Ltd.**	**Diligent Ltd**
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	19,50,000
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	15,00,000	6,00,000

Net Assets (a – b)	21,00,000	13,50,000

3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued		
[2,10,000× $\frac{100}{12}$] =17,50,000 of ₹ 100 each	17,500	
[1,35,000× $\frac{100}{12}$] =11,25,000 of ₹ 100 each		11,250

4. Calculation of Goodwill / Capital Reserve

S.No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	21,00,000	13,50,000	
(iii)	Goodwill	14,25,000	8,25,000	22,50,000

Alternatively:

4. Calculation of Goodwill / Capital Reserve

S.No.	**Particulars**	**Intelligent Ltd.**	**Diligent Ltd.**	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets*	22,00,000	12,50,000	
(iii)	Goodwill	13,25,000	9,25,000	22,50,000

* Calculation of Net assets taken over

Particulars	**Intelligent Ltd.**	**Diligent Ltd**
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	2,00,000*
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	18,50,000
Liabilities		
Trade Payables	11,00,000**	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	14,00,000	6,00,000
Net Assets (a – b)	22,00,000	12,50,000

*₹ 3,00,000 - ₹ 1,00,000= ₹ 2,00,000
**₹ 12,00,000 - ₹ 1,00,000 = ₹ 11,00,000

Q.AMG.SM.105(A):

Following is the balance sheet of A Ltd. as on 31st March, 20X1

		Particulars		Notes	Rs. (000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	22,50
	B	Reserves and Surplus		2	9,00
2		**Non-current liabilities**			
	A	Long-term borrowings		3	7,00
3		**Current liabilities**			
	A	Trade Payables			5,00
			Total		**43,50**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		4	32,50
		Non-current investments		5	6,00
2		**Current assets**			
	A	Inventories			2,00
	B	Trade receivables			2,00
	C	Cash and Cash equivalents			1,00
			Total		**43,50**

Notes to accounts

1	**Share Capital**	Rs. in ('000)
	Equity share capital	
	1,50,000 Equity Shares of Rs. 10 each	15,00
	7,500 14% Preference Shares of Rs. 100 each	7,50
2	**Reserves and Surplus**	22,50
	General reserve	9,00
3	**Long-term borrowings**	
	Secured	
	15% Debentures	7,00
4	**Property, plant and Equipment**	
	Land and Building	32,50
5	**Non-current investments**	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of B Ltd.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.

(e) Issue 3 equity shares of Rs. 10 each for every 2 equity shares in A Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	(Rs. in '000's)
Value of assets taken over:	
Property, Plant and	35,75
Equipment Non-Current	6,00
Investments Current Assets	4,50
Total Assets (A)	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	**33,55**
Mode of Purchase Consideration	
In the form of 15% Preference	8,25
shares	22,50
In the form of Equity shares	2,80
In the form of Cash (Balance)	**33,55**
Total	

Q.AMG.SM.106(A): (Nov'23 Exams)

Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	As on 31st March, 2023		Revalued figures for amalgamation	
	Raman Limited	Naman Limited	Raman Limited	Naman Limited
Equity shares of Rs. 10 each	6,72,000	2,52,000		
10% Preference Shares of Rs. 100 Each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	--	1,62,000	--
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

(i) By issue of 4 preference Shares of Rs. 100 each in Rana Limited @ Rs. 85 paid up and at a premium of Rs. 30 per share for every 3 preference shares held in both the companies

(ii) By issue of 5 Equity shares of Rs. 10 each in Rana Limited @ Rs. 7 paid up and at a premium of Rs. 5 per shares for every 3 equity shares held in both the companies.

(iii) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

SOLUTION

Purchase Consideration

	Raman Ltd.	Naman Ltd.
	Rs.	Rs.
Payable to preference shareholders:		
Preference shares at Rs. 115 per share	5,15,200	2,57,600
	$\left(3{,}360\ x\ \frac{4}{3}\right)$	$\left(1{,}680\ x\ \frac{4}{3}\right)$
Equity shares at Rs. 12 per share	13,44,000	5,04,000
	$\left(67{,}200\ x\ \frac{5}{3}\right)$	$\left(25{,}200\ x\ \frac{5}{3}\right)$
Cash [See W.N.]000	41,260	94,980
	19,00,460	8,56,580

Working note:

	Raman Ltd.	Naman Ltd.
	Rs.	Rs.
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	2,35,240	1,60,480
	19,81,100	10,25,540
Less: Trade payables	(80,640)	(1,68,960)
	19,00,460	8,56,960
Payable is shares	18,59,200	7,61,600
Payable in cash	41,260	98,980

SERIES 200
AMALGAMATION IN NATURE OF PURCHASE

Q.AMG.RMP.201(A): (EXAM May22)

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March,2022 are as under:

	A Ltd. (in Rs.)	B Ltd. (in Rs.)
Equity shares of Rs.10 each, fully paid up	30,00,000	24,00,000
Securities Premium Account	4,00,000	
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	
10% Debentures	20,00,000	
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	**43,80,000**

B Ltd. is to declare and pay Rs. 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is Rs. 60 lakhs divided into 6 lakhs equity shares of Rs. 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is Rs. 18 per share and of B Ltd. is Rs. 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of Rs. 2,00,000 is to be treated as actual liability.

(e) Liquidation expenses including Registered Valuer fees of A Ltd. Rs. 50,000 and B Ltd. Rs. 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid-up equity shares of Rs. 10 each at a premium of Rs. 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

SOLUTION

Journal Entries in the books of Z Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & Machinery A/c	Dr.	20,00,000	
Long term advance to B Ltd. A/c	Dr.	2,20,000	
Inventories A/c	Dr.	10,40,000	
Trade Receivables A/c	Dr.	8,20,000	
Cash and Bank A/c	Dr.	3,00,000	
Goodwill A/c	Dr.	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr.	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr.	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr.	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr.	21,00,000	
Plant & Machinery A/c	Dr.	7,60,000	
Inventories A/c	Dr.	7,00,000	
Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000
*Capital Reserve A/c	Dr.	1,00,000	
To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

Goodwill A/c To Cash & Bank A/c (Liquidation expenses of A Ltd.)	Dr.	50,000	 50,000
Capital Reserve A/c To Cash and Bank A/c (Liquidation expenses of B Ltd.)	Dr.	30,000	 30,000
Capital Reserve A/c To Goodwill A/c	Dr.	70,000	 70,000

Note:

1. The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
2. *Alternatively, following set of entries may be given in place of the last entry given in the above solution:

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

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	20,00,000
(b) Long term provisions	4	1,00,000
(3) Current Liabilities		
(a) Short-term borrowings1	5	12,00,000
(b) Trade payables	6	4,40,000
(a) Other liability		2,00,000
Total		**1,22,20,000**
II. Assets		
(1) Non-current assets		
i. Property, plant and equipment	7	76,60,000
ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		**1,22,20,000**
ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		**1,22,20,000**

1 Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.

Notes to Accounts

			(Rs.)	(Rs.)
1.	**Share Capital**			
	Authorized Share Capital			60,00,000
	6,00,000 Equity shares of Rs. 10 each			
	Issued: 4,14,000 Equity shares of Rs. 10 each (all these shares were Issued for consideration other than cash)			41,40,000
2.	**Reserves and surplus**			
	Securities Premium Account (4,14,000 shares × Rs. 10)			41,40,000
3.	**Long-term borrowings**			
	12% Debentures			20,00,000
4	**Long term Provisions**			
	Retirement gratuity fund			1,00,000
5.	**Short-term borrowings**			
	Unsecured loans			
	A Ltd.	6,00,000		
	B Ltd.	8,20,000	14,20,000	
	Less: Mutual		(2,20,000)	12,00,000
6.	**Trade payables**			
	A Ltd.		1,00,000	
	B Ltd.		3,40,000	4,40,000
7.	**Property, plant & equipment**			
	Land and Building			
	A Ltd.		28,00,000	
	B Ltd.		21,00,000	49,00,000
	Plant and Machinery			
	A Ltd.		20,00,000	
	B Ltd.		7,60,000	27,60,000
8.	**Inventories**			76,60,000
	A Ltd.		10,40,000	
	B Ltd.		7,00,000	17,40,000
9	**Trade receivables**			
	A Ltd.		8,20,000	
	B Ltd.		5,20,000	13,40,000
10	**Cash & cash equivalents**			

	A Ltd.	3,00,000	
	B Ltd. [3,00,000-2,40,000(dividend)]	60,000	
		3,60,000	
	Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of Purchase Consideration

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	Rs. 18	Rs. 12
Purchase consideration	54,00,000	28,80,000
No. of shares to be issued of Rs. 20 each (including Rs. 10 premium)	2,70,000	1,44,000
Face value of shares at Rs. 10	27,00,000	14,40,000
Premium of shares at Rs. 10	27,00,000	14,40,000

Q.AMG.SM.202(A):

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
	A	Trade Payables		2,50,000	1,50,000
		Total		**15,50,000**	**9,00,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		**15,50,000**	**9,00,000**

Notes to Accounts

		P Ltd.	Q Ltd.
1	**Share Capital**		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	**4,00,000**
2	**Long term borrowings**		

	12% Debentures	2,00,000	1,50,000
		2,00,000	**1,50,000**

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	**2,10,000**
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	**1,50,000**

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

SOLUTION

Journal Entries in the Books of P Ltd.

		Dr. ₹	Cr, ₹
Property, Plant & Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve & Surplus	Dr.	60,000	
To equity Dividend			60,000
(Declaration of Equity Dividend @10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of Equity Dividend)			
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
PPE (115% of ₹2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank (₹40,000 – ₹ 30,000 dividend paid)	Dr.	10,000	

To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)			
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd.			10,000
(Cancellation of mutual owing)			
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve	Dr.	30,000	
To Goodwill			30,000
(Being goodwill set off)			

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8$ = 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

$\frac{1,00,00 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Q.AMG.RMP.203(A): (RTP Nov'22)

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (Rs.)	Myth Ltd. (Rs.)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		**22,75,000**	**11,45,000**

(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		**22,75,000**	**11,45,000**

Notes to Accounts:

Note No.	Particulars	Truth Limited (Rs.)	Myth Limited (Rs.)
1	**Share Capital**		
	Equity shares of Rs. 10 each	10,00,000	4,00,000
2	**Reserves & Surplus**		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
3	**Non- Current Liabilities**	**11,35,000**	**4,13,000**
	14% Debentures	---	1,50,000
4	**Current Liabilities**		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
5	**Current Assets**	**1,40,000**	**1,82,000**
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	**3,65,000**

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (Rs.)	Myth Limited (Rs.)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

SOLUTION

Balance Sheet of Truth Ltd. (after amalgamation with Myth Ltd.) as at 1.4.2021

Particulars	Note No.	(Rs.)
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		**38,87,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		**38,87,000**

Notes to Accounts

		(Rs.)	(Rs.)
1.	**Share Capital**		
	1,31,375 Equity Shares of Rs. 10 each [1,00,000 + 31,375]		13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)		
2.	**Reserves and surplus**		
	General Reserve	5,05,000	
	Profit and Loss A/c	4,45,000	
	Securities Premium [31,375 x 30]	9,41,250	
	Export profit reserve 1,85,000		
	Add: Balance of Myth Ltd. 25,000	2,10,000	
	Amalgamation Adjustment Reserve	(25,000)	20,76,250
3.	**Long Term Borrowings**		
	12% Debentures issued to Myth Ltd.		1,75,000
4.	**Trade payables**		

	Trade payables	90,000	
	Add: Taken over	1,42,000	2,32,000
5	**Other Current Liabilities**		
	Truth Ltd.	50,000	
	Myth Ltd.	40,000	90,000
6.	**Property, Plant & Equipment**		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000
7.	**Investment**		
	Truth Ltd.	1,87,500	2,87,500
	Myth Ltd.	1,00,000	

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		**Myth Ltd.**	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
Less: Liabilities:		21,25,000		10,65,000
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		**19,85,000**		**7,33,000**

(ii) Average Profit before Tax

	Truth Ltd.		**Myth Ltd.**	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
(iii) Goodwill	[(6,93,000 / 18) x 100]	6,93,000	[(2,16,000 / 18) x 100]	2,16,000
Capitalised value of average profit		38,50,000		12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		**18,65,000**		**4,67,000**

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		Rs.		Rs.
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= Rs. 40		**= Rs. 31.375**

** 1,50,000 x 14%/12% = 1,75,000

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	Rs. 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	Rs. 12,55,000
Intrinsic Value of Truth Ltd. [d]	Rs. 40 per share
No. of shares to be issued [c / d]	31,375 shares

Q.AMG.RMP.204(A): (Exam Jan'21)

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

			Galaxy ltd. Rs.	Glory ltd. Rs.
(I)		**Equity and liabilities**		
	1	**Shareholders' fund**		
		Share capital		
		Equity shares of Rs. 10 each	8,40,000	4,55,000
		Reserves and surplus		
		General reserve	4,48,000	40,000
		Profit & Loss A/C	1,12,000	72,000
	2	**Non-Current liabilities**		
		Secured loan		
		6% Debentures	-	3,30,000
	3	**Current liabilities**		
		Trade payables	4,20,000	1,83,000
		Total	**18,20,000**	**10,80,000**
(II)		**Assets**		
	1	**Non-current Assets**		
		Property, Plant & Equipment		
		Freehold property, at cost	5,88,000	3,36,000

		Plant & Machinery, at cost less depreciation	1,40,000	84,000
		Motor vehicles, at cost less depreciation	56,000	-
	2	**Current Assets**		
		Inventories	3,36,000	4,38,000
		Trade Receivables	4,62,000	1,18,000
		Cash at bank	2,38,000	1,04,000
		Total	**18,20,000**	**10,80,000**

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at Rs. 2,52,000.

(iii) Goodwill is to be valued at:
Galaxy Ltd. Rs. 4,48,000 Glory Ltd. Rs. 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected Rs. 1,10,000 from debtors and paid Rs. 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to:

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is Rs. 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

SOLUTION

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

	Galaxy Ltd.	Glory Ltd.
Purchase Consideration:	**Rs.**	**Rs.**
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	**10,50,000**
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	(4,20,000)	(3,30,000)
Trade payables	19,60,000	7,20,000
Net Assets taken over to be satisfied by issue of shares of Glorious. Ltd. @ Rs. 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

Particulars	Note. no	Amount
		Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	26,80,000
Reserves and surplus	2	30,000
Non-current liabilities		
Long-term borrowings	3	3,00,000

Current liabilities		
Trade payables		4,20,000
Total		**34,30,000**
ASSETS		
Non-current assets		
Property, plant and equipment	4	13,16,000
Intangible assets	5	6,16,000
Current assets		
Inventories	6	7,74,000
Trade receivables		4,62,000
Cash and cash equivalents	7	2,62,000
Total		**34,30,000**

Notes to accounts:

		Rs.	Rs.
1.	Share Capital Equity share capital 2,68,000 shares of Rs. 10 each (All the above shares are issued for consideration other than cash)		26,80,000
2.	Reserves and surplus Securities Premium (10% premium on debentures of Rs.3,00,000)		30,000
3.	Long-term borrowings Secured 8% 3,000 Debentures of Rs.100 each		3,00,000
4.	Property Plant and Equipment Freehold property Galaxy Ltd. Glory Ltd. Plant and Machinery Galaxy Ltd. Glory Ltd. Motor vehicles - Galaxy Ltd.	 5,88,000 3,36,000 2,52,000 84,000	9,24,000 3,36,000
5	Intangible assets Goodwill Galaxy Ltd. Glory Ltd.		56,000 13,16,000
6	Inventories Galaxy Ltd. Glory Ltd.	 4,48,000 1,68,000	6,16,000 7,74,000
7	Cash and cash equivalents Galaxy Ltd. Glory Ltd.(As per working note)	 3,36,000 4,38,000 2,38,000 24,000	 2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

	Rs.
Cash balance as at 31st March,2020	1,04,000
Add: Received from debtors	1,10,000
	2,14,000

Less: paid to creditors	(1,80,000)
	34,000
Less: Commission to liquidators	
On Debtors @ 5% 5,500	
On Creditors @ 2.5% 4,500	(10,000)
	24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is Rs. 100 each.

As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of Rs. 10 for discharge of debentures of Rs. 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Q.AMG.RMP.205(A): (RTP May'22)

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		**5,08,00,000**	**3,28,00,000**
II. Assets:			
(1) Non-Current Assets:		68,00,000	1,36,00,000
Property, Plant & Equipment			
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		**5,08,00,000**	**3,28,00,000**

Notes to Accounts:

		Aakash Limited (Rs.)	Ganga Limited (Rs.)
1.	**Share Capital**		

	Authorized, Issued, Subscribed & Paid up:		
	6,00,000 Equity Shares of Rs.10 each	60,00,000	-
	20,000 Preference Shares of Rs. 100 each	20,00,000	-
	2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
		80,00,000	**20,00,000**
2.	**Reserves and Surplus**		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	**56,00,000**
3.	**Secured Loans** (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	**Unsecured Loans**	**1,72,00,000**	**-**
5.	**Other Current Liabilities**		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	**56,00,000**

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.

(iii) Secured Loans include Rs. 32,00,000 accured interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth Rs. 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

SOLUTION

Balance sheet of AakashGanga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,40,00,000

(2) Non-Current Liabilities		
(a) Long term borrowings	2	2,12,60,000
(3) Current Liabilities		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		**5,90,20,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) Current assets		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		**5,90,20,000**

Notes to Accounts

			(Rs.)
1.	**Share Capital**		
	Issued, subscribed & paid up:		
	14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4)		1,40,00,000
	(Of the above 10,00,000 shares have been issued for consideration other than cash)		
2.	**Long Term borrowings**		
	Secured Loans		
	Aakash Limited 25,60,000		
	Ganga Limited 1,44,00,000	1,69,60,000	
	Unsecured Loans	43,00,000	2,12,60,000
3.	**Trade Payables (W.N.1)**		
	Aakash Limited	44,80,000	
	Ganga Limited	28,80,000	73,60,000
4.	**Other current liabilities**		
	Statutory Liabilities		
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	**Property, Plant & Equipment**		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	**Intangible assets**		
	Goodwill (W.N.3)		1,54,20,000
7.	**Other Current Assets**		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. Value of total liabilities taken over by Aakash Ganga Ltd.

(Rs.)

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		3,17,40,000		**2,28,80,000**

2. Assets taken over by Aakash Ganga Ltd. (Rs.)

	Aakash Limited	Ganga Limited
	Rs.	**Rs.**
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	**2,70,40,000**

3. Goodwill / Capital Reserve on amalgamation (Rs.)

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		**1,54,20,000**	

4. Equity shares issued by Aakash Ganga Ltd.

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000

			1,40,00,000
	No. of shares @ Rs. 10		**14,00,000**

Q.AMG.206(A): (Sep' 24 Exam)

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

		Particulars	**Notes**	**Nice Ltd. (Rs. in '000)**	**Well Ltd. (Rs. in '000)**
		Equity and Liabilities			
1.		Shareholder's funds			
	a.	Share capital	1	41,000	14,300
	b.	Reserves and Surplus	2	19,500	(7,350)
2.		Non-current liabilities			
	a.	Long-term borrowings	3	20,500	5,425
3.		Current Liabilities			
	a.	Trade Payables		15,740	4,850
	b.	Short-term Borrowings		-	1,975
		Total		**96,740**	**19,200**
		Assets			
1.		Non-current Assets			
	a.	Property, plant, and equipment	4	62,550	16,380
	b.	Non-current Investments		22,500	-
2.		Current assets			
	a.	Inventories		300	870
	b.	Trade Receivables		6,590	1,950
	c.	Cash and Cash equivalents		4,800	-
		Total		**96,740**	**19,200**

Notes to Accounts

		Nice Ltd. (Rs. in '000)	**Well Ltd. (Rs. in '000)**
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of Rs. 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of Rs. 100 each	9,500	

	10% Preference Shares of Rs. 100 each		1,800
	Total	**41,000**	**14,300**
2.	**Reserves and Surplus**		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	**Long-term borrowings**		
	9% Debentures of Rs. 100 each	11,200	
	10% Debentures of Rs. 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (Rs. in '000)	Well Ltd. (Rs. in '000)
1.	Trade receivables Debtors	6,200	1,800
	Bills Receivables	390	150
		6,590	1,950
2.	Trade payables		
	Creditors	14,750	4,400
	Bills Payables	990	450
		15,740	4,850

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

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

You are required to:
1. Record Journal Entries in the books of Nice Ltd.
2. Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024.

Answer

Journal Entries in the Books of Nice Ltd.

		Dr. Rs. in '000	Cr. Rs. in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of Rs. 16,380)	Dr.	19,656	
Inventory (110% of Rs. 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			
Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

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

16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

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

Notes to accounts

			Rs. in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of Rs. 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of Rs. 100 each (9,500 + 1,620)		11,120
	(out of above 16,200 shares are issued for consideration other than cash)		50,120
2	**Reserves and Surplus**		
	Securities premium	1,500	

	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375
5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

Q.AMG.207(A): (Jan'25 Exam)

Following are the summarized Balance Sheets of Light Limited and Bright Limited as at 31st March, 2024:

Particulars	Notes	Light Limited (Rs. In Lakhs)	Bright Limited (Rs. In Lakhs)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	50.00	40.00
(b) Reserves and Surplus	2	27.00	24.00
Non-Current Liabilities			
Long Term Provisions		1.50	-
Current Liabilities			
Trade Payables		3.40	2.00
Total		**81.90**	**66.00**
Assets			
Non-Current Assets			
Property, Plant and Equipment	3	68.70	50.25
Current Assets			
(a) Inventories		5.75	7.10
(b) Trade Receivables		4.30	5.80
(c) Cash and Cash equivalents		3.15	2.85
Total		**81.90**	**66.00**

Notes to Accounts:

Particulars	Light Limited (Rs. In Lakhs)	Bright Limited (Rs. In Lakhs)
1. Share Capital		
50,000 Equity Shares of Rs. 100 each	50.00	40.00
2. Reserves and Surplus		
Statutory Reserve	2.00	-
General Reserve	18.00	15.00
Securities Premium	-	5.00
Profit and loss	7.00	4.00
	27.00	24.00
3. Property, Plant and Equipment		
Land and Building	58.00	44.00
Plant and machinery	7.50	4.50
Other Assets	3.20	1.75
	68.70	**50.25**

Other Information

(a) A company Rainbow Limited is formed to acquire the Assets and Liabilities of both the companies. Assets were acquired at book values except Land and Building of Light Limited, which is revalued at Rs. 62 lakhs.

(b) Other Assets of Bright Limited are obsolete and are scrapped and sold for Rs. 50,000 by Bright Limited it self before acquisition of its assets and liabilities by Rainbow Limited.

(c) Light Limited and Bright Limited will be issued 80,000 and 64,000 equity shares of Rs. 100 each respectively of new company Rainbow Limited in lieu of purchase consideration due to them.

You are required to Prepare:

(a) Realization Account and Equity Shareholders Account in the books of Light Limited and Bright Limited;

(b) Opening Balance Sheet of Rainbow Limited as at 31st March, 2024.

SERIES 300
AMALGAMATION IN NATURE OF MERGER

Q.AMG.SM.301(A):

The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.3.20X1:

		Particulars	Notes	₹ A Ltd (in'000)	₹ B Ltd (in'000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	2,000	1,000
	B	Reserves and Surplus	2	1,000	(800)
2		**Non-current liabilities**			
	A	Long-term borrowings	3	750	450
3		**Current liabilities**			
	A	Trade Payables		300	300
	B	Short term Borrowings – Bank overdraft		--	50
		Total		**4,050**	**1,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		2,700	850
	B	Non-current investments		700	--
2		**Current assets**			
	A	Trade receivables		400	150
	B	Cash and Cash equivalents (cash at bank)		250	--
		Total		**4050**	**1000**

Notes to Accounts

1	**Share capital**	**A Ltd. ('000)**	**B Ltd. ('000)**
	Equity shares of ₹ 100 each	2000	1000
		2000	**1000**
2	**Reserves and Surplus**		
	General reserve	1000	--
	Profit and loss A/c (debit balance)	--	(800)
		1000	**(800)**
3	**Long term borrowings**		
	10% debentures	500	--
	Loan from banks	250	450
		750	**450**

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger

SOLUTION:

Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd. will be issued against 20,000 equity shares of A Ltd.)	20,000 shares

Journal Entries in the books of B Ltd.

Date		(₹in thousands)	
20X1		**Dr. ₹**	**Cr. ₹**
March,31	Loan from bank A/c Dr.	60	
	To Capital reduction A/c		60
	(Being loan from bank waived off to the extent of ₹ 60 thousand)		
	Equity share capital A/c (₹ 100) Dr.	1,000	
	To Equity share capital A/c (₹10)		100
	To Capital reduction A/c		900
	(Being equity shares of ₹100 each reduced to ₹ 10 each)		
	Equity share capital A/c (₹ 10) Dr.	100	
	To Equity share capital A/c (₹ 100 each)		100
	(Being 10 equity shares of ₹ 10 each consolidated to one share of ₹100 each)		
	Capital reduction A/c Dr.	960	
	To Profit and loss A/c		800
	To Capital reserve A/c		160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)		
	Property, Plant & Equipment A/c Dr.	2,700	
	Investment A/c Dr.	700	
	Trade receivables A/c Dr.	400	
	Cash at bank A/c Dr.	250	
	To Trade payables A/c		300
	To Loans from bank A/c		250
	To 10% Debentures A/c		500
	To Business purchase A/c		2,000
	To Reserves A/c		1,000
	(Being assets, liabilities and reserves taken over under pooling of interest method)		
	Liquidator of A Ltd. A/c Dr.	2,000	
	To Equity share capital A/c		2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)		
	Trade payables A/c Dr.	100	
	To Trade receivables A/c		100
	(Being mutual owing cancelled)		

Balance Sheet of B Ltd. after merger as on 31.3.20X1

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	2,100
	B	Reserves and Surplus	2	1,160

2		**Non-current liabilities**		
	A	Long term borrowings	3	1,140
3		**Current liabilities**		
	A	Trade payables		500
	B	Short term borrowings	4	50
		Total		**4,950**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		3,550
	B	Non-current investments		700
2		**Current assets**		
	A	Trade receivables		450
	B	Cash and cash equivalents		250
		Total		**4,950**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	21,000, Equity shares of ₹ 100 each fully paid		2,100
	(Out of the above, 20,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	1,000	
	Total		**1,160**
3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

Q.AMG.RMP.302(A): (MTP – May 20, May 21 & May 22)

Sulpher Ltd. and Diamond Ltd. give the following information as at 31.03.2022:

	Sulpher Ltd. (Rs. in lakhs)	Diamond Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-

Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Sulpher Ltd.'s acceptances.

On 1st April 2022, Sulpher Ltd. took over Diamond Ltd. in an **amalgamation in the nature of merger**. It was agreed that in discharge of consideration for the business, Sulpher Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Sulpher Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	**Sulpher Ltd.**	**Diamond Ltd.**
	(Rs. in lakhs)	
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
Trade receivables:	**1,800**	**694.5**
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	**1,650**

Expenses of amalgamation amounting to Rs. 1.5 lakhs were borne by Sulpher Ltd. You are required to:

(i) Pass journal entries in the books of Sulpher Ltd. And

(ii) Prepare Sulpher Ltd.'s Balance Sheet immediately after the merger.

SOLUTION

Books of Sulpher Ltd.

Journal Entries

		(Rs. in Lacs)	**(Rs. in Lacs)**
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465

To General Reserve Rs. (4,800 - 4,500)			300
To Profit and Loss A/c			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P& L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Sulpher Ltd. as at 1st April, 2022 (after merger)

	Particulars	Notes	Rs. (in lakhs)
	Equity and Liabilities		
1	**Shareholders' funds**		
A	Share capital	1	36,000
B	Reserves and Surplus	2	24,981
2	**Non-current liabilities**		
A	Long-term borrowings	3	1,500
3	**Current liabilities**		
A	Trade Payables (1,800+694.5-120)		2,374.5
B	Short-term provisions (2,745+1,053)		3,798
	Total		**68,653.5**
	Assets		
1	**Non-current assets**		
A	Property, Plant & Equipment	4	43,506
2	**Current assets**		
A	Inventories (11,793+6,061.5)		17,854.5
B	Trade receivables (3,180+1,650-120)		4,710

C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
	Total		**68,653.5**

Notes to Accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of Rs. 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	**Reserves and Surplus**	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account Rs. (4,305 +1,162.5-1.5)	5,466
	Total	**24,981**
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,500
4.	**PPE**	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	**43,506**

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of Sulpher Ltd. for every two equity shares held in Diamond Ltd.

Purchase consideration = Rs. 9,000 lacs × 3/2 = Rs. 13,500 lacs

SERIES 400
BOOKS OF TRANSFEROR

Q.AMG.SM.401(A):

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	12,00,000
	B	Reserves and Surplus	2	1,58,000
2		**Non-current liabilities**		
	A	Long-term borrowings	3	2,00,000
3		**Current liabilities**		
	A	Trade Payables		1,20,000
	B	Other current liabilities (Interest payable on debentures)		12,000
		Total		**16,90,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	10,00,000
	B	Intangible assets	5	2,90,000
2		**Current assets**		
	A	Inventories		1,50,000
	B	Trade receivables		1,80,000
	C	Cash and Cash equivalents		70,000
		Total		**16,90,000**

Notes to Accounts

		₹
1	**Share Capital**	
	Equity Share capital (₹ 100 each)	8,00,000
	6% Preference Share capital (₹ 100 each)	4,00,000
		12,00,000
2	**Reserves and Surplus**	
	Capital reserve	1,00,000
	Profit and loss A/c	50,000
	Workmen compensation reserve (Expected liability ₹ 5,000)	8,000
		1,58,000
3	**Long-term borrowings**	
	6% Debentures	2,00,000
		2,00,000
4	**Property, Plant and Equipment**	

	Land and Building	4,00,000
	Plant and machinery	6,00,000
		10,00,000
5	**Intangible assets**	
	Goodwill	2,40,000
	Patents	50,000
		2,90,000

Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

(i) ₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.

(ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference share of ₹ 100 each in Wye Ltd.

(iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.

(iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

SOLUTION

Purchase Consideration:

		₹	Form
(i)	Preference Shares: ₹ 10 per share 40,000		Cash
	Preference shares 4,00,000	4,40,000	Preference shares
(ii)	Equity shares: ₹ 20 per share 1,60,000		Cash
	8,000 equity shares in Wye Ltd. @ ₹ 140 11,20,000	12,80,000	Equity shares
		17,20,000	

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.

Exception: If cash is not taken over by the purchasing company, it should not be transferred.

Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account

The Journal entries in the above Case is**:**

Realization A/c	Dr.	16,20,000	
To Sundries —			
Goodwill			2,40,000
Land & Building			4,00,000
Plant & Machinery			6,00,000
Patents			50,000
Inventory			1,50,000
Trade receivables			1,80,000

(Transfer of assets to Realization Account on sale of business to Wye Ltd.)

2. **Transfer to the Realization Account the liabilities which the purchasing company is to take over**. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (i.e., the reserve portion) should be treated as profit. Accordingly, the following entry will be recorded:

		₹	₹	
6% Debentures in Wye Ltd.		Dr.	2,00,000	
Workmen's Compensation Reserve		Dr.	5,000	
Trade payables		Dr.	1,20,000	
To Realization A/c				3,25,000

(Transfer of liabilities taken over by Wye Ltd. to Realization A/c)

For liabilities not take over by the purchasing company, the profit or loss on discharge of such liabilities shall be transferred to Realization Account.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

Wye Ltd. A/c	Dr.	17,20,000	
To Realisation A/c			17,20,000

(Amount receivable from Wye Ltd. for sale of business)

4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company. Thus —

Cash	Dr.	2,00,000	
9% Preference shares in Wye Ltd.	Dr.	4,00,000	
Equity shares in Wye Ltd.	Dr.	11,20,000	
To Wye Ltd.			17,20,000

(Receipt of purchase consideration from the purchase company)

5. **Expenses of liquidation have to be dealt with according to the circumstances of each case.**

(a) If the vendor company has to bear and pay them:
Realization Account should be debited and Cash Account credited.

(b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:

(i) It may be ignored in the books of the vendor company.

(ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:

(a) Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company; and

(b) Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

In the above-mentioned case Wye Ltd. has to pay maximum of ₹ 10,000 only whereas, the amount spent is ₹ 12,500. Hence ₹ 2,500 is to be borne by Zed Ltd.; the entries required will be:

		₹	₹
Wye Ltd.	Dr.	10,000	
Realization A/c	Dr.	2,500	
To Cash A/c			12,500

(Liquidation expenses out of which ₹ 10,000 is payable by Wye Ltd.)

Cash A/c	Dr.	10,000	
To Wye A/c			10,000

(Account reimbursed by Wye Ltd. for expense)

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account. Zed Ltd. shall pass the following entries in this respect:

		₹	₹
Interest Outstanding A/c	Dr.	12,000	
To Debenture Holders A/c			12,000
(Amount due to Debenture holders for Debenture interest)			
Debenture Holders A/c	Dr.	12,000	
To cash A/c			12,000
(Debenture holders paid Cash ₹ 12,000 for outstanding interest)			

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account. Thus —

6% Preference Share Capital A/c	Dr.	4,00,000	
Realisation A/c	Dr.	40,000	
To Preference Shareholder A/c			4,40,000

(The amount due to preference shareholders for capital and the extra amount payable under the scheme of absorption)

Note: In the absence of any indication to the contrary, preference shareholders will be entitled only to the capital contributed by them. But if funds available after paying off creditors are not sufficient to satisfy the claim of preference shareholders fully, they will have to suffer a loss to the extent of the deficit.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them. The entry in the above case is:

Preference Shareholder A/c	Dr.	4,40,000	
To Cash A/c			40,000
To 9% Preference Share Capital A/c			4,00,000

(Cash and preference shares in Wye Ltd. given to preference shareholders)

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders. Zed Ltd. shall pass the following entries in this regard:

		₹	₹
Equity Share Capital A/c	Dr.	8,00,000	
Capital Reserve A/c	Dr.	1,00,000	
Profit and Loss A/c	Dr.	50,000	
Workmen's Compensation Reserve A/c	Dr.	3,000	
Realization A/c	Dr.	3,82,500	
To Equity Shareholders A/c			13,35,500

(Various accounts representing capital and profit transferred to Equity Shareholders Account)

10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them. Hence:

Equity Share Holders A/c	Dr.	13,35,500	
To Equity Share in Wye Ltd.			11,20,000

To cash A/c (W.N.2)		2,15,500

Working Notes:

1. Realisation A/c

		₹			₹
To	Sundry Assets	16,20,000	By	Sundry Liabilities	3,25,000
To	Cash (excess expenses of liquidation)	2,500	By	Wye Ltd.	17,20,000
To	Preference Shareholders	40,000			
To	Equity Shareholders A/c - profit transferred	3,82,500			
		20,45,000			**20,45,000**

2. Cash A/c

	₹		₹
To Balance b/d	70,000	By Realization	2,500
To Wye Ltd. (consideration for amalgamation)	2,00,000	By Wye Ltd.	10,000
To Wye Ltd. (liquidation expenses reimbursed)	10,000	By Debenture-holders	12000
		By Preference shareholder	40000
		By Equity Shareholder (B/F)	215500
	280000		**280000**

Q.AMG.SM.402(A):

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

		Particulars	Notes	₹ K Ltd.	₹ L Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	12,00,000	6,00,000
	B	Reserves and Surplus	2	3,71,375	1,97,175
2		**Non-current liabilities**			
	A	Long-term borrowings	3	2,00,000	2,00,000
3		**Current liabilities**			
	A	Trade Payables		1,00,000	2,10,000
		Total		**18,71,375**	**12,07,175**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	11,30,000	8,20,000
	B	Intangible assets	5	80,000	-
2		**Current assets**			

	A	Inventories		2,25,000	1,40,000
	B	Trade receivables		2,75,000	1,75,000
	C	Cash and Cash equivalents	6	1,61,375	72,175
		Total		**18,71,375**	**12,07,175**

Notes to accounts

1	**Share Capital**		**K Ltd.**	**L Ltd.**
	Equity shares of ₹ 100 each		8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each		4,00,000	3,00,000
			12,00,000	**6,00,000**
2	**Reserves and Surplus**			
	General reserve		-	1,00,000
	Profit and loss account		3,71,375	97,175
			3,71,375	**1,97,175**
3	**Long-term borrowings**			
	5% Debentures		2,00,000	-
	Secured loan		-	2,00,000
			2,00,000	**2,00,000**
4	**Property, plant and Equipment**			
	Land and Building		4,50,000	3,00,000
	Plant and machinery		6,20,000	5,00,000
	Furniture and fittings		60,000	20,000
			11,30,000	**8,20,000**
5	**Intangible assets**			
	Goodwill		80,000	-
			80,000	**-**
6	**Cash and Cash Equivalents**			
	Cash at Bank		1,20,000	55,000
	Cash in hand		41,375	17,175
			1,61,375	**72,175**

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

(2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.

(3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.

(B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.

(2) The trade receivables of K Ltd. include ₹ 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital.

Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

SOLUTION:

Books of K Ltd. Realisation Account

	₹		₹
To Goodwill	80,000	By 5% Debentures	2,00,000
To Land & Building	4,50,000	By Trade payables	1,00,000
To Plant & Machinery	6,20,000	By LK Ltd. (Purchase consideration)	15,60,000
To Furniture & Fitting	60,000	By Equity shareholders A/c (loss)	51,375
To Trade receivables	2,75,000		
To Stores & inventory	2,25,000		
To Cash at Bank	1,20,000		
To Cash in hand	41,375		
To Preference Shareholders (excess payment)	40,000		
	19,11,375		**19,11,375**

Equity Shareholders Account

	₹		₹
To Realisation A/c (loss)	51,375	By Share Capital A/c	8,00,000
To Equity Shares in LK Ltd.	10,56,000	By Profit & Loss A/c	3,71,375
To Cash	64,000		
	11,71,375		**11,71,375**

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	4,40,000	By Share capital	4,00,000
		By Realization A/c	40,000
	4,40,000		**4,40,000**

LK Ltd. Account

	₹		₹
To Realisation A/c	15,60,000	By Equity Shares in LK Ltd. For Equity 10,56,000 Pref 4,40,000	14,96,000
		By cash	64,000
	15,60,000		**15,60,000**

Books of L Ltd.
Realisation Account

	₹		₹
To Land & Building	3,00,000	By Trade payables	2,10,000
To Plant & Machinery	5,00,000	By Secured loan	2,00,000
To Furniture & Fittings	20,000	By LK Ltd. (Purchase consideration)	7,90,000
To Trade receivables	1,75,000	By Equity shareholders A/c Loss	31,175
To Inventory of stores	1,40,000		

To Cash at bank	55,000		
To Cash in hand	17,175		
To Pref. shareholders	30,000		
	12,37,175		**12,37,175**

Equity Shareholders Account

	₹		₹
To Equity shares in LK Ltd.	3,96,000	By Share Capital	3,00,000
To Realisation	37,175	By Profit & Loss A/c	97,175
To Cash	64,000	By Reserve	1,00,000
	4,97,175		**4,97,175**

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	3,30,000	By Share capital	3,00,000
		By Realization A/c	30,000
	3,30,000		**3,30,000**

LK Ltd. Account

	₹		₹
To Realisation A/c	7,90,000	By Equity Shares in LK Ltd. For Equity 3,96,000 Pref 3,30,000	7,26,000
		By cash	64,000
	7,90,000		**7,90,000**

Working Notes:

(i) Purchase consideration

	K Ltd. ₹	L Ltd. ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (ii)]	64,000	64,000
	15,60,000	**7,90,000**

(ii) Value of Net Assets

		K Ltd. ₹		L Ltd. ₹
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Trade receivables less 2.5%		2,68,125		1,70,625
Inventory less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
		18,60,000	–	**12,00,000**
Less: Debentures	2,00,000			
Trade payables	1,00,000		2,10,000	

Secured Loans		(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

SERIES 500
MISC. CATEGORY

Q.AMG.RMP.501(A): (RTP – May18 & Nov21)

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. Rs	Q Ltd. Rs	Assets	P Ltd. Rs	Q Ltd. Rs
Equity & liabilities:			**Assets:**		
Shareholders Fund			**Non-current Assets**		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 Rs 3,00,000; 2015-16 Rs 5,25,000 and 2016-17 Rs 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of Rs 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(ii) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(iii) Prepare required journal entries in the books of PQ Ltd.; and

(iv) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

SOLUTION

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	Rs
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = Rs 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= Rs 8,64,000 or 86,400 shares

Securities premium = Rs 21,60,000 – Rs 8,64,000 = Rs 12,96,000

Premium per share = Rs 12,96,000 / Rs 86,400 = Rs 15

Issued 86,400 shares @ Rs 10 each at a premium of Rs 15 per share

Share of Q Ltd. = Rs 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= Rs 5,76,000 or 57,600 shares

Securities premium = Rs 14,40,000 – Rs 5,76,000 = Rs 8,64,000

Premium per share = Rs 8,64,000 / Rs 57,600 = Rs 15

Issued 57,600 shares @ Rs 10 each at a premium of Rs 15 per share

(ii) Journal Entries in the books of PQ Ltd.

		Dr.	Cr.
Particulars		**Amount (Rs)**	**Amount (Rs)**
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs 10)			8,64,000
To Securities premium (86,400 x Rs 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs 10)			5,76,000
To Securities premium (57,600 x Rs 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000

(Equity share capital issued to raise working capital)		

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

Particulars		Notes	Rs
Equity and Liabilities			
1	**Shareholders' funds**		
a	Share capital	1	21,60,000
b	Reserves and Surplus	2	32,40,000
2	**Current liabilities**		
a	Trade payables (2,40,000 + 5,40,000)		7,80,000
	Total		**61,80,000**
Assets			
1	**Non-current assets**		
a	Fixed assets		
	Tangible assets (7,20,000 + 10,80,000)		18,00,000
	Intangible assets (goodwill)	4	5,40,000
2	**Current assets**		
a	Inventories (3,60,000 + 6,60,000)		10,20,000
b	Trade receivables (4,80,000 +7,80,000)		12,60,000
c	Cash and cash equivalents	3	15,60,000
	Total		**61,80,000**

Notes to accounts

		Rs
1	**Share Capital**	
Issued, subscribed and paid-up share capital 2,16,000 Equity shares of Rs10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)		21,60,000
2	**Reserves and Surplus**	
Securities premium (@Rs 15 for 2,16,000 shares)		32,40,000
3	**Cash and cash equivalents**	
Cash at Bank		15,60,000
4	**Intangible Assets**	
Goodwill		5,40,000

Working Notes:

1. Calculation of goodwill of P Ltd.

Particulars	Amount Rs	Weight	Weighted amount Rs
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight] [Rs 32,40,000/6]			
Goodwill			**5,40,000**

2. Calculation of Net assets

	P Ltd. Rs	Q Ltd. Rs
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	**21,60,000**	**14,40,000**

3. New authorized capital

= Rs 14,40,000 + Rs 12,00 000 = Rs 26,40,000

4. Cash and Cash equivalents

	Rs
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X Rs 25)	18,00,000
	21,00,000
Less: Bank Overdraft	5,40,000
	15,60,000

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

Q.AMG.RMP.502(A): (Exam July'21)

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (Rs. In 000)	White Limited (Rs. In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		**7,680**	**4,620**

Note No.	Particulars	Black Limited (Rs. in 000)	White Limited (Rs. in 000)
1.	Share Capital Equity Shares of Rs. 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of Rs. 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was Rs. 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at Rs. 2,40,000 and Property Plant and Equipment are valued at Rs. 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

i. Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

ii. Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

iii. Give balance of Profit or Loss of Black Limited as on 1st July, 2020

iv. Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

SOLUTION

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.	Rs.	Rs.
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 · 10 % · 3/12]	(60,000)	
	23,40,000	
Add: Appreciation	1,20,000	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation 2,40,000		
Add: Depreciation (non-cash) 60,000	3,00,000	
Less: Dividend [36,00,000 · 10%]	(3,60,000)	3,60,000
		48,60,000
Less: Trade payables		(3,60,000)
Purchase Consideration		45,00,000

Number of shares to be issued by Black Ltd. @ Rs. 100 each	**45,000 shares**

ii. Calculation of Net Current Assets as on 01.07.2020

		Black Ltd.		White Ltd.
		Rs.		Rs.
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		**18,00,000**

iii. Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	Rs.
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

iv. Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	35,10,000
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		**59,70,000**

Q.AMG.RMP.503(A): (RTP – Nov19 & Nov23, MTP Nov21)

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	Amount	Assets	Amount
8,000 Equity shares of 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000

General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
Total	**17,60,000**	**Total**	**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- B Ltd. is to take over trade payables at book value.
- The purchase consideration is to be paid in cash to the extent of 6,00,000/- and the balance in fully paid equity shares of 100/- each at 125/- per share.
- The average profit is Rs. 1,24,400.
- The liquidation expenses amounted to Rs. 16,000.
- B Ltd. sold prior to 31st March, 2018 goods costing Rs. 1,20,000 to A Ltd. for Rs. 1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018.
- Trade payables of A Ltd. include Rs. 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

SOLUTION

Books of A Limited

Realization Account

Particulars	Rs.	Particulars	Rs.
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		**16,06,000**

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		**7,36,000**

Equity Share Holders Account

To Realization Account	76,000	Equity share capital	8,00,000
To Share issue Expenses	34,000	General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		**8,80,000**

B Ltd

Balance Sheet as on 1st April, 2019 (An extract)

	Particulars	Notes	Rs.
	EQUITY AND LIABILITIES		
1	**Shareholders' funds**		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	**Current liabilities**		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
			14,75,000
	ASSETS		
1	**Non-current assets**		
	Property, Plant and Equipment		
A	Tangible assets	4	8,82,000
B	Intangible assets	5	2,16,000
2	**Current assets**		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

Sr. No.	Particulars		Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account		
	Less: Unrealized profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000

7	**Trade receivables**		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1. Valuation of Goodwill	**Rs.**
Average profit	1,24,400
Less: 8% of Rs. 8,80,000	(70,400)
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000
1. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	2,34,000
Total Assets	15,30,000
Less: Trade payables	(3,20,000)
Net Assets	**12,10,000**

Out of this Rs. 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of 125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealized Profit on Inventory	**Rs.**
The Inventory of A Ltd. includes goods worth Rs. 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be 40,000. 40000 x 100000 / 160000	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of Rs. 1,00,000.	(10,000)
Amount of unrealized profit	**15,000**

Q.AMG.RMP.504(A): (RTP – May'21)

Mohan Ltd. gives you the following information as on 31st March, 2020:

	Rs.
Share capital:	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000

Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

i)

a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.

iii) Remaining equity shares of the new company are issued to public at par fully paid up.

iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

SOLUTION

In the books of Mohan Ltd.

i) Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and Equipment	3,40,000	By Interest accrued on	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference shareholders A/c (W.N.2)	5,400		
	5,60,400		**5,60,400**

ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		**3,00,000**

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

i) Bank Account

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		**1,09,600**

ii) Balance Sheet as at 31st March, 2020

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		**6,00,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		**6,00,000**

Notes to Accounts

		Rs.
1	Share Capital Authorised share capital 40,000 equity shares of Rs. 10 each Issued and Subscribed 40,000 shares of Rs. 10 each fully paid up (Out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	 4,00,000 4,00,000
2	Long Term Borrowings 10% Debentures	 2,00,000

Working Notes:

1. **Calculation of Purchase consideration**

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		**65,400**

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

SECTION B – HOMEWORK QUESTIONS

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

SERIES 100
CALCULATION OF PC

Q.AMG.SM.101(B):

S. Ltd. is absorbed by P. Ltd. S ltd. gives the following information on the date of absorption:

Sundry Assets	13,00,000
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	2,00,000
5,000 Equity shares of ₹ 100 each (fully paid-up)	5,00,000
Reserves	3,00,000
6% Debentures	2,00,000
Trade payables	1,00,000

Additional information:

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) To issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) To pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 125 in lieu of every five shares held in S. Ltd.; and

(iv) To assume the liability to trade payables.

You are required to calculate the purchase consideration.

SOLUTION

The purchase consideration will be

	₹	Form
Preference shareholders: 2,000 × 3/4 × 100	1,50,000	9% Pref. shares
Equity shareholders:		
5,000 × 20	1,00,000	Cash
5,000 × 6/5 × 125	7,50,000	Equity shares
	10,00,000	

Note-

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.
2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Q.AMG.SM.102(B): (Similar to Q103A)

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		**Shareholders' funds**			

	A	Share capital		7,75,000	8,55,000
2		**Current liabilities**		6,23,500	5,57,600
		Total		**13,98,500**	**14,12,600**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	1	12,35,000	12,54,000
2		**Current assets**		1,63,500	1,58,600
		Total		**13,98,500**	**14,12,600**

Notes to accounts:

1	**Property, plant and Equipment**		
	Land and Building	7,50,000	6,40,000
	Plant and machinery	4,85,000	6,14,000
		12,35,000	12,54,000

Following is the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

SOLUTION

Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	Neel ₹	Gagan ₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

The total profits – ₹ 4,75,000 + ₹ 5,25,000 = ₹ 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Neel	Gagan
24,000 x 475/1000	11,400 equity shares	

24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel ₹	Gagan ₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12}\right]$= 5,60,000 @ 10 each	56,000 shares	
$\left[73,920 \times \frac{100}{12}\right]$= 6,16,000 @ 10 each		61,600 shares

(ii) Total Purchase Consideration

	Neel ₹	Gagan ₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	**8,45,000**	**9,31,000**

Working Note:

Calculation of Net assets as on 31.3.20X1

	Neel ₹	Gagan ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	**9,24,000**

Note: - Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Q.AMG.SM.103(B): (RTP Jan'25)

Astha Ltd. is absorbed by Nistha Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding
Rs. 10,000 (actual cost Rs. 9,000); the payment of the 9% debentures of
Rs. 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value and the payment of Rs.15 per share in cash and allotment of three 11% preference shares of Rs. 10 each and four equity shares of Rs.10 each at a premium of 20% fully paid for every five shares in Astha Ltd.
The number of shares of the vendor company are 1,50,000 of Rs. 10 each fully paid. Calculate purchase consideration as per AS 14.

SOLUTION

As per AS 14 'Accounting for Amalgamations', the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.
The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

	Rs.
Cash payment Rs.15 x 1,50,000	22,50,000
11% Preference Shares of Rs. 10 each [(1,50,000 x 3/5) x Rs. 10]	9,00,000
Equity shares of Rs. 10 each @ 20% premium [(1,50,000 x 4/5) x Rs. 12]	14,40,000
Total Purchase consideration	45,90,000

SERIES 200
AMALGAMATION IN NATURE OF PURCHASE

Q.AMG.RMP.201(B): (MTP Nov'22)

Black Limited and White Limited have been carrying their business independently from 01/04/2022. Because of synergy in business, they amalgamated on and from 1st April, 2022 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The information of Black Limited and White Limited as on 31st March, 2022 are as follows:

	Black Ltd. (Rs.)	White Ltd. (Rs.)
Share Capital:		
Equity shares of Rs. 10 each	15,00,000	14,50,000
10% Preference shares of Rs. 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance (Credit balance)	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of Rs. 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000

Additional Information:

(i) The authorized capital of the new company will be Rs. 54,00,000 divided into 2,00,000 equity shares of Rs. 25 each, and 4,000 preference shares of Rs. 100 each.

(ii) Trade payables of Black Limited includes Rs. 15,000 due to White Limited and trade receivables of White Limited shows Rs. 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd. (Rs.)	White Ltd. (Rs.)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of Rs. 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of Rs. 120 per share (face value Rs. 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of Rs. 100 each so as to maintain the same

amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

SOLUTION

Balance Sheet of Grey Ltd. as at 1st April, 2022

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds	1	48,40,000
(a) Share Capital		
(b) Reserves and Surplus	2	1,85,000
(2) Non-Current Liabilities		
Long-term borrowings	3	7,50,000
(3) Current Liabilities		
Trade payables		4,15,000
Total		**61,90,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	47,60,000
(b) Non-current investments		1,60,000
(2) Current assets		
(a) Inventory		3,05,000
(b) Trade receivables		6,75,000
(c) Cash and bank balances		2,90,000
Total		**61,90,000**

Notes to Accounts:

		(Rs.)	(Rs.)
1.	**Share Capital**		
	Authorized: 2,00,000 equity shares of Rs. 25 each		50,00,000
	4,000 preference share of Rs. 100 each		4,00,000
	Issued, subscribed, and paid-up share capital:		
	1,80,000 Equity shares of Rs. 25 each	45,00,000	
	3,400 Preference shares of Rs. 100 each	3,40,000	
	(All the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		48,40,000
2.	**Reserves and surplus**		
	Securities Premium (3,400 x Rs. 20)	68,000	
	Capital Reserve	1,17,000	1,85,000
3.	**Long-term borrowings**		
	18% Debentures		7,50,000

4.	**Property, plant and equipment**		
	Land and Building	15,60,000	
	Plant and Machinery	32,00,000	47,60,000

Working Notes:

		(Rs.)	
		Black Ltd.	**Grey Ltd.**
1.	**Computation of Purchase consideration**		
	(a) Preference shares:		
	Shares at Rs. 120 each	2,40,000	1,68,000
	(b) Equity shares:		
	Preceding 2 years profitability		
	Year 1	1,50,000	1,20,000
	Year 2	2,00,000	1,30,000
		3,50,000	2,50,000
	Shares (in ratio 35: 25)		
	1,05,000 shares at Rs. 25	26,25,000	
	75,000 shares at Rs. 25	_____	18,75,000
	Amount of purchase consideration (a + b)	28,65,000	20,43,000
2.	**Net Assets Taken Over**		
	Assets taken over:		
	Land and Building	5,20,000	10,40,000
	Plant and Machinery	18,00,000	14,00,000
	Investments	1,00,000	60,000
	Inventory	1,80,000	1, 25,000
	Trade receivables	4,25,000	2,50,000
	Cash and bank	1,60,000	1,30,000
		31,85,000	30,05,000
	Less: Liabilities taken over:		
	Debentures 3,33,333		
	Trade payables 2,95,000		
		6,28,333	5,36,667
	Net assets taken over	25,56,667	24,68,333
	Purchase consideration	28,65,000	20,43,000
	Goodwill	3,08,333	
	Capital reserve		4,25,333
Net amount of capital reserve			**Rs. 1,17,000**

1.	**Black Limited**	**White Limited**
Existing Debentures	₹ 4,00,000 x 15% = ₹ 60,000	₹ 5,00,000 x 15% = ₹ 75,000
Debentures to be issued in Grey Limited @ 18% to maintain the same amount of interest	₹ 60,000 x 100/18 = ₹ 3,33,333	₹ 75,000 x 100/18 = ₹ 4,16,667

SERIES 300
AMALGAMATION IN NATURE OF MERGER

Q.AMG.SM.301(B):

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

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

Notes to Accounts

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

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

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration of 30,000 No. of Shares (20,000 for Super- Fast Express Ltd and 10,000 for Fast Express Ltd.). Prepare opening balance sheet of Super-Fast Express Ltd. considering pooling method.

SOLUTION:

Balance Sheet of Super Fast Express Ltd as at 1st Jan., 20X2

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

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of ₹ 100 each	30,00,000
	Total	**30,00,000**

2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000
	Insurance reserve	1,00,000
	Employees profit sharing account	60,000
	Total	**3,60,000**
3	**Long-term provisions**	
	Provident fund	1,00,000
	Total	**1,00,000**
4	**Tangible assets**	
	Buildings	16,00,000
	Machinery	9,00,000
	Total	**25,00,000**
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	**1,00,000**
6	**Cash and cash equivalents**	
	Balances with banks	2,30,000
	Cash on hand	1,10,000
	Total	**3,40,000**

Q.AMG.RMP.302(B): (MTP – May19 & Nov18)

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in Lakhs)**
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	**12,500**
Assets	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in lakhs)**
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609

Cost of Issue of Debentures	—	50
	33,400	**12,500**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an **amalgamation in the nature of merger**. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in lakhs)**
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	**463**
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	-	80
	2,120	**1,100**

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd. You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

SOLUTION

		(Rs. in lacs) Debit	(Rs. In lacs) Credit
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit & loss A/c	Dr.	1	

To Bank A/c (Liquidation expenses paid by P Ltd.)			1
Liability for 12% Debentures A/c To 13% Debentures A/c (12% debentures discharged by issue of 13% debentures)	Dr.	1,000	 1,000
Bills Payable A/c To Bills Receivable A/c (Cancellation of mutual owing on account of bills)	Dr.	80	 80

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

Particulars			Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	**24,000**
2.	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**

3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Tangible assets**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = Rs 6,000 lacs $\times \frac{3}{2}$ = Rs. 9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

SERIES 400
BOOKS OF TRANSFEROR

Q.AMG.SM.401(B):

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

		Particulars	Notes	₹ X Ltd.	₹ Y Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	1,00,000	50,000
	B	Reserves and Surplus	2	10,000	(10,000)
2		**Non-current liabilities**			
	A	Long term borrowings	3	--	15,000
3		**Current liabilities**			
	A	Trade Payables		25,000	5,000
		Total		**135,000**	**60,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		1,20,000	60,000
	B	Non-current investments	4	15,000	--
		Total		**135,000**	**60,000**

Notes to Accounts

1	**Share Capital**	**X Ltd.**	**Y Ltd.**
	Equity share capital	1,00,000	50,000
		1,00,000	**50,000**
2	**Reserves and Surplus**		
	Profit and loss A/c	10,000	--
	Profit and loss A/c (debit balance)	--	(10,000)
		10,000	**(10,000)**
3	**Long term borrowings**		
	Loan from X Ltd.	--	15,000
4	**Non-current investments**		
	Loan to Y Ltd.	15,000	--
		15,000	**--**

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

Show the Ledger Accounts to close the books of X Ltd.

SOLUTION

Books of X Ltd.

Realisation Account

	₹		₹
To Sundry Assets	1,20,000	By Trade payables	25,000
		By XY Ltd. (Purchase consideration)	75,000

		By Shareholders (Loss on Realisation)	20,000
	1,20,000		**1,20,000**

Shareholders Account

	₹		₹
To Realisation Account (Loss)	20,000	By Equity Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		**1,10,000**

Loan Y Ltd.

	₹		₹
To Balance b/d	15,000	By Shares in XY Ltd.	15,000
	15,000		**15,000**

Shares in XY Ltd.

	₹		₹
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		**90,000**

XY Ltd.

	₹		₹
To Realisation Account	75,000	By Shares in XY Ltd.	75,000
	75,000		**75,000**

SERIES 500
MISC. CATEGORY

Q.AMG.SM.501(B):

Consider the following balance sheets of X Ltd. and Y Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ X Ltd ('000)	₹ Y Ltd. ('000)
1		**Equity and Liabilities Shareholders' funds**			
	A	Share capital	1	72,00	47,00
	B	Reserves and Surplus	2	15,50	10,50
2		**Non-current liabilities**			
	A	Long-term borrowings	3	5,00	3,50
3		**Current liabilities**			
	A	Trade Payables		4,50	3,50
	B	Other current liabilities		2,00	1,50
		Total		**99,00**	**66,00**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	63,25	36,00
	B	Non-current investments	5	7,00	5,00
2		**Current assets**			
	A	Inventories		12,50	9,50
	B	Trade receivables		9,00	10,30
	C	Cash and Cash equivalents		7,25	5,20
		Total		**99,00**	**66,00**

Notes to accounts

		X Ltd ('000)	Y Ltd ('000)
1	**Share Capital**		
	Equity share capital (₹ 10 each)	50,00	30,00
	14% Preference Shares capital ₹ 100 each	22,00	17,00
		72,00	**47,00**
2	**Reserves and Surplus**		
	General reserve	5,00	2,50
	Export profit reserve	3,00	2,00
	Investment allowance reserve	-	1,00
	Profit and loss account	7,50	5,00
		15,50	**10,50**
3	**Long-term borrowings**		
	13% Debentures of ₹ 100 each	5,00	3,50
		5,00	**3,50**
4	**Property, Plant and Equipment**		
	Land and Building	25,00	15,50
	Plant and machinery	32,50	17,00

	Furniture	5,75	3,50
		63,25	**36,00**
5	**Non-current investments**		
	Investments at cost	7,00	5,00
		7.00	**5,00**

X Ltd. takes over Y Ltd. on 1st April, 20X1. X Ltd. discharges the purchase consideration as below:

(i) Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.

(ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) the amalgamation is in the nature of merger.

(b) the amalgamation is in the nature of purchase.

SOLUTION

(a) Amalgamation in the nature of merger:

Balance Sheet of X Ltd.

		Particulars	**Notes**	**₹ in '000**
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		**16,500**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		**16,500**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	8,50,000 Equity Shares of ₹ 10 each		8,500
	Preference share capital		
	18,700, 15% Preference Shares of ₹ 100 each		1,870
	22,000, 14% Preference Shares of ₹ 100 each		2,200
	Total		12,570

2	**Reserves and Surplus**			
	General Reserve of X Ltd.	500		
	Add: General reserve of Y Ltd.	250	750	
	Less: Adjustment for amalgamation*		(670)	80
	Export Profit Reserve of X Ltd.		300	
	Add: Export Profit Reserve of Y Ltd.		200	500
	Investment Allowance Reserve			100
	Profit & Loss A/c of X Ltd.		750	
	Add: Profit & Loss A/c of Y Ltd.		500	1,250
	Total			1,930
3	**Long-term borrowings**			
	Secured			850
	8,500 13% Debentures of ₹ 100 each			
	Total			850
4	**Property, Plant and Equipment**			
	Land & Buildings			4,050
	Plant & Machinery			4,950
	Furniture & Fittings			925
	Total			9,925

*The difference between the amount recorded as share capital issued and the amount of share capital of transferor-company should be adjusted in reserves. Thus, Adjustment for amalgamation = ₹ '000 (53,70 – 47,00) = ₹ ('000) 670

(b) Amalgamation in the nature of purchase:

Balance Sheet of X Ltd.

		Particulars	**Notes**	**₹ in'000**
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		**16,500**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		**16,500**

Notes to Accounts

		₹ in'000
1	**Share Capital**	
	Equity share capital	
	8,50,000 Equity Shares of ₹ 10 each	8,500
	Preference share capital	
	18,700, 15% Preference Shares of ₹ 100 each	1,870
	22,000, 14% Preference Shares of ₹ 100 each	2,200
	Total	**12,570**
2	**Reserves and Surplus**	
	Capital Reserve	380
	General Reserve	500
	Amalgamation adjustment reserve	(300)
	Export Profit Reserve	500
	Investment Allowance Reserve	100
	Surplus (Profit & Loss A/c)	750
	Total	**1,930**
3	**Long-term borrowings**	
	Secured	
	8,500 13% Debentures of ₹ 100 each	850
	Total	**850**
4	**Property, Plant and Equipment**	
	Land & Buildings	4,050
	Plant & Machinery	4,950
	Furniture & Fittings	925
	Total	**9,925**

Workings Notes:

Capital Reserve arising on Amalgamation:

		₹ ('000)	₹ ('000)
(A)	**Net Assets taken over:**		
	Sundry Assets		66,00
	Less: 13% Debentures	3,50	
	Trade payables	3,50	
	Other current liabilities	1,50	(8,50)
			57,50
(B)	**Purchase consideration:**		
	To Equity Shareholders of Y Ltd.		35,00
	To Preference Shareholders of Y Ltd.		18,70
			53,70
(C)	**Capital Reserve (A – B)**		**3,80**

Q.AMG.SM.502(B):

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 20X1 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	11,00,000	4,00,000
	B	Reserves and Surplus	2	70,000	70,000
2		**Non-current liabilities**			
	A	Long term provisions	3	50,000	20,000
3		**Current liabilities**			
	A	Trade Payables		1,30,000	80,000
		Total		**13,50,000**	**5,70,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	8,00,000	2,50,000
	B	Intangible assets	5	50,000	25,000
2		**Current assets**			
	A	Inventories		2,50,000	1,75,000
	B	Trade receivables		2,00,000	1,00,000
	C	Cash and Cash equivalents		50,000	20,000
		Total		**13,50,000**	**5,70,000**

Notes to Accounts

			Hari Ltd.	Vayu Ltd.
1	**Share Capital**			
	Equity shares of ₹ 10 each		10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each		1,00,000	--
	10% Preference Shares of ₹ 100 each		--	1,00,000
			11,00,000	4,00,000
2	**Reserves and Surplus**			
	General reserve		70,000	70,000
			70,000	70,000
3	**Long term Provisions**			
	Retirement gratuity fund		50,000	20,000
			50,000	20,000
4	**Property, plant and Equipment**			
	Land and Building		3,00,000	1,00,000
	Plant and machinery		5,00,000	1,50,000
			8,00,000	2,50,000
5	**Intangible assets**			
	Goodwill		50,000	25,000
			50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the

Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 20X1.

SOLUTION:

In the Books of Vayu Ltd.

Realisation Account

	₹		₹
To Sundry Assets	5,70,000	By Retirement Gratuity Fund	20,000
To Preference Shareholders (Premium on Redemption)	10,000	By Trade payables	80,000
To Equity Shareholders (Profit on Realisation)		By Hari Ltd. (Purchase Consideration)	5,30,000
	50,000		
	6,30,000		**6,30,000**

Equity Shareholders Account

	₹		₹
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital	3,00,000
		By General Reserve	70,000
		By Realization Account (Profit on Realization)	50,000
	4,20,000		**4,20,000**

Preference Shareholders Account

	₹		₹
To 9% Preference Shares of Hari Ltd.	1,10,000	By Preference Share Capital	1,00,000
		By Realisation Account (Premium on Redemption of Preference Shares)	10,000
	1,10,000		**1,10,000**

Hari Ltd. Account

	₹		₹
To Realisation Account	5,30,000	By 9% Preference Shares	1,10,000
		By Equity Share	4,20,000
	5,30,000		**5,30,000**

In the Books of Hari Ltd.

Journal Entries

		Dr. ₹	Cr, ₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	

Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	70,000
3		**Current liabilities**		
	A	Trade Payables		2,10,000
		Total		**19,80,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		**19,80,000**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital 1,40,000 Equity Shares of ₹10 each fully paid(Out of above 40,000 Equity Shares were issued in consideration other than for cash)	14,00,000
	Preference share capital 2,100 9% Preference Shares of ₹100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)	2,10,000
	Total	**16,10,000**
2	**Reserves and Surplus**	
	Securities Premium	20,000

	General Reserve	70,000
	Total	**90,000**
3	**Long-term provisions**	
	Gratuity fund	70,000
	Total	**70,000**
4	**Tangible assets**	
	Buildings	4,50,000
	Machinery	6,60,000
	Total	**11,10,000**
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	**1,00,000**
6	**Trade receivables**	3,00,000
	Less: Provision for Doubtful Debts	7,50,000
	Total	**2,92,5000**

Working Notes:

Purchase Consideration:	₹
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
Less: Liabilities:	**6,30,000**
Retirement Gratuity	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000	
Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	**5,30,000**

Q.AMG.RMP.503(B): (Exam May'18 and RTP Nov'20)

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (Rs)	**Y Ltd. (Rs)**
Equity and Liabilities		
Equity Shares of Rs 10 each	30,00,000	9,00,000
9% Preference Shares of Rs 100 each	3,00,000	-
10% Preference Shares of Rs 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	**40,50,000**	**17,10,000**

Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17: Rs 90,000; 2015-16: Rs 78,000 and 2014-15: Rs 72,000). The profits of 2014 -15 included credit of an insurance claim of Rs 25,000 (fire occurred in 2013-14 and loss by fire Rs 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs 10,000.

(iii) Land & Buildings are valued at Rs 5,00,000 and the Plant & Machinery at Rs 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included Rs 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

SOLUTION

In the Books of Y Ltd. Realisation Account

	Rs			**Rs**
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase	15,90,000
Inventory	5,25,000		Consideration)	
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders		30,000		
(Premium on Redemption)				
To Equity Shareholders				
(Profit on Realisation)		1,50,000		
		18,90,000		**18,90,000**

In the Books of X Ltd. Journal Entries

		Dr. Rs	**Cr. Rs**
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000

(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c (Being Assets and Liabilities taken over as per agreed valuation).			15,90,000
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c (Being Purchase Consideration satisfied as above).			60,000

Balance Sheet of X Ltd. (after absorption) as at 31st March, 2018

Particulars		Notes	Rs
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	48,30,000
B	Reserves and Surplus	2	2,70,000
2	**Non-current liabilities**		
A	Long-term provisions	3	2,10,000
3	**Current liabilities**		
A	Trade Payables	4	6,10,000
B	Short term provision	5	7,500
Total			**59,27,500**
Assets			
1	**Non-current assets**		
A	Fixed assets		
Tangible assets		6	33,00,000
Intangible assets		7	3,00,000
2	**Current assets**		
A	Inventories	8	12,22,500
B	Trade receivables	9	8,80,000
C	Other current Assets	10	15,000
D	Cash and cash equivalents	11	2,10,000
Total			**59,27,500**

Notes to accounts

		Rs
1	**Share Capital**	
Equity share capital		

4,20,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)		42,00,000
Preference share capital		
6,300 9% Preference Shares of Rs. 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)		6,30,000
Total		**48,30,000**
2	**Reserves and Surplus**	
Securities Premium		60,000
General Reserve		2,10,000
Total		**2,70,000**
3	**Long-term provisions**	
Retirement Gratuity fund		2,10,000
4	**Trade payables** (3,90,000 + 2,40,000 - 20,000*) *** Mutual Owings eliminated.**	6,10,000
5	**Short term Provisions**	
Provision for Doubtful Debts		7,500
6	**Tangible assets**	
Land & Buildings		14,00,000
Plant & Machinery		19,00,000
Total		**33,00,000**
7	**Intangible assets**	
Goodwill (1,50,000 +1,50,000)		3,00,000
8	**Inventories** (7,50,000 + 4,72,500)	12,22,500
9	**Trade receivables** (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	**Other current Assets**	15,000
11	**Cash and cash equivalents** (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill

	Rs
Profit of 2016-17	90,000
Profit of 2015-16 adjusted Rs 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (Rs 72,000 – 25,000)	47,000
	2,25,000
Average profit	**75,000**

Goodwill to be valued at 2 times of average profits = Rs 75,000 x 2 = RS 1,50,000

2.

Purchase Consideration:		**Rs**
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	(3,07,500)

Provision for doubtful debts	7,500	
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000		
equity Shares of X Ltd. at 5% Premium		12,60,000
Total		**15,90,000**

Q.AMG.RMP.504(B): (MTP Nov21)

Explain the difference between pooling of interest and purchase method of accounting for amalgamations.

SOLUTION

Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result, the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than statutory reserve, of the transferor company should be incorporated in the financial statements of transferee company.

7 CONSOLIDATED FINANCIAL STATEMENT (AS 21)

INDEX

S.NO.	TOPIC	PG.NO.	Total Questions
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11	SECTION C – MASTER QUESTION	7.81	1

SECTION A – QUESTIONS

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

SERIES 100

SMALL QUESTIONS ON CALCULATION OF GOODWILL or CR and Minority Interest

Q.CFS.SM.101(A):

From the following data, determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve.

(3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2016		31.12.2016	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
			₹	₹	₹	₹	₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

SOLUTION

(1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c

	Minority % Shares Owned	Minority interest as at the date of acquisition [E] x [A + B] ₹	Minority interest as at the date of consolidation [E] X [C + D] ₹
Case 1 [100-90]	10%	15,000	17,000
Case 2 [100-85]	15 %	19,500	18,000
Case 3 [100-80]	20 %	14,000	14,000
Case 4 [100-100]	NIL	Nil	Nil

A = Share capital on 1.1.2016

B = Profit & loss account balance on 1.1.2016 C = Share capital on 31.12.2016

D = Profit & loss account balance on 31.12.2016

(2) Calculation of Goodwill or Capital Reserve

	Shareholding	Cost	Total Equity	Parent's Portion of equity	Goodwill	Capital Reserve
	% [F]	[G]	[A] + [B] = [H]	[F] x [H]	₹ [G] – [H]	₹ [H] – [G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85 %	1,04,000	1,30,000	1,10,500	—	6,500

Case 3	80 %	56,000	70,000	56,000	Nil	Nil
Case 4	100 %	1,00,000	90,000	90,000	10,000	—

(3) The balance in the Profit & Loss Account on the date of acquisition (1.1.2016) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.2016 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Shareholding [K]	P & L as on 1.1.2016 [L]	P & L as on Consolidation date [M]	P & L post-acquisition [N] = [M]- [L]	Amount to be added / (deducted) from holding's P & L [O] = [K] x [N]
1	90 %	50,000	70,000	20,000	18,000
2	85 %	30,000	20,000	(10,000)	(8,500)
3	80 %	20,000	20,000	NIL	NIL
4	100 %	40,000	55,000	15,000	15,000

Q.CFS.RMP.102(A): (RTP May'21)

A Ltd. acquired 70% equity shares of B Ltd. @ Rs.20 per share (Face value - Rs.10) on 31st March, 2021 at a cost of Rs. 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021:

	Rs. in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

SOLUTION

Net assets of B Ltd. as on 31st March, 2021

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		**340**
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd. (Rs.140 lakhs)		(140)
Capital reserve		**98**

Q.CFS.RMP.103(A): (RTP Nov'21 & Similar in ICAI Module)

On 31st March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs. 12,00,000. The position of Q Ltd. on that date was as under:



	Rs.
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 2021:

	P Ltd.	Q Ltd.
	Rs.	Rs.
Equity shares of Rs. 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	–
Pre-incorporation profits	–	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	–
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 2021

(i) Cost of Control/Capital Reserve;

(ii) Minority Interest;

(iii) Consolidated Profit and Loss Account in each of the following cases:

- Before issue of bonus shares.
- Immediately after issue of bonus shares.

SOLUTION

Q.CFS.RMP.104(A): (Exam Nov'23)

GB Limited acquired 80% of equity shares of TB Limited on 1st April,2016 at a cost of Rs. 58,00,000 when TB Limited had an Equity share capital of Rs. 50,00,000 and Reserves and Surplus of Rs. 4,64,000.

The following information is provided:

Year	Profit /(Loss) of TB Limited (Rs.)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

SOLUTION

Year	Profit / (Loss)	Minority Interest (20%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by GB Ltd.		Cost of Control
				Rs.	Balance	
At the time of acquisition in 2016		10,92,800 - (W.N.)	-			
2016-17	(14,50,000)	(2,90,000)	(11,60,000)			14,28,800 (W.N.)
Balance 2017-18	(23,20,000)	8,02,800 (4,64,000)	(18,56,000)			14,28,800

Balance		3,38,800				
2018-19	(29,00,000)	(5,80,000)	(23,20,000)			14,28,800
		(2,41,200)				
	Loss of minority borne by Holding Co.	2,41,200	(2,41,200)	2,41,200	2,41,200	
Balance		Nil	(25,61,200)			
2019-20	(6,96,000)	(1,39,200)	(5,56,800)			14,28,800
	Loss of minority borne by Holding Co.	1,39,200	(1,39,200)	1,39,200	3,80,400	
Balance		Nil	(6,96,000)			
2020-21	1,90,000	38,000	1,52,000			14,28,800
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(38,000)	38,000	(38,000)	3,42,400	
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(1,36,000)	1,36,000	(1,36,000)	2,06,400	14,28,800
Balance		Nil	6,80,000			
2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		(2,06,400)	2,06,400			
Balance		47,600	12,22,400			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2016

		Share of Holding Co.	Minority Interest
	100%	80%	20%
	(Rs.)	(Rs.)	(Rs.)
Share Capital	50,00,000	40,00,000	10,00,000
Reserve	4,64,000	3,71,200	92,800
		43,71,200	10,92,800
Less: Cost of investment		(58,00,000)	
Goodwill		14,28,800	

Q.CFS.SM.105(A):

A Ltd. and B Ltd. provide the following information:

	₹ '000s	
	A Ltd.	**B Ltd.**
Equity Shares	6,000	5,000
6% Preference Shares	NIL	1,000
General Reserve	1,200	800
Profit and Loss Account	1,020	1,790
Trade Payables	3,850	3,410
Dividend Payable	600	500
Goodwill	100	20
Property, Plant and Equipment	3,850	2,750
Investment	1,620	1,100
Inventory	1,900	4,150
Trade Receivables	4,600	4,080
Cash & Bank	600	400

A Ltd. purchased 3/4th interest in B Ltd. at the beginning of the year at the premium of 25%. Following other information is available:

a. Profit & Loss Account of B Ltd. includes ₹ 1,000 thousands bought forward from the previous year.
b. The General Reserve balance is brought forward from the previous year.
c. The directors of both the companies have declared a dividend of 10% on equity share capital for the previous and current year.
d. From the above information calculate Pre- and Post-acquisition Profits, Minority Interest and Cost of Control.

SOLUTION

Calculation of Pre- and Post-Acquisition Profits:

	Pre-Acquisition Profits (₹)	**Post-Acquisition Profits (₹)**
Profit & Loss Account	10,00,000	7,90,000
General Reserve	8,00,000	NIL
	18,00,000	7,90,000
Less: Share of Minority Interest: (¼)	(4,50,000)	(1,97,500)
Attributable to Parent	13,50,000	5,92,500
	(Cost of Control)	(Post-acquisition
		Profits)

Calculation of Minority Interest:

Particulars	**₹**
Paid-up Equity Share Capital (₹ 50,00,000 x ¼)	12,50,000
Paid-up Preference Share Capital	10,00,000
Share in Reserves:	
Profit & Loss Account: ₹ 17,90,000 x ¼	4,47,500
General Reserve: ₹ 8,00,000 x ¼	2,00,000
Minority Interest	28,97,500

Calculation of Goodwill/Capital Reserve

	₹	₹
Cost of Investment in Subsidiary:	46,87,500	
₹ 50,00,000 x 75% x 125% (cost + 25% premium)		
Less: Pre-acquisition dividend	(3,75,000)	43,12,500
Less: Net Worth of B Ltd. on Date of Acquisition (attributable to A Ltd.):		
Paid-up Capital	37,50,000	
Pre-acquisition Reserves	13,50,000	(51,00,000)
Capital Reserve		7,87,500

SERIES 200
QUESTIONS ON IMPORTANT ADJUSTMENTS (DIVIDENDS; UNREALIZED GAINS ETC.)

Q.CFS.SM.201(A):

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹ 1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹ 20,000 and at year end, **declared and paid a dividend of ₹ 15,000**.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2016 and 31st December, 2016? Also please check whether there should be any goodwill/ capital reserve at the date of acquisition.

SOLUTION

Total dividend paid is ₹ 15,000 (out of post-acquisition profits), hence dividend received by XYZ will be credited to P & L.

XYZ Ltd.'s share of dividend = ₹ 15,000 X 80% = ₹ 12,000

In the books of XYZ Ltd.

		₹	₹
Bank A/c To Profit & Loss A/c (Dividend received from ABC Ltd credited to P&L A/c being out of post-acquisitoin profits – as explained above)	Dr.	12,000	12,000
Goodwill on consolidation (at the date of acquisition):		₹	₹
Cost of shares			1,40,000
Less: Face value of capital i.e., 80% of capital		80,000	
Add: Share of capital profits [60,000 X 80 %]		48,000	(1,28,000)
Goodwill			12,000
Minority interest on: - **1st January, 2016:** 20% of ₹ 1,60,000 [1,00,000 + 60,000]			32,000
- **31st December, 2016:** 20% of ₹ 1,65,000 [1,00,000 + 60,000 + 20,000 – 15,000]			33,000

Q.CFS.SM.202(A):

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

	₹ in lakhs
Property, plant & Equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

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

Property, plant & Equipment — Up by 20%

Investments — Down by 10%

Zed Ltd. **declared and paid dividend @ 20%** on its equity shares as on 31st March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

SOLUTION

Revalued net assets of Zed Ltd. as on 31st March, 2017

	₹ in lakhs	₹ in lakhs
Property, plant & Equipment [120 X 120%]		144.0
Investments [55 X 90%]		49.5
Current Assets		70.0
Loans and Advances		15.0
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.5
Exe Ltd.'s share of net assets (70% of 138.5)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd. (₹70 lakhs – ₹7 lakhs*)		63.00
Capital reserve		**33.95**

* Total Cost of 70 % Equity of Zed Ltd	₹ 70 lakhs
Purchase Price of each share	₹ 20
Number of shares purchased [70 lakhs /₹ 20]	3.5 lakhs
Dividend @ 20 % i.e., ₹ 2 per share	₹ 7 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

Q.CFS.SM.203(A): (Unsold Inventory – Unrealised Profit)

a) A Ltd hold 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e., 31 March 20X1.

b) A Ltd hold 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories

costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e., 31 March 20X1.

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

SOLUTION

Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

One also needs to see whether the intragroup transaction is "upstream" or "down- stream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer.

In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory.

But in the case of downstream transaction, the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

Using above mentioned guidance, following adjustments would be required:

(a) This would be the case of downstream transaction

In the consolidated profit and loss account for the year ended 31 March 2019, entire transaction of sale and purchase of 130 lacs each, would be **eliminated by reducing both sales and purchases (cost of sales)**.

Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 20X1, by **reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories** as of 31 March 20X1.

(b) This would be the case of upstream transaction:

In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 20X1, by **reducing the value of closing inventories** by ₹ 50 lacs as of 31 March 20X1. In the consolidated balance sheet as of 31 March 20X1, **A Ltd's share of profit from B Ltd will be reduced by ₹ 37.50 lacs (being 75% of ₹50 lacs) &the minority's share of the profits of B Ltd would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs)**.

SERIES 300
QUESTIONS ON CONSOLIDATED BALANCE SHEET WITH IMP ADJUSTMENTS

Q.CFS.RMP.301(A): (Exam Nov'22)

H Ltd. and S Ltd. provide the following information as at 31st March, 20X2:

	H Ltd.	S Ltd.
	Rs.	Rs.
PPE	2,00,000	2,60,000
Investments (14,000 equity shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of Rs.10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information

H Ltd. acquired the shares of S Ltd. on 1-7-20X1 and Balance of profit and loss account of S Ltd. on 1-4-20X1 was 60,000.

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 20X2.

SOLUTION

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2022

		Note No	Amount (₹)
	I Equity and Liabilities		
1	**Shareholders' Fund:**		
	(a) Share Capital	1	3,00,000
	(b) Reserve and Surplus	2	1,10,500
2	Minority interest	3	84,000
3	Current Liabilities		
	Trade payables	4	3,20,000
	Total		**8,14,500**
	II Assets		
1	Non-Current Assets:		
	Property, plant and equipment	5	4,60,000
	Intangible Asset	6	66,500
2	Current Assets	7	2,88,000
	Total		**8,14,500**

Notes to Accounts

		Amount (₹)
1	Share capital 30,000 Equity Shares @ ₹10 each	3,00,000
2	Reserve and Surplus	

	Profit and loss account (₹ 1,00,000 + 70% of 9/12 x 20,000 i.e. ₹ 10,500)	1,10,500
3	Minority Interest (W/N 2)	84,000
4	Trade payables H Ltd. S Ltd.	 2,00,000 1,20,000
		3,20,000
5	Property, plant and equipment H Ltd. S Ltd.	 2,00,000 2,60,000
		4,60,000
6	Intangible Asset: Goodwill (W/N 3)	66,500
7	Current Assets H Ltd. S Ltd.	 1,48,000 1,40,000 2,88,000

Working Notes:

1. Percentage of holding

	No. of Shares	Percentage
Holding Co.	14,000	(70%)
Minority shareholders	6,000	(30%)
Total Shares	20,000	

2. Calculation of Minority Interest

Share capital (30% of ₹ 2,00,000)	60,000	
Share in Profit and loss account (₹ 80,000 X 30%)	24,000	84,000

3. Calculation of Cost of Control (Goodwill)

Cost of Investment	2,52,000
Less: Paid up value of shares (70% of ₹	(1,40,000)
2,00,000) Share in pre-acquisition profits 0% of [60,000+3/12(80,000-60,000)]	(45,500)
	66,500

Q.CFS.RMP.302(A): (RTP May'20, May'22)

From the following information of Beta Ltd. and its subsidiary Gamma Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date:

	Beta Ltd.	Gamma Ltd.
	Rs.	Rs.
Share Capital:		
Shares of Rs. 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
Property, plant and Equipment:		
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000

Non-current Investments:		
Shares in Gamma Ltd.: 2,000 shares at Rs. 200 each	4,00,000	

Other information:

- Reserves and Profit and Loss Account of Gamma Ltd. stood at Rs. 62,500 and Rs. 37,500 respectively on the date of acquisition of its 80% shares by Beta Ltd. on 1st April, 2020.
- Machinery (Book-value Rs. 2,50,000) and Furniture (Book value Rs. 50,000) of Gamma Ltd. were revalued at Rs. 3,75,000 and Rs. 37,500 respectively on 1st April, 2020 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.

SOLUTION

Consolidated Balance Sheet of Beta Ltd. and its Subsidiary Gamma Ltd. as at 31st March, 2021

Particulars	**Note No.**	**(Rs.)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		**29,99,375**
II. Assets		
(1) Non-current assets		
(a) (i) Property, Plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		**29,99,375**

Notes to Accounts

		Rs.		
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Gamma Ltd.'s post- acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Gamma Ltd.'s post- acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Beta Ltd.		3,75,000	
	Gamma Ltd.		1,42,500	5,17,500
3.	**Property, Plant & Equipment**			
	Machinery			
	Beta Ltd.		7,50,000	

	Gamma Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture			
	Beta Ltd.		3,75,000	
	Gamma Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,37
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Beta Ltd.		11,00,000	
	Gamma Ltd.		3,75,000	14,75,00

Working Notes:

1.	**Pre-acquisition profits and reserves of Gamma Ltd.**	**Rs.**
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Beta Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of Gamma Ltd.**	
	Profit on Machinery Rs. (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture Rs. (50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Beta Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of Gamma Ltd.**	
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 1,87,500 – 62,500)	1,25,000
	Beta Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000
4.	**Post -acquisition profits of Gamma Ltd.**	
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	
	on Rs. 12,500 i.e. (50,000 – 37,500)	1,875
		26,875
	Less: Under depreciation on machinery @ 10%on Rs. 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Beta Ltd.'s share 4/5 × 14,375	11,500

Minority Interest 1/5 × 14,375	2,875
5. Minority Interest	
Paid-up value of (2,500 – 2,000) = 500 shares	
held by outsiders i.e., 500 × Rs. 100	50,000
Add: 1/5th share of pre-acquisition profits and reserves	20,000
1/5th share of profit on revaluation	22,500
1/5th share of post-acquisition reserves	25,000
1/5th share of post-acquisition profit	2,875
	1,20,375
6. Cost of Control or Goodwill	
Paid-up value of 2,000 shares held by Beta Ltd. i.e., 2,000 × Rs. 100	2,00,000
Add: 4/5th share of pre-acquisition profits and reserves	80,000
4/5th share of profit on the revaluation	90,000
Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Beta Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

Q.CFS.SM.303(A):

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 20X1. On 31st December, 20X1, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 20X1

Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	2,00,000
(b) Reserves and Surplus	2	2,97,200	1,82,000
(2) Current Liabilities			
(a) Trade Payables		47,100	17,400
(b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

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

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 20X1 was considered as worth ₹1,80,000 on 1st July, 20X1; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st December, 20X1.

SOLUTION

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 20X1

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

(b) Trade receivables	8	99,800
(c) Cash & Cash equivalents	9	22,500
Total		10,36,900

Notes to Accounts

				₹
1.	**Share Capital**			
	5,000 shares of ₹ 100 each			5,00,000
2.	**Reserves and Surplus**			
	Reserves		2,40,000	
	Profit & loss (Refer to W.N 8)		68,800	
	Total			3,08,800
3.	**Trade Payables**			
	A Ltd.	47,100		
	Add: B Ltd	17,400		
	Total			64,500
4.	**Short term borrowings**			
	Bank overdraft			80,000
5.	**Property, plant and equipment**			
	Land and building- A Ltd	1,50,000		
	Add: Land and building- B Ltd	1,80,000	3,30,000	
	Plant & Machinery (Refer to W.N 7)		4,11,000	
	Total			7,41,000
6.	**Intangible assets**			
	Goodwill (refer to W.N 6)			17,200
7.	**Inventories**			
	A Ltd.		1,20,000	
	B Ltd.		36,400	
	Total			1,56,400
8	**Trade Receivables**			
	A Ltd.	59,800		
	B Ltd.	40,000		
	Total			99,800
9	**Cash & Cash equivalents**			
	Cash of A Ltd		14,500	
	Add: cash of B Ltd.		8,000	
	Total			22,500

Share holding Pattern

Total Shares of B Ltd	2,000 shares
Shares held by A Ltd	1,600 shares i.e. 80 %
Minority Shareholding	400 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 1,600 shares - ₹16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

Profit & Loss Account Dr. ₹ 16,000
To Investment ₹ 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at ₹ 1,42,500 on 1st July, 20X1, considering only six months' depreciation on ₹ 1,50,000 total depreciation being ₹ 15,000. The value put on the assets being ₹ 1,80,000, there is an appreciation to the extent of ₹ 37,500 (1,80,000 – 1,42,500).

3. **Capital profits of B Ltd.**

	₹	₹
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1st January 20X1 is same as of 31st December 20X1)		1,00,000
Profit & Loss Account Balance on 1st January, 20X1	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 20X1: Total ₹ 82,000 Less: ₹ 10,000 ₹ 72,000		
Proportionate upto 1st July, 20X1 on time basis (₹ 72,000/2)		36,000
Appreciation in value of Plant & Machinery		37,500
		1,83,500
Less: 20% due to outsiders		(36,700)
Holding company's share		**1,46,800**

4. **Revenue profits of B Ltd.:**

Profit after 1st July, 20X1 [(82,000 – 10,000) x ½]		36,000
Less: Depreciation 10% depreciation on ₹1,80,000 for 6 months	9,000	
Less: Depreciation already charged for 2nd half year on 1,50,000	(7,500)	(1,500)
		34,500
Less: 1/5 due to outsiders		(6,900)
Share of A Ltd.		**27,600**

5. **Minority interest:**

Par value of 400 shares (2,00,000 X 20%)	40,000
Add: 1/5Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

6. **Cost of Control:**

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits –share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		17,200

7. **Value of plant & Machinery:**

8.

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2nd half charged on pre- revalued value	7,500	
Less: Depreciation on ₹1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

Profit & Loss Account (Consolidated):

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	(16,000)	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

Q.CFS.RMP.304(A): (Nov'20 EXAM)

H Limited acquired 64000 Equity Shares of Rs. 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd. (Rs.)	S Ltd. (Rs.)
Equities and Liabilities:		
Equity Share Capital: Shares of Rs. 10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	**36,55,200**	**16,60,000**
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	**36,55,200**	**16,60,000**

Additional Information:

1) The Profit & Loss Account of S Ltd. showed credit balance of Rs. 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.

2) The Plant & Machinery of S Ltd. which stood at Rs. 6,00,000 on 1st April, 2019 was considered worth Rs. 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

SOLUTION

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

Particulars	Note No.	(Rs.)
I. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,96,400
(b) Short term borrowings		3,00,000
Total		**42,02,000**
II. **Assets**		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
Total		**42,02,000**

Notes to Accounts

			Rs.	Rs.
1.	**Share Capital**			
	2,00,000 Equity shares of Rs. 10 each			20,00,000
2.	**Reserves and Surplus**			
	Reserves		9,60,000	
	Profit & Loss			
	H Ltd.	2,28,800		
	S Ltd. (As per W.N. 3)	1,18,400	3,47,200	13,07,200
3.	**Trade Payables**			
	H Ltd.		1,66,400	
	S Ltd. (80,000+52,000)		1,32,000	2,98,400
4.	**Property, Plant and Equipment**			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
5.	**Inventories**			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
6.	**Trade Receivables**			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200

7.	**Cash & Cash equivalents**		
	Cash		
	H Ltd.	56,800	
	S Ltd.	32,000	88,800

Working Notes:

1. **Share holding pattern**

Total Shares of S Ltd 80,000 shares
Shares held by H Ltd 64,000 shares i.e., 80 %;
Minority Shareholding 16,000 shares i.e., 20 %

2. **Capital profits of S Ltd.**

	Rs.	**Rs.**
Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2019 is same as of 31st March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		
Total Rs. 3,28,000 Less: Rs. 40,000 (opening balance)		
Rs. 2,88,000		
Proportionate up to 1st October, 2019 on time basis (Rs. 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 X 80%)		4,27,200
Minority Interest (5,34,000 X 20%)		**1,06,800**

Note: Preliminary expenses as on 1st April, 2019 amounting Rs. 20,000 have been written off.

a. **Revenue profits of S Ltd.**

Profit after 1st October, 2019 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on Rs.5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2nd half year on 6,00,000	30,000	4,000
		1,48,000
Holding company's share (1,48,000 X 80%)		1,18,400
Minority Interest (1,48,000 X 20%)		**29,600**

b. **Minority interest**

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	29,600
	2,96,400

c. Cost of Control

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 X 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
Cost of Control or Goodwill		**1,60,000**

d. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1st October, 2019

	Rs.
Value of plant and machinery as on 1st April,2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1st October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1st October,2019	(5,20,000)
Revaluation Loss	**50,000**

e. Value of plant & Machinery of S Ltd. On 31st March,2020

Value of machinery on 1st October, 2019	5,20,000
Less: depreciation for next six month	(26,000)
	4,94,000

Q.CFS.RMP.305(A): (RTP Nov'22)

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (Rs. in 000's)	**S Ltd. (Rs. in 000's)**
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of Rs. 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021. On that date the following balances stood in the books of S Ltd.:
General Reserve Rs. 1,500 thousand; Profit and Loss Account Rs. 633 thousand.

(b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of Rs. 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2022, the Inventory of S Ltd. included goods purchased for Rs. 50 thousand from H Ltd., which had made a profit of 25% on cost.

(e) Details of Trade payables and Trade receivables:

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
	611	**507**
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	**778**

Prepare a consolidated Balance Sheet as at 31st March, 2022.

Solution

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars		Note No.	(Rs. in 000's)
I.	**Equity and Liabilities**		
(1)	**Shareholder's Funds**		
	(a) Share Capital	1	4,000
	(b) Reserves and Surplus	2	3,063
(2)	Minority Interest (W.N.6)		1,560
(3)	**Current Liabilities**		
	Trade payables	3	1,118
	Short term provisions	4	482
Total			**10,223**
II.	**Assets**		
(1)	**Non-current assets**		
	PPE	5	5,904
(2)	**Current assets**		
(a)	Inventories	6	1,759
(b)	Trade receivables	7	1,598
(c)	Cash and cash equivalents	8	512
(d)	Short term loans and advances	9	450
Total			**10,223**

Notes to Accounts

		(Rs. in 000's)	(Rs. in 000's)
1.	**Share Capital**		
	Authorised share capital		5,000
	5 lakhs equity shares of Rs. 10 each		

	Issued, Subscribed and Paid up		
	4 lakhs equity shares of Rs. 10 each fully paid		4,000
2.	**Reserves and surplus**		
	Capital Reserve (Note 5)	679.8	
	General Reserve	928	
	Profit and Loss Account:		
	H Ltd. Rs. 1,305 Add: Share in S Ltd Rs. 340.20		
	Rs. 1,645.20		
	Less: Dividend wrongly credited Rs. (180)		
	Rs. 1,465.20		
	Less: Unrealised profit (50 X 1/5) Rs. (10)	1,455.20	3,063
3.	**Trade payables**		
	H Ltd.	611	
	S Ltd.	507	1,118
4.	**Short –term provisions**		
	Provision for Taxation H Ltd. Rs. 220		
	S Ltd. Rs. 180	400	
	Other Provisions H Ltd Rs. 65		
	S Ltd. Rs. 17	82	482
5.	**PPE**		
	Plant and Machinery		
	H Ltd. Rs. 2,541		
	S Ltd. Rs. 2,450	4,991	
	Furniture and fittings		
	H Ltd. Rs. 615		
	S Ltd. Rs. 298	913	5,904
6.	**Inventories**		
	Inventory H Ltd. Rs. 983 S Ltd. Rs. 786	1,769	
	Less: Unrealised profit (Rs. 50 x 1/5)	(10)	1,759
7.	**Trade receivables**		
	H Ltd.	820	
	S Ltd.	778	1,598
8.	**Cash and cash equivalents**		
	Cash and Bank Balances H Ltd	410	
	S Ltd.	102	512
9.	**Short term loans and advances**		
	Sundry Advances H Ltd.	260	
	S Ltd.	190	450

Working Notes:

Share holding pattern

Particulars	Number of Shares	% of holding
a. S Ltd. (i) Purchased on 01.04.2021	90,000	
(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60% (1,44,000 /2,40,000*x 100)
b. Minority Interest	96,000	40%

*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

1. S Ltd. General Reserve

		(Rs. in 000)			(Rs. in 000)
To	Bonus to equity shareholders (2,400/8 x 3)	900	By	Balance b/d	1,500
To	Balance c/d	690	By	Profit and Loss A/c (Balancing figure)	90
		1,590			**1,590**

2. S Ltd.'s Profit and Loss Account

		(Rs. in 000)			(Rs. in 000)
To	General Reserve	90	By	Balance b/d	633
To	Dividend paid on 14.7.2021 (1,500/100 x 20)	300	By	Net Profit for the year (Bal. fig.)	567*
To	Balance c/d	810			
		1,200			**1,200**

* Out of Rs. 5,67,000 profit for the year, Rs. 90,000 has been transferred to reserves by S Ltd.

3. Distribution of Revenue Profits

	Rs. in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567– 340.20)	226.80

4. Computation of Capital Profits

	Rs. in 000	Rs. in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

5. Computation of Capital Reserve

		Rs. in '000
60% of share capital of S Ltd.		1,440

Add: Share of H Ltd. in the capital profits as in W.N. (4)		559.80
		1,999.80
Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits Rs. 300/100 x 60	(180)	(1,320)
		679.80

6. Calculation of Minority Interest

	Rs. in '000
40% of share capital of S Ltd.	960.00
Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	1,560.00

Q.CFS.RMP.306(A): (RTP Nov'18) (Similar to Q305A)

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	**Amounts as at 31st March, 2017**	
	X Ltd. (Rs in lakhs)	**Y Ltd. (Rs in lakhs)**
LIABILITIES		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	25,896	**10,727**
ASSESTS		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016	6,800	-
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	**10,727**

The following information is also given to you:

(a) 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.

(b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs 650 Lakhs.

(c) General Reserve of Y Ltd. stood at same Rs 1,450 Lakhs as on 1st April, 2016.

(d) Y Ltd.'s Plant & machinery showed a balance of Rs 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs 1,000 Lakh.

(e) Included in Trade Payables of Y Ltd. are Rs 50 Lakh for goods supplied by X Ltd.

(f) On 31st March, 2017, Y's ltd. inventory included goods for Rs 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes.

SOLUTION

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd.as on 31st March, 2017

Particulars	Note No.	Rs in lakhs
I Equity and Liabilities		
1. **Shareholders' Funds**		
(a) Share Capital	1	19,000
(b) Reserves and Surplus	2	5,620
2. **Minority interest**	3	3,400
3. **Current Liabilities**		
(a) Trade payables	4	2,623
Total		**30,643**
II Assets		
1 **Non-Current Assets**		
Fixed Assets		
(i) Tangible Assets	5	17,435
2 **Current Assets**		
(a) Inventories	6	6,632
(b) Trade Receivables	7	4,842
(c) Cash and Cash equivalents	8	1,734
Total		**30,643**

Notes to Accounts

		Rs in lakhs
1. Share Capital		
Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs 10 each fully paid up)		15,000
400 lakh Preference Shares of Rs 10 each fully paid up		4,000
		19,000
2. Reserves and Surplus		
Credit Balance of Profit & Loss Account	2,750	
Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs 4500 Lakh Equity Shares)	450	
	2,300	
Add: Share in Y Ltd. Revenue Profit (Working Note i)		825
	3,125	
Less: Unrealised Profit (Working Note iv)	30	3,095
Capital Reserve (Working Note iii)		25
General Reserve	2,500	2,525
		5,620
3. Minority interest		

100 Lakh Preference Shares of Rs 10 fully paid up	1,000	
150 Lakh Equity Shares of Rs10 each fully paid up	1,500	2,500
Share in Revenue Profits (Working Note i)	275	
Share in Capital Profit (working Note ii)	625	900
		3,400
4. Trade payables		
X Ltd.	1,646	
Y Ltd.	1,027	
	2,673	
Less: Mutual owing	50	2,623
5. Tangible Assets		
Land & Building		
X Ltd.	3,550	
Y Ltd	1,510	5,060
Plant & Machinery		
X Ltd.	5,275	
Y Ltd (Working note v)	4,500	9,775
Furniture & Fixtures		
X Ltd.	1,945	
Y Ltd	655	2,600
		17,435
6. Inventories		
X Ltd.	4,142	
Y Ltd	2,520	
	6,662	
Less: Unrealized Profit	(30)	6,632
7. Trade Receivables		
X Ltd.	3,010	
Y Ltd	1,882	
	4,892	
Less: Mutual Owing	50	4,842
8. Cash & cash Equivalents		
X Ltd.	1,174	
Y Ltd	560	1,734

Working Notes

(i) Calculation of Revenue Profits

Y's Ltd Profit & Loss Account

	Rs in lakh		Rs in lakh
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	1,850		**1,850**

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	4,000

Less Balance as 31st March 2017	3,600
	400
Hence rate of Depreciation = 400/4000 x 100	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd.'s share- 1100 x 450/600	825
Y Ltd.'s share = 1100 x150/600	275

(ii) Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000
Capital Profit	2,500
X Ltd.'s Share in Capital Profit = 2,500 x 450/600	1,875
Y Ltd.'s Share in Capital Profit = 2,500 x 150/600	625

(iii) Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = 6,375-6,350	25

(iv) Unrealised Profit

Rs 150 Lakh x 25/125* = 30 lakh

(v) Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	100	900
		4,500

* Rs 150 lakh considered as cost to Y ltd.

Q.CFS.RMP.307(A): (EXAM May'24)

The Balance Sheets of Art Limited and Craft Limited as on 31st March 2024 are as below:

Particulars	Note No	Art Limited (Rs.)	Craft Limited (Rs.)
I. Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			

i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		11,77,000	**7,40,000**
II. Assets			
a. non-current Assets			
i. property, plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
b. Current Assets			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables		1,33,500	1,68,300
iii. Cash & Cash equivalent	6	24,500	6,700
		11,77,000	**7,40,000**

Notes to Accounts:

		Art Limited (Rs.)	**Craft Limited (Rs.)**
1	Share capital		
	6,500 shares of Rs. 100 each	6,50,000	-
	4,000 shares of Rs. 100 each fully paid – up	-	4,00,000
	Total	6,50,000	4,00,000
2	Reserves and surplus		
	General reserve	1,20,000	40,000
	Profit and Loss account	1,92,000	2,08,000
	Total	3,12,000	2,48,000
3	Short term borrowings		
	Bank Overdraft	70,000	-
4	Property Plant & Equipment		
	Land & Building	1,90,000	1,35,000
	Plant & Machinery	2,31,000	2,25,000
	Total	4,21,000	3,60,000
5	Non-current investments		
	Investment in Craft Limited (cost)	4,32,000	-
6	Cash & Cash equivalents		
	Cash	24,500	6,700

Additional information

(i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of Rs. 40,000 and Rs. 58,700 respectively as on 1st April, 2023.

(ii) The plant & Machinery of Craft Limited which stood at Rs. 2,50,000 as on 1st April, 2023 was considered worth Rs. 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.

(iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.

(iv) On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for Rs. 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated balance sheet as on 31st March 2024.

SOLUTION:

Consolidated Balance Sheet of Art and Craft Ltd As on 31st March, 2024

	Particulars	Note no.	`
I.	**Equity & Liabilities**		
(1)	Shareholders' fund		
(a)	Share Capital	1	6,50,000
(b)	Reserves & Surplus	2	3,73,460
(2)	Minority Interest	3	1,26,740
(3)	Current Liabilities		
(a)	Short term borrowings	4	70,000
(b)	Trade Payables (1,45,000 + 92,000)		2,37,000
	Total		14,57,200
II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	7,65,000
(2)	Current Assets		
(a)	Inventories	6	3,57,500
(b)	Trade Receivables	7	3,03,500
(c)	Cash & Cash Equivalents	8	31,200
	Total		14,57,200

Notes to Accounts

Sr. No.	Particulars		`
1.	Share Capital		
	Issued, Subscribed & Paid-up Capital		6,50,000
	a) Equity Share Capital		
	6,500 Equity Shares of `100 each		
2.	Reserves & Surplus		
	Profit & Loss A/c (WN 5)		2,40,100
	General Reserve (WN 5)		1,20,000
	Capital Reserve (W.N. 3)		13,360
			3,73,460
3.	Minority interest in Craft Ltd. (W.N.4)		1,26,740
4.	Short-term borrowings		
	Bank Overdraft		70,000
5.	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	1,35,000	3,25,000

	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	2,09,000	4,40,000
			7,65,000
6.	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	(13,500)	3,57,500
7.	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	1,70,000	3,03,500
8.	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	6,700	31,200

Working Notes:

1. Shareholding Pattern

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

2. Analysis of Profit

	General reserve	Profit and loss account
Opening balance	40,000	58,700
Closing balance	40,000	2,08,000
Changes during the year		1,49,300

Analysis of Profit

Particulars	**Pre acquisition profit (6 months) (`)**	**Post acquisition profit (6 months) (`)**
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed (1,700) (W.N. 8)	850	850
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	-	1,500
Total	1,56,700	77,000
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

3. Cost of Control

Particulars	`	`
Cost of Investment (Given)		4,32,000
Less: Share in Net Assets:		(4,45,360)
a) Share Capital (3,200 shares × `100)	3,20,000	
b) Capital Profit (W.N. 2)	1,25,360	
Capital Reserve		13,360

4. Minority Interest

Particulars	`
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	15,400
Total	1,26,740

5. Consolidated Profit and General Reserve of Art Ltd

Particulars	**Profit and loss account ₹**	**General reserve ₹**
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	(13,500)	
Total	2,40,100	1,20,000

6. Calculation of Revaluation Profit /Loss

Particulars	₹
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	(12,500)
WDV as on date of acquisition	2,37,500
Revalued amount	2,20,000
Revaluation Loss	17,500

7. Savings in Depreciation

= Depreciation Provided for 6 months – Depreciation Should be
= 12,500 – (2,20,000 × 10% × 6/12)
= 1,500

8. Calculation of provision reversed

Trade Receivable (Given) =1,68,300 it is after provision i.e 99% So, 100% will be 1,70,000 therefor provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements: Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

SERIES 400
QUESTIONS ON CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Q.CFS.RMP.401(A): (MTP May'20)

The summarized Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2020 are given below: **Rs. in Lakhs**

Incomes	**A Ltd.**	**B Ltd.**
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450

The following information is also given:

- **A Ltd sold goods of Rs. 180 Lakhs to B Ltd at cost plus 25% (1/6 of such goods were still in inventory of B Ltd at the end of the year).**
- Administrative expenses of B Ltd include Rs. 8 Lakhs paid to A Ltd as consultancy fees.
- Selling and distribution expenses of A Ltd include Rs. 15 Lakhs paid to B Ltd as commission.
- A Ltd. holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2018-19 is Rs. 1,500 Lakhs.

Prepare a consolidated Profit and Loss Account of A Ltd. with its subsidiary B Ltd. for the year ended 31st March, 2020.

SOLUTION

Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd. for the year ended on 31st March, 2020

Particulars	**Note No.**	**Rs. in Lacs**
I. Revenue from operations	1	8,797
II. Total revenue		**8,797**
III. Expenses		
Cost of Material purchased/consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	802

Total expenses		**2,653**
IV. Profit before Tax (II-III)		**6,144**
V. Tax Expenses	8	2,100
VI. Profit After Tax		**4,044**

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1.	**Revenue from Operations**		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	1,500	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2.	**Increase in Inventory**		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealized profits Rs. 180×1/6 x 25/125	(6)	1,794
3.	**Cost of Material purchased/consumed**		
	A Ltd.	1,200	
	B Ltd.	300	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	150	450
			1,770
4.	**Employee benefits and expenses**		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5.	**Other Expenses**		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from B Ltd.	(8)	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6.	**Finance Cost**		
	Interest:		

	A Ltd.	150	
	B Ltd.	75	225
7.	**Depreciation and Amortization**		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8.	**Provision for tax**		
	A Ltd.	1800	
	B Ltd.	300	2100

Q.CFS.RMP.402(A): (EXAM May'23)

G Ltd. and its subsidiary K Ltd. give the following information for the year ended 31st March, 2023:

	G Ltd.	K Ltd.
	(₹ in Crores)	(₹ in Crores)
Sales and other income	3,000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative Expenses	75	50
Selling and Distribution Expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

(i) G Ltd. sold goods of Rs. 200 crores to K Ltd. at cost plus 25% (1/5th of such goods were still in inventory of k Ltd. at the end of the year)

(ii) G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ₹ 800 crores on 01.04.2022 (date of acquisition of shares)

(iii) Administrative expenses of K Ltd. included ₹ 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ₹ 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K Ltd. for the year ended 31st March, 2023.

SOLUTION

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹ in Crores
Revenue from operations	1	3,525
Total Income		3,525
Expenses		650
Cost of material purchased/consumed	2	(842)
Changes of inventories of finished goods	3	675
Employee benefit expense	4	105
Finance cost	5	105
Depreciation and amortization expense	6	225
Other expenses	7	918

Total expenses		2,607
Profit before tax (II-III)		

Notes to Accounts

1	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	**3,525**
2	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	**500**
	Less: Purchases by K Ltd. from G Ltd	(200)	
	Direct expenses (Production)		
	G Ltd.	100	**150**
	K Ltd	50	**650**
3	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits Rs. 40 crores × 25/125	(8)	**842**
4	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd	600	
	K Ltd.	75	675
5	Finance cost		
	Interest:	75	
	G Ltd.	30	105
	K Ltd		
6	Depreciation	75	
	G Ltd.	30	105
	K Ltd.		
7	Other expenses		
	Administrative expenses	75	
	G Ltd.	50	
	K Ltd.	125	
		(5)	120
	Less: Consultancy fees received by G Ltd. from		
	K Ltd	100	

	Selling and distribution Expenses:	25	
	G Ltd.	125	
	K Ltd.	(20)	105
			225
	Less: Commission received by K Ltd. from G Ltd.		

Note: The information (i) given in the question states that G Ltd. sold goods of ₹200 crores to K Ltd. at cost plus 25%. In the above solution it has been considered that the amount of ₹200 crores is sale value. Alternatively, ₹ 200 crores may be assumed as the cost of the goods sold. In that case, the solution will differ and will be as follows:

Alternative solution:

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹in Crores
Revenue from operations	1	3,475
Total income		3,475
Expenses		
Cost of material purchased /consumed	2	600
Changes of inventories of finished goods	3	(840)
Employee benefit expense	4	675
Finance cost	5	105
Depreciation and amortization expense	6	105
Other expenses	7	225
Total expenses		870
		2,605
Profit before tax (II-III)		

Notes to Accounts

		₹ in Crores	₹ in Crores
1	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd	750	
		3,750	
	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			600
3	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/100	(10)	840

4	Employee benefits and expenses Wages and salaries: G Ltd. K Ltd.	 600 75	 675
5	Finance cost Interest: G Ltd. K Ltd.	 75 30	 **105**
6	Depreciation G Ltd. K Ltd.	 75 30	 **105**
7	Other expenses Administrative expenses G Ltd. K Ltd. Less: Consultancy fees received by G Ltd. from K Ltd. Selling and distribution Expenses: G Ltd. K Ltd Less: Commission received by K Ltd. from G Ltd.	 75 50 125 (5) 100 25 125 (20)	 120 105 225

Q.CFS.RMP.403(A): (RTP May'24 and Exam July'21)

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (Rs. In 000)		Y Limited (Rs. In 000)	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Equity Share capital (Share of Rs. 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160	-	120	
Preference share dividend up to 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	

Fixed Assets	2,200		1,580	
Total	5,027	5,027	3,450	3,450

- **Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.**
- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being Rs. 1,20,000, one fourth of such goods were still lying-in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

SOLUTION

Consolidated Statement of Profit & Loss Account of X Ltd. and Y Ltd. for the year ended 31st March, 2021

Particulars	**Note No.**	**Rs.**
I. Revenue from operations	1	35,80,000
II. Total revenue		**35,80,000**
III. Expenses		
Cost of Material purchased/Consumed	2	20,80,000
Changes of Inventories of finished goods		-
Employee benefit expense	3	5,00,000
Finance cost	4	48,000
Depreciation and amortization expense	5	4,57,000
Other expenses	6	2,80,000
Total expenses		33,65,000
IV. Profit before Tax (II-III)		**2,15,000**
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		**2,15,000**
Preference dividend	7,000	
Preference dividend payable	7,000	(14,000)
		2,01,000
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
Profit to be transferred to consolidated balance sheet		**1,95,100**

Notes to Accounts

		Rs.	**Rs.**
1	**Revenue from Operations**		
	X Ltd.	18,00,000	
	Y Ltd.	19,00,000	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	35,80,000
2	**Cost of Materials Purchased/Consumed**		
	X Ltd.	10,00,000	

	Y Ltd.	12,00,000	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	20,80,000
3	**Employee benefit and expenses**		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	3,00,000	5,00,000
4	**Finance cost**		
	Interest		
	H Ltd.	24,000	
	S Ltd.	24,000	48,000
5	**Depreciation**		
	H Ltd.	2,20,000	
	S Ltd.	2,37,000	4,57,000
6	**Other expenses**		
	H Ltd.	1,60,000	
	S Ltd.	1,20,000	2,80,000

Working Notes:

1.

Profit of Subsidiary		**Rs.**
Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	14,000	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss Rs. 9,000)		**(1,800)**

0. Inventory reserve = 120,0004 x 25125=Rs. 6,000

1. **Pre-acquisition loss** = 80% of 3 month's profit up to 30th June,2020 i.e. 80 % of ¼ of loss Rs. 9,000. Hence, pre-acquisition loss = Rs. 1,800
2. Investment account includes Preference dividend for 3 months prior to acquisition i.e. Rs. 4,00,000 x 50% x 7% x 1/4 = Rs. 3,500

Note: Alternative Method can be applied in this question.

SERIES 500
MISC. CATEGORY

Q.CFS.SM.501(A):

Subsidiary B Ltd. provides the following balance sheet

Particulars	Note No.	20X0 (₹)	20X1 (₹)
Equity and Liabilities			
(I) Shareholder's Funds			
(a) Share Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,86,000	7,14,000
(2) Current Liabilities			
(a) Short term borrowings	3	--	1,70,000
(b) Trade Payables		4,90,000	4,94,000
(c) Short-term provisions	4	3,10,000	4,30,000
Total		**15,86,000**	**23,08,000**
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	5	2,72,000	2,24,000
(b) Non-current Investment			4,00,000
(2) Current assets			
(a) Inventories		5,97,000	7,42,000
(b) Trade Receivables		5,94,000	8,91,000
(c) Cash & Cash Equivalents		51,000	3,000
(d) Other current assets	6	72,000	48,000
Total		**15,86,000**	**23,08,000**

Notes to Accounts

		20X0 (₹)	20X1 (₹)
1.	**Share capital**		
	5,000 equity shares of ₹10 each, fully paid up	5,00,000	5,00,000
2.	**Reserves and Surplus**		
	General Reserves	2,86,000	7,14,000
3.	**Short term borrowings**		
	Bank overdraft	--	1,70,000
4.	**Short term provisions**		
	Provision for taxation	3,10,000	4,30,000
5.	**Property, plant and equipment**		
	Cost	3,20,000	3,20,000
	Less: Depreciation Total	(48,000)	(96,000)
6.	**Other current Assets**	2,72,000	2,24,000
	Prepaid expenses	72,000	48,000

Also consider the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

(b) A Ltd. values inventory on weighted average basis while B Ltd. used FIFO basis. To bring B

Ltd.'s values in line with those of A Ltd, its value of inventory is required to be reduced by ₹12,000 at the end of 20X0 and ₹ 34,000 at the end of 20X1.

(c) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 20X0 and₹ 30,000 in 20X1, being part of initial advertising expenditure of ₹ 90,000 in 20X0 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 20X0.

Restate the balance sheet of B Ltd. as at 31st December, 20X1 after considering the above information, for the purpose of consolidation. Would restatement be necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

SOLUTION

As per para 20 and 21 of AS 21, Consolidated financial statements:

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

Accordingly in the given case, restatement would be required to make the accounting policies of A Ltd and B Ltd uniform.

Adjusted reserves of B Ltd.:

	₹	₹
Reserves as given		7,14,000
Add: Provision for doubtful debts {[8,91,000 / 99 X 100]-8,91,000}		9,000
		7,23,000
Less: Reduction in value of Inventory	34,000	
Advertising expenditure to be written off	30,000	64,000
		6,59,000

Note: No adjustment would be required in respect of opening inventory of B Ltd as that will not have any impact on P&L.

Restated Balance Sheet of B Ltd. as at 31st December, 2016

Particulars			**Note No.**	**(₹)**
I.	**Equity and Liabilities**			
	(1)	**Shareholder's Funds**		
		(a) Share Capital	1	5,00,000
		(b) Reserves and Surplus	2	6,59,000
	(2)	**Current Liabilities**		
		(a) Short term borrowings	3	1,70,000
		(b) Trade Payables		4,94,000
		(c) Short-term provision	4	4,30,000
		Total		**22,53,000**
II.	**Assets**			
	(1)	**Non-current assets**		
		(a) Property, Plant and Equipment		

	Tangible assets	5	2,24,000
(b)	Non-current Investment		4,00,000
(2)	**Current assets**		
(a)	Inventories	6	7,08,000
(b)	Trade Receivables	7	9,00,000
(c)	Cash & Cash Equivalents		3,000
(d)	Other current assets	8	18,000
	Total		**22,53,000**

Notes to Accounts

			₹
1.	**Share Capital**		
	5,000 equity shares of ₹ 10 each, Fully Paid		5,00,000
2.	**Reserves and Surplus**		
	Reserves (refer to W.N.)		6,59,000
3.	**Short term borrowings**		
	Bank overdraft		1,70,000
4.	**Short-term provision**		
	Provision for taxation		4,30,000
5.	**Tangible Assets**		
	Cost	3,20,000	
	Less: Depreciation to date	(96,000)	2,24,000
6.	**Inventory**		
	Cost	7,42,000	
	Less: Adjustment because of change in method of valuation	(34,000)	7,08,000
7.	Trade receivables		
	Cost	8,91,000	
	Add: Provision adjustment	9,000	9,00,000
8.	**Other current assets**		
	Prepaid expenses (48,000 – 30,000)		18,000

Q.CFS.RMP.502(A): (MTP Nov'21)

A Ltd. had acquired 80% shares of B Ltd. for Rs. 15 lakhs at the beginning of year. During the year, A Ltd. sold the investment for Rs. 30 lakhs and net assets of B Ltd. on the date of disposal was Rs. 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.

SOLUTION

Calculation of Profit/Loss on disposal of investment in subsidiary

Particulars	**Rs.**
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd.	(28,00,000)
	2,00,000

Working Note: A Ltd.'s share in net assets of B Ltd.

	Rs.
Net Assets of B Ltd. on the date of disposal	35,00,000

Less: Minority Interest (20% of Rs. 35 lakhs)	(7,00,000)
A Ltd.'s share in the net assets of B Ltd.	28,00,000

Q.CFS.SM.503(A):

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(a) The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.

(b) The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.

(c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.20X1. The total assets of VR Ltd. as on 31st March, 20X1 was ₹ 1,00,00,000. It was decided to write down Property, Plant and Equipment by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

SOLUTION

1. Computation of Purchase Consideration

(a)	Yield of VR Ltd. {(40/100 x [(30+40+65)/3)]}	₹ 18 lakhs
(b)	Price per share of VR Ltd.	
	Capitalized Yield: (18 lakhs/0.15)	₹ 120 lakhs
	No. of Shares	2 lakhs
	Therefore, Price per share	₹ 60
(C)	Purchase Consideration for 54% shares in VR Ltd. 2 lakh shares x 54% x ₹ 60 per shares	₹ 64.80 lakhs
(d)	Discharge of Purchase Consideration:	
	Tax at source (₹ 64.80 lakhs - ₹ 5.40 lakhs) x 30/100	₹ 17.82 lakhs
	50% of Purchase Consideration (net of tax) in cash (₹ (64.80-17.82) x 50%)	₹ 23.49 lakhs
	Balance – Unsecured Loan	₹ 23.49 lakhs

2. Goodwill / Capital Reserve to Variety Ltd.

	₹ in lakhs	
Total Assets	100.00	
Less: Reduction in Value of Property, Plant and Equipment	(1.75)	
	98.25	
Less: Current Liabilities	(20.00)	
Net Assets of VR Ltd. on Date of Acquisition		78.25
Purchase Consideration: 54% purchased from Foreign Co.	64.80	
Investment: 46% existing stake	15.64	(80.44)

Goodwill on Date of Acquisition		2.19

SECTION B – HOMEWORK QUESTIONS

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

SERIES 100
SMALL QUESTIONS ON CALCULATION OF GOODWILL or CR and MINORITY INTEREST

Q.CFS.RMP.101(B): (RTP May'19 & Similar in Nov'20 & MTP May'22)

The following data is provided to you:

Case	Subsidiary Company	% shares Owned	Cost	Date of acquisition 1.1.2018		Consolidation Date 31.12.2018	
				Share Capital Rs.	P & L Account Rs.	Share Capital Rs.	P & L Account Rs.
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve.

SOLUTION

Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e., in this case it should be equal to Share Capital + Profit & Loss A/c.

	Minority % Shares Owned [E]	Minority interest as at the date of acquisition [E] X [A + B] Rs.	Minority interest as at the date of consolidation [E] [C + D] Rs.
Case 1 [100-90]	10 %	15,000	17,000
Case 2 [100-85]	15 %	19,500	18,000
Case 3 [100-80]	20 %	14,000	14,000
Case 4 [100-100]	NIL	Nil	Nil

A = Share capital on 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 1.1.2018

Q.CFS.RMP.102(B): (Exam July'21)

Long Limited acquired 60% stake in Short Limited for a consideration of Rs. 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was Rs. 100 lakhs, Revenue Reserve was Rs. 40 lakhs and balance in Profit & Loss Account was Rs. 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

1. On consolidation of Balance Sheet.

2. If Long Limited showed the investment in subsidiary at a carrying amount of Rs. 104 lakhs.
3. If the consideration paid for acquiring the 60% stake was Rs. 92 lakhs.

SOLUTION

	Rs.
60% of the Equity Share Capital Rs. 100 Lakhs	60
60% of Accumulated Reserve Rs. 70 Lakhs (40+30) Lakhs	42
Book value of shares of Short Ltd.	102

. Goodwill / Capital Reserve computation on consolidation of balance sheet Long Ltd. paid a positive differential of Rs. 10 Lakhs (112 - 102). This differential Rs. 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles.

ii. If Long Ltd. showed the investment in Short Ltd. at carrying amount of Rs. 104 Lakhs, then the goodwill will be Rs. 2 Lakhs.

. If the consideration paid is Rs. 92 lakhs, then there would have been capital reserve amounting Rs. 10 Lakhs (102- 92).

Q.CFS.SM.103(B):

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 20X1 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 20X1:

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

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

- Property, plant and equipment- up by 20% and Investments- down by 10%.
- King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share (Face value - ₹10).

Calculate the amount of goodwill/capital reserve on acquisition of shares of Queen Ltd.

SOLUTION

Revalued net assets of Queen Ltd. as on 31st March, 20X1

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

Q.CFS.RMP.104(B): (Exam May'18, May'19 & RTP May'23)

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of Rs. 5,00,000 when S Ltd. had an equity share capital of Rs. 5,00,000 and reserves and surplus of Rs. 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of Rs. 1,25,000, Rs. 2,00,000, Rs. 2,50,000 and Rs. 60,000 respectively.

Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of Rs. 25,000. In the next two years i.e., 2016 and 2017, S Ltd. recorded annual profits of Rs.50,000 and Rs. 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

SOLUTION

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Profit / (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition on 1.1.2011		1,62,000 (W.N.)	-			
2011	(1,25,000)	(37,500)	(87,500)			1,22,000 (W.N.)
Balance		1,24,500				
2012	(2,00,000)	(60,000)	(1,40,000)			1,22,000
Balance		64,500				
2013	(2,50,000)	(75,000)	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co.	10,500	(10,500)	10,500	10,500	
Balance		Nil	(1,85,500)			
2014	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance		Nil	(60,000)			
2015	25,000 Profit share of minority adjusted against	7,500 (7,500)	17,500 7,500	(7,500)	21,000	1,22,000

	losses of minority absorbed by Holding Co.					
Balance		Nil	25,000			
2016	50,000	15,000 (15,000)	35,000 15,000	(15,000)	6,000	1,22,000
Balance		Nil	50,000			
2017	75,000	22,500 (6,000)	52,500 6,000	(6,000)	Nil	1,22,000
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2011

		Share of Holding Co.	**Minority Interest**
	100%	**70%**	**30%**
	(Rs.)	**(Rs.)**	**(Rs.)**
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	28,000	12,000
		3,78,000	1,62,000
Less: Cost of investment		(5,00,000)	
Goodwill		1,22,000	

SERIES 200
QUESTIONS ON IMPORTANT ADJUSTMENTS (DIVIDENDS; UNREALIZED GAINS ETC.)

Q.CFS.SM.201(B): (Similar to Q202A)

A Ltd. acquired 60% shares of B Ltd. @ ₹ 20 per share. Following is the extract of Balance Sheet of B Ltd.:

	₹
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000
10% Debentures	10,00,000
Trade Payables	55,00,000
Property, Plant and Equipment	70,00,000
Investments	45,00,000
Current Assets	68,00,000
Loans and Advances	22,00,000

On the same day B Ltd. **declared dividend at 20%** and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 60,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements.

SOLUTION

Since dividend is declared by B Ltd. on the date of acquisition itself, it would be out of the divisible profits of B Ltd. existing on the date of acquisition i.e., pre- acquisition profits from the perspective of A Ltd. Accordingly, as per AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

	₹	₹
Assets		
Property, Plant and Equipment	70,00,000	
Less: Value written off (₹ 70 lakhs x 10%)	(7,00,000)	
	63,00,000	
Investments at Market Value	60,00,000	
Current Assets	68,00,000	
Loans and Advances	22,00,000	2,13,00,000
Less: Liabilities		
Trade Payables	55,00,000	
10% Debentures	10,00,000	(65,00,000)
Net Assets of B Ltd.		1,48,00,000
Share of A Ltd. in Net Assets of B Ltd.: 60%		88,80,000
Less: Cost of Investment in B Ltd. (60% stake):		
10,00,000 Equity Shares x 60% x ₹ 20 per share	1,20,00,000	
Less: Pre-acquisition dividend: 6,00,000 shares x₹ 2	(12,00,000)	(1,08,00,000)
Goodwill on Date of Acquisition		19,20,000

Q.CFS.SM.202(B):

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 20X1 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 20X1 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 20X1, Power Ltd. earned a profit of ₹ 30,000 and at year end, **declared and paid a dividend of ₹ 22,500**. What is the amount of minority interest as on 1st January, 20X1 and 31st December, 20X1? Also compute goodwill/ capital reserve at the date of acquisition.

SOLUTION

Total dividend paid is ₹ 22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account. Hemant Ltd.'s share of dividend = ₹ 22,500 X 80% = ₹ 18,000

Goodwill on consolidation (at the date of acquisition):	₹	₹
Cost of shares		2,10,000
Less: Face value of capital i.e., 80% of capital	1,20,000	
Add: Share of capital profits [90,000 X 80 %]	72,000	(1,92,000)
Goodwill		18,000
Minority interest on: - **1st January, 20X1:** 20% of ₹ 2,40,000 [1,50,000 + 90,000]		48,000
- **31st December, 20X1:** 20% of ₹2,47,500 [1,50,000 + 90,000 + 30,000 – 22,500]		49,500

Q.CFS.RMP.203(B): (MTP April'19)

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for Rs. 2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was Rs. 2,00,000 and the balance in the Profit & Loss Account was Rs. 1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of Rs. 40,000 and at year end, declared and paid a dividend of Rs. 60,000.
Show by an entry how the dividend should be recorded in the books of XYZ Ltd.
What is the amount of minority interest as on 1st January, 2016 and 31st December, 2016?

SOLUTION

Total dividend paid = Rs. 60,000
Out of post-acquisition profit = Rs. 40,000 Out of pre-acquisition profit = Rs. 20,000
Hence, 2/3rd of dividend received by XYZ will be credited to P & L and 1/3rd will be credited to Investment.
XYZ Ltd.'s share of dividend = Rs. 60,000 X 80% = Rs. 48,000

In the books of XYZ Ltd.

		Rs.	Rs.
Bank A/c	**Dr.**	48,000	
To Profit & Loss A/c			32,000
To Investments in ABC Ltd.			16,000
(Dividend received from ABC Ltd. 1/3 credited to investment A/c being out of capital profits – as explained above)			

Goodwill on Consolidation:		**Rs.**
Cost of shares less dividend out of capital profits		2,64,000
Less: Face value of capital i.e. 80% of capital	1,60,000	
Add: Share of capital profits [1,20,000-20,000 (dividend portion out of pre-acquisition profits)] X 80 %	80,000	2,40,000
Goodwill		24,000
Minority interest on: 1st January, 2016: 20% of Rs. 3,20,000 [2,00,000 + 1,20,000]		64,000

Q.CFS.RMP.204(B): (RTP Nov'20, May'22)

A Ltd. holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing Rs. 150 lacs from B Ltd at a price of Rs. 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019. Suggest the accounting treatment for this transaction in the consolidated financial statements of A Ltd. giving reference of the relevant accounting standard.

SOLUTION

As per para provisions of AS 21, intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.
Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. One also needs to see whether the intragroup transaction is "upstream" or "down-stream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer.
In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority

interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory.

But in the case of downstream transaction, the whole profit is earned by the holding company; therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

The case given in the question is the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 2019, entire transaction of sale and purchase of Rs. 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of Rs. 50 lacs (i.e., Rs. 200 lacs – Rs. 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 2019, by reducing the value of closing inventories by Rs. 50 lacs as of 31 March 2019. In the consolidated balance sheet as of 31 March 2019, A Ltd.'s share of profit from B Ltd will be reduced by Rs. 37.50 lacs (being 75% of Rs. 50 lacs) and the minority's share of the profits of B Ltd would be reduced by Rs. 12.50 lacs (being 25% of Rs. 50 lacs).

SERIES 300
QUESTIONS ON CONSOLIDATED BALANCE SHEET

Q.CFS.SM.301(B):

H Ltd. and S Ltd. provide the following information as at 31st March,20X2:

	H Ltd.	S Ltd.
	₹	₹
PPE	1,00,000	1,30,000
Investments (8,000 equity shares of S Ltd.)	1,26,000	
Current Assets	74,000	70,000
Share capital (Fully paid equity shares of ₹10 each)	1,50,000	1,00,000
Profit and loss account	50,000	40,000
Trade Payables	1,00,000	60,000

Additional information

H Ltd. acquired the shares of S Ltd. on 1-7-20X1 and Balance of profit and loss account of S Ltd. on 1-4-20X1 was 30,000.

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 20X2.

SOLUTION

Percentage of holding:

	No. of Shares	Percentage
Holding Co	8,000	(80%)
Minority shareholders	2,000	(20%)
TOTAL SHARES	**10,000**	

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X2

			Note No	Amount (₹)
I		**EQUITY AND LIABILITIES**		
1		**Shareholder's Fund**		
	A	Share Capital	1	1,50,000
	B	Reserve and Surplus	2	56,000
2		Minority interest	3	28,000

3		**Current Liabilities**		
	A	Trade payables	4	1,60,000
		Total		**3,94,000**
II		**ASSETS**		
1.		**Non-Current Assets**		
	A	PPE	5	2,30,000
	B	Intangible Assets	6	20,000
2.		**Current Assets**	7	1,44,000
		Total		**3,94,000**

Notes to Accounts

			Amount (₹)
1	**Share capital** 15,000 Equity Shares @ ₹10 each		1,50,000
2	**Reserve and Surplus** Profit and loss account (₹ 50,000+ 80% of 9/12 x 10,000)		56,000
3	**Minority Interest**		
	Share capital (20% of ₹ 1,00,000)	20,000	
	Share in Profit and loss account (₹ 40,000 X 20%)	8,000	28,000
4	**Trade payables** H Ltd. S Ltd.		 1,00,000 60,000
			1,60,000
5	**PPE** H Ltd. S Ltd.		 1,00,000 1,30,000
			2,30,000
6	**Intangible Asset**		
	Cost of Investment Less: Paid up value of shares (80% of ₹ 1,00,000) Share in pre-acquisition profits 80% of [30,000+3/12(40,000-30,000)]		1,26,000 (80,000) (26,000)
	Goodwill		20,000
7	**Current Assets** H Ltd. S Ltd.		 74,000 70,000 **1,44,000**

Q.CFS.SM.302(B):

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31 March, 20X1 from the following information:

	H Ltd.	S Ltd.
	₹	₹
PPE	5,00,000	3,00,000
Investments		
(2,000 equity shares of S Ltd.)	2,20,000	
Current Assets	1,55,000	1,00,000
	8,75,000	**4,00,000**

Share capital (Fully paid equity shares of ₹ 100 each)	5,00,000	2,50,000
Profit and loss account	2,00,000	1,00,000
Trade Payables	1,75,000	50,000
	8,75,000	**4,00,000**

H Ltd. acquired the shares of S Ltd. on 31st March, 20X1.

SOLUTION:

Percentage of holding:

	No. of Shares	Percentage
Holding Co	2,000	(80%)
Minority shareholders	500	(20%)
TOTAL SHARES	**2,500**	

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March,20X1

			Note No	Amount (₹)
I		**EQUITY AND LIABILITIES**		
1		**Shareholder's Fund**		
	A	Share Capital	1	5,00,000
	B	Reserve and Surplus	2	2,60,000
2		Minority interest	3	70,000
3		**Current Liabilities**		
	A	Trade payables	4	2,25,000
		Total		**10,55,000**
II		**ASSETS**		
1.		**Non-Current Assets**		
	A	PPE	5	8,00,000
2.		**Current Assets**	6	2,55,000
		Total		**10,55,000**

Notes to Accounts

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

		8,00,000
6	**Current Assets**	
	H Ltd.	1,55,000
	S Ltd.	1,00,000
		2,55,000

Working Note:

Determination of Goodwill/(Capital Reserve)		**(₹)**
Cost of investment		2,20,000
Paid up value of shares (80% of 2,50,000)	2,00,000	
Share in pre-acquisition profits (80% of 1,00,000)	80,000	(2,80,000)
Capital Reserve		**(60,000)**

Q.CFS.SM.303(B): (Similar to Q305A)

On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1

Particulars	**Note No.**	**H Ltd. (₹ in Lacs)**	**S Ltd. (₹ in Lacs)**
I. Equity and Liabilities			
(1) **Shareholder's Funds**			
(a) Share Capital	1	12,000	4,800
(b) Reserves and Surplus	2	5,499	3,000
(2) **Current Liabilities**			
(a) Trade payables	3	1,833	1,014
(b) Short term provisions	4	855	394
(c) Other current liabilities (Dividend payable)		1,200	-
Total		**21,387**	**9,208**
II. Assets			
(1) **Non-current assets**			
Property, Plant and Equipment	5	9,468	5,486
Non-current Investments (Shares in S Ltd.)		3,000	
(2) **Current assets**			
(a) Inventories		3,949	1,956
(b) Trade receivables	6	2,960	1,562
(c) Cash and cash equivalents		1,490	204
(d) Short term loans and advances	7	520	
Total		**21,387**	**9,208**

Notes to Accounts

		H Ltd. (₹ in lacs)	**S Ltd. (₹ in lacs)**
1.	**Share Capital**	15,000	6,000
	Authorized share capital		
	Equity shares of ₹ 10 each, fully paid up		

	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up	12,000	4,800
2.	**Reserves and surplus**		
	General Reserve	2,784	1,380
	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3.	**Trade Payables**		
	Creditors	1,461	854
	Bills Payable	372	160
		1,833	1,014
4.	**Short term provisions**		
	Provision for Taxation	855	394
5.	**Property, plant and equipment**		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6.	**Trade receivables**		
	Debtors	2,600	1,363
	Bills Receivable	360	199
	Total	2,960	1,562
7.	**Short term loans and advances**		
	Sundry Advances	520	--

The following information is also provided to you:

(a) H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 20X0 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹1,200 lakh respectively.

(b) On 1st April, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.

(c) On 1st January, 20X1, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 20X0.

(d) On 31st March, 20X1, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

(e) On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1.

SOLUTION

Consolidated Balance Sheet of H Ltd.

and its subsidiary S Ltd. as at 31st March, 20X1

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
(a) Share Capital	1	12,000

	(b) Reserves and Surplus	2	7,159
(2)	**Minority Interest [W.N.6]**		3,120
(3)	**Current Liabilities**		
	(a) Trade payables	3	2,802
	(b) Short term provisions	4	1,249
	(c) Other current liabilities	5	1,200
	Total		**27,530**
II. Assets			
(1)	**Non-current assets**		
	Property, Plant and Equipment	6	14,954
(2)	**Current assets**		
	(a) Inventories	7	5,885
	(b) Trade receivables	8	4,477
	(c) Short term loans and advances	9	520
	(d) Cash and cash equivalents	10	1,694
	Total		**27,530**

Notes to Accounts

			(₹ in lacs)	(₹ in lacs)
1.	**Share Capital**			
	Authorized share capital			
	Equity shares of ₹10 each, fully paid up			15,000
	Issued and Subscribed:			
	Equity shares of ₹ 10 each, fully paid up			12,000
	Total			12,000
2.	**Reserves and surplus**			
	Capital Reserve (Note 5)		1,320	
	General Reserve (2,784 + 108)		2,892	
	Profit and Loss Account:			
	H Ltd.	2,715		
	Less: Dividend wrongly credited 360			
	Unrealized Profit 20	(380)		
		2,335		
	dd: Share in S Ltd.'s Revenue profits	612	2,947	
	Total			7,159
3.	**Trade payables**			
	Creditors			
	H Ltd.	1,461		
	S Ltd.	854	2,315	
	Bills Payable			
	H Ltd.	372		
	S Ltd.	160		
		532		
	Less: Mutual owing	(45)	487	2,802
4.	**Short term provisions**			
	Provision for Taxation			
	H Ltd.		855	
	S Ltd.		394	

	Total			1,249
5.	**Other current liabilities**			
	Dividend payable			
	H Ltd.			1,200
6.	**Property, plant and equipment**			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	4,905		
	S Ltd.	4,900	9,805	
	Furniture and Fittings			
	H Ltd.	1,845		
	S Ltd.	586	2,431	
	Total			14,954
7.	**Inventories**			
	Stock			
	H Ltd.		3,949	
	S Ltd.		1,956	
			5,905	
	Less: Unrealized profit		(20)	5,885
8.	**Trade receivables**			
	Debtors			
	H Ltd.	2,600		
	S Ltd.	1,363	3,963	
	Bills Receivable			
	H Ltd.	360		
	S Ltd.	199		
		559		
	Less: Mutual Owing	(45)	514	4,477
9.	**Short term loans and advances**			
	Sundry Advances			520
10.	**Cash and cash equivalents**			
	Cash and Bank Balances			1,694

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs/ ₹ 10)
H Ltd.'s holding as on 1st April, 20X0	180 lakhs
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e. 60 % [288/480×100]
Minority Shareholding	40%

Working Notes:

1. S Ltd.'s General Reserve Account

		₹ in lakhs			₹ in lakhs
To	Bonus to equity shareholders (WN-8)	1,800	By	Balance b/d	3,000

To	Balance c/d	1,380	By	Profit and Loss A/c (Balancing figure)	180
		3,180			3,180

2. S Ltd.'s Profit and Loss Account

		₹ in lakhs			₹ in lakhs
To	General Reserve [WN 1]	180	By	Balance b/d	1,200
To	Dividend paid (20% on ₹3,000 lakhs)	600	By	Net Profit for the year* (Balancing figure)	1,200
To	Balance c/d	1,620			
		2,400			2,400

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60% (General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	(720)
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,020 lakhs as post-acquisition Profit and Loss balance and ₹ 180 lakhs as post-acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

₹ 100 Lakhs x 25 / 125 = ₹ 20 Lakhs

8. Computation of bonus to equity shareholders

	₹ In lakhs
Shares as on 31 March 20X1 including bonus share issued on 1 January 20X1 Or we can say these are 1 + 3/5 or 8/5	4,800
i.e., Shares before bonus issue should have been (4,800) / (8/5)	3,000
Accordingly, bonus issue would be (4,800-3,000)	1,800

Q.CFS.SM.304(B): (Similar Q302A)

From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 20X1, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of S Ltd. stood at ₹25,000 and ₹ 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 20X0.

(ii) Machinery (Book-value ₹ 1,00,000) and Furniture (Book value ₹ 20,000) of S Ltd. were revalued at ₹ 1,50,000 and ₹ 15,000 respectively on 1st April, 20X0 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Balance Sheet of H Ltd. and S Ltd. as at 31st March, 20X1

			Note No	H Ltd. (₹)	S Ltd. (₹)
I		**EQUITY AND LIABILITIES**			
1		**Shareholder's Fund**			
	A	Share Capital	1	6,00,000	1,00,000
	B	Reserve and Surplus	2	3,00,000	1,00,000
2		**Current Liabilities**			
	A	Trade payables		1,50,000	57,000
		Total		**10,50,000**	**2,57,000**
II		**ASSETS**			
1.		**Non-Current Assets**			
	A	PPE	3	4,50,000	1,07,000
	B	Other Non-Current Investment	4	6,00,000	1,50,000
		Total		**10,50,000**	**2,57,000**

Notes to Accounts

		H Ltd. (₹)	S Ltd. (₹)
1.	**Share capital**		
	6,000 equity shares of ₹ 100 each, fully paid up	6,00,000	--
	1,000 equity shares of ₹ 100 each, fully paid up	- -	1,00,000
	Total	**6,00,000**	**1,00,000**
2.	**Reserves and Surplus**		
	General reserves	2,00,000	75,000
	Profit and loss account	1,00,000	25,000
	Total	**3,00,000**	**1,00,000**

3.	**Property, Plant and Equipment**		
	Machinery	3,00,000	90,000
	Furniture	1,50,000	17,000
	Total	**4,50,000**	**1,07,000**
4.	**Other Non-current investments**		
	Non-current Investments	4,40,000	1,50,000
	Shares in S Ltd. (800 shares at ₹200 each)	1,60,000	--
	Total	**6,00,000**	**1,50,000**

SOLUTION

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2017

Particulars			**Note No.**	**(₹)**
I.	**Equity and Liabilities**			
	(1)	**Shareholder's Funds**		
		(a) Share Capital	1	6,00,000
		(b) Reserves and Surplus	2	3,44,600
	(2)	**Minority Interest** (W.N.5)	3	48,150
	(3)	**Current Liabilities**		
		(a) Trade Payables		2,07,000
		Total		**11,99,750**
II.	**Assets**			
	(1)	**Non-current assets**		
		(a) Property, Plant and Equipment		
		(i) Tangible assets	4	5,97,750
		(ii) Intangible assets	5	12,000
		(b) Other non- current assets	6	5,90,000
		Total		**11,99,750**

Notes to Accounts

				₹
1.	**Share capital**			
	6,000 equity shares of ₹ 100 each, fully paid up			6,00,000
	Total			6,00,000
2.	**Reserves and Surplus**			
	Reserves		2,00,000	
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)		40,000	2,40,000
	Profit and Loss Account		1,00,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		4,600	1,04,600
	Total			3,44,600
3.	**Minority interest in S Ltd.** (WN 5)			48,150
4.	**Property, plant and equipment**			
	Machinery			
	H. Ltd.		3,00,000	
	S Ltd.	1,00,000		
	Add: Appreciation	50,000		

		1,50,000		
	Less: Depreciation (1,50,000 X 10%)	(15,000)	1,35,000	
	Furniture			
	H. Ltd.		1,50,000	
	S Ltd.	20,000		
	Less: Decrease in value	(5,000)		
		15,000		
	Less: Depreciation (15,000 X 15%)	(2,250)	12,750	5,97,750
5.	**Intangible assets**			
	Goodwill [WN 6]			12,000
6.	**Other non-current investments**			
	H Ltd.		4,40,000	
	S Ltd.		1,50,000	
	Total			5,90,000

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	₹
Reserves	25,000
Profit and Loss Account	15,000
	40,000
H Ltd.'s = 4/5 (or 80%) × 40,000	32,000
Minority Interest= 1/5 (or 20%) × 40,000	8,000
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery ₹ (1,50,000 – 1,00,000)	50,000
Less: Loss on Furniture ₹ (20,000 – 15,000)	5,000
Net Profit on revaluation	45,000
H Ltd.'s share 4/5 × 45,000	36,000
Minority Interest 1/5 × 45,000	9,000
3. Post-acquisition reserves of S Ltd.	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 75,000 – 25,000)	50,000
H Ltd.'s share 4/5 × 50,000	40,000
Minority interest 1/5 × 50,000	10,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre- acquisition profits = ₹ 25,000 – 15,000)	10,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 5,000 i.e. (20,000 – 15,000)	750
	10,750
Less: Under depreciation on machinery @ 10% on ₹ 50,000 i.e. (1,50,000 – 1,00,000)	(5,000)
Adjusted post-acquisition profits	5,750
H Ltd.'s share 4/5 × 5,750	4,600
Minority Interest 1/5 × 5,750	1,150
5. Minority Interest	
Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × ₹ 100 (or 1,00,000 X 20%)	20,000
Add: 1/5th share of pre-acquisition profits and reserves	8,000

1/5th share of profit on revaluation	9,000
1/5th share of post-acquisition reserves	10,000
1/5th share of post-acquisition profit	1,150
	48,150
6. Cost of Control or Goodwill	
Price paid by H Ltd. for 800 shares(A) Intrinsic value of the shares-	1,60,000
Paid-up value of 800 shares held by H Ltd. i.e. 800 × ₹ 100 (or 1,00,000 X 80%)	80,000
Add: 4/5th share of pre-acquisition profits and reserves	32,000
4/5th share of profit on the revaluation	36,000
Intrinsic value of shares on the date of acquisition (B)	1,48,000
Cost of control or Goodwill (A – B)	**12,000**

Q.CFS.RMP.305(B): (EXAM May'23)

H Ltd. acquired 15,000 shares in S Ltd. for ₹ 1,55,000 on July 1, 2022. The balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd. (₹)	S Ltd. (₹)
Equity and Liabilities:		
Equity Share Capital (Fully paid shares of ₹ 10 each)	9,00,000	2,50,000
General Reserve	1,60,000	40,000
Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills Payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	**12,30,000**	**3,65,000**
Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in-Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	**12,30,000**	**3,65,000**

The following additional information is provided to you:

(i) General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.

(ii) Profit earned by S Ltd/ for the year ended 31st March, 2023 amounted to ₹ 20,000.

(iii) H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.

(iv) Creditors of S Ltd. include ₹ 4,000 due to H Ltd. on account of these goods.

(v) Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹8,000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated balance sheet as on 31st March, 2023.

SOLUTION

Working Note 1:

Analysis of Profit

Particulars	CP (up to 1/7)	RP (July-March)	Balance Sheet (31/3)
Balance of GR	40,000	-	40,000
Balance of P&L	5,000	20,000	25,000
	45,000	**20,000**	
(+/-) Time Adjustment for 3 Months	5,000	(20,000 x 3/12)	
	50,000	**15,000**	
H @60%	30,000	9,000	
M/I @40%	20,000	6,000	

Working Note 2: Cost of Control

Investment	1,55,000
(-) Proportionate Share of Net Assets of S	
ESC @60%	(1,50,000)
Share in Capital Profit	(30,000)
Capital Reserve	**25,000**

Working Note 3: Minority Interest

ESC @60%	1,00,000
Capital Profit Share	20,000
Revenue Profit Share	6,000
	1,26,000

Working Note 4: Consolidated Reserves & Surplus

Particulars	GR	P&L	CR
Balance with H as pre SFS	1,60,000	80,000	-
(+) Share of RP of Subsidiary	-	9,000	-
(-) Elimination of Unrealised Profit (2,000 x 25% = 500)	-	(500)	-
(+) CR arising on DOA	-	-	25,000
	1,60,000	88,500	25,000
Gross Total	**2,73,500**		

Consolidated Balance Sheet of H Ltd. as on 31/3/2023

Particulars			(Rs.)
Equity Share Capital			**9,00,000**
Consolidated R&S			2,73,500
Minority Interest			1,26,000
Trade Payables			
(e)	Creditors		76,000
	H	50,000	
	S	30,000	
	(-) Interest on Co. Debt	(4,000)	
(f)	Bolls Payable		53,000
	H	40,000	
	S	20,000	

(-) Interest on Co. Debt (7,000)		
		14,28,500
Machinery		8,50,000
H	7,00,000	
S	1,50,000	
Furniture		1,70,000
H	1,00,000	
S	70,000	
Current Asset		
Stock In Trade		1,49,500
H	1,00,000	
S	50,000	
(-) Unrealised Profit	(500)	
Debtors		91,000
H	60,000	
S	35,000	
(-) Interest	(4,000)	
Bills Receivable		38,000
H	25,000	
S	20,000	
(-) Interest	(7,000)	
Cash & Cash Equivalent		1,30,000
H	90,000	
S	40,000	
		14,28,500

Note: - Out of total 15,000 of Bills, 8,000 is endorsed in favor of Creditor of H i.e., it is payable outside of Group & then rest 7,000 is payable within the Group
Therefore, only within the Group item should be set-off under Inter Co. Debt.

Q.CFS.SM.306(B): (Also in MTP May'24)

From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March. Virat Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March, 20X1

Particulars	**Note No.**	**Virat Ltd. (₹)**	**Anushka Ltd. (₹)**
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non-current Liabilities			
Long Term Borrowings		2,00,000	1,00,000
(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
Total		**10,00,000**	**7,00,000**
II. Assets			

(1)	**Non-current assets**			
	(a) Property, Plant and Equipment		4,00,000	3,00,000
	(b) Non-current investments	3	3,20,000	-
(2)	Current Assets			
	(a) Inventories		1,600,000	2,00,000
	(b) Trade Receivables		80,000	1,40,000
	(c) Cash & Cash Equivalents		40,000	60,000
	Total		**10,00,000**	**7,00,000**

Notes to Accounts:

	Particulars	**Virat Ltd. (₹)**	**Anushka Ltd. (₹)**
1.	**Share capital**		
	60,000 equity shares of ₹ 10 each fully paid up	6,00,000	--
	40,000 equity shares of ₹ 10 each fully paid up	--	4,00,000
	Total	6,00,000	4,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	1,00,000
	Total	1,00,000	1,00,000
3.	**Non-current investments**		
	Shares in Anushka Ltd	3,20,000	--

SOLUTION

Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 20X1

	Particulars	**Note**	**Amount (₹)**
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
(2)	**Minority Interest**	3	1,00,000
(3)	**Non-Current Liabilities:**		
	Long Term Borrowings	4	3,00,000
(4)	**Current Liabilities:**		
	Trade Payables	5	2,00,000
	Total		**13,80,000**
II	**ASSETS:**		
(1)	**Non-Current Assets**		
	Property, Plant & Equipment	6	7,00,000
(2)	**Current Assets:**		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000
	Total		**13,80,000**

Notes to Accounts

	Particulars	**₹**	**₹**
1.	**Share capital**		

	60,000 equity shares of ₹10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		1,80,000
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		1,00,000
4	**Long term borrowings**		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	
	Total		7,00,000
7.	**Inventories**		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	**Trade receivables**		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	**Cash and cash equivalents**		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		1,00,000

Working Notes:

1. Basic Information

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd. Subsidiary = Anushka Ltd.	Acquisition: Anushka's Incorporation Consolidation: 31st March, 20X1	Holding Company = 80% Minority Interest = 20%

2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

3. Consolidation of Balances

Holding- 80%, Minority - 20%	Total	Minority Interest	Holding Company	
Equity Capital	4,00,000	80,000	3,20,000	-

General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		1,00,000	3,20,000	80,000
Cost of Investment Goodwill/capital reserve			(3,20,000) NIL	-
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

Q.CFS.RMP.307(B): (RTP Nov'19, MTP April'21, May'22 and May'18 EXAM)

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2019:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,25,000	1,25,000
Total	**22,40,000**	**5,45,000**
Assets		
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	1,64,000	32,000
Total	**22,40,000**	**5,45,000**

- H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018.
- On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.
- **Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April,2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%).**
- Trade Payables of H Ltd. includes Rs. 40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.

SOLUTION

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2019

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of Rs. 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		**25,25,500**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		**25,25,500**

Notes to Accounts

	IN Rs.		
1. Reserves and Surplus			
General Reserves		4,35,000	
Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
Profit and Loss Account		2,80,000	
Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
Less: Unrealised gain	(4,000)	17,200	2,97,200
			8,16,200
2. Trade Payables			
H Ltd.		3,25,000	
S Ltd.		1,25,000	
Less: Mutual transaction		(40,000)	**4,10,000**
3. Tangible Assets			
Machinery			
H Ltd.		6,40,000	
S Ltd.	2,00,000		
Add: Appreciation	1,00,000		
	3,00,000		
Less: Depreciation	(30,000)	2,70,000	**9,10,000**
Furniture			
H. Ltd.		3,75,000	
S Ltd.	40,000		
Less: Decrease in value	(10,000)		

	30,000		
Less: Depreciation	(4,500)	25,500	**4,00,500**
			13,10,500
4. Intangible assets			
Goodwill [WN 5]			24,000
5. Inventories			
H Ltd.		2,68,000	
S Ltd.		62,000	3,30,000
Less: Inventory reserve			(5,000)
			3,25,000
6. Trade Receivables			
H Ltd.		4,73,000	
S Ltd.		2,37,000	
			7,10,000
Less: Mutual transaction			(40,000)
			6,70,000
7. Cash and Bank			
H Ltd.		1,64,000	
S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018**

Particulars	**Amount (Rs.)**
Machinery	
Revaluation as on 1.4.2018	3,00,000
Less: Book value as on 1.4.2018	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	(40,000)
Loss on revaluation	(10,000)

2. **Calculation of short/excess depreciation**

Particulars	**Machinery**	**Furniture**
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. **Analysis of reserves and profits of S Ltd. as on 31.03.2019**

	Pre-acquisition profit up to 1.4.2018	**Post-acquisition profits (1.4.2018 – 31.3.2019)**	
Particulars	**(Capital profits)**	**General Reserve**	**Profit and loss account**
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000	35,000	
Upward Revaluation of machinery as on 1.4.18	1,00,000		

Downward Revaluation of Furniture as on 1.4.18	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	**1,70,000**	**1,05,000**	**26,500**

4. Minority Interest

Particulars	**Amt.**
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

5. Cost of Control or Goodwill:

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves		
(Rs. 64,000 + Rs.72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

Q.CFS.RMP.308(B): (May22)

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

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

Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
Total	**9,75,000**	**5,25,000**

Other information:

(i) **During the year, Black Limited fabricated a machine, which is sold to White Ltd. for Rs. 39,000, the transaction being completed on 30th March,2021.**

(ii) **Cash in transit from Black Ltd. to White Ltd. was Rs. 6,000 on 31st March, 2021.**

(iii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserve and Profit and Loss account as on 1st April,2020 were as follows:

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

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

SOLUTION

Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd. as at 31st March, 2021

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

Notes to Accounts

			Rs.
1.	**Share capital**		6,50,000
	6,500 equity shares of Rs. 100 each, fully paid up		
	Total		6,50,000
2.	**Reserves and Surplus**		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	37,500	1,87,500

	Capital reserve (W.N. 5)		7,500
	Total		2,55,000
3.	**Minority interest in Black Ltd. (WN 4)**		1,05,000
4.	**Trade payables**		
	White Ltd.	1,15,000	
	Black Ltd.	75,000	1,90,000
5.	**Property, plant and equipment**		
	White Ltd.	5,80,000	
	Black Ltd.	3,51,000	9,31,000
6	**Inventory**		
	White Ltd.	50,000	
	Black Ltd.	1,20,000	1,70,000
7	**Cash & cash equivalent**		
	White Ltd.	39,000	
	Black Ltd.	54,000	
	Cash in transit	6,000	99,000

Working Notes:

1.	**Post-acquisition profits of Black Ltd.**	**Rs.**
	profits earned during the year = Rs. 90,000 + Rs.10,000	1,00,000
	Pre-acquisition profits (1.4.20 to 30.9.20)	50,000
	Post-acquisition profits (1.10.20 to 31.3.21)	50,000
	White Ltd.'s share 75% of 50,000	37,500
	Minority Interest 25% of 50,000	12,500
2.	**Pre-acquisition profits and reserves of Black Ltd.**	
	Reserves as on 1.4.2020	30,000
	Profit and Loss Account [10,000 (loss as on 1.4.20) +50,000 (6 month Adjusted pre-acquisition profits)]	40,000 70,000
	White Ltd.'s = (75%) × 70,000	52,500
	Minority Interest= (25%) × 70,000	17,500
3.	**Post-acquisition reserves of Black Ltd.**	
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 30,000 – 30,000)	nil
4.	**Minority Interest**	
	Paid-up value of (3,000 – 2,250) = 750 shares	
	held by outsiders i.e., 750 × Rs. 100	75,000
	Add: 25% share of pre-acquisition reserves & Profit	17,500
	25% share of post-acquisition profit	12,500
5.	**Capital Reserve**	1,05,000
Price paid by White Ltd. for 2,250 shares (A)		2,70,000
Intrinsic value of the shares-		
Paid-up value of 2,250 shares held by White Ltd. i.e.,	2,25,000	

2,250 × Rs. 100		
Add 75% share of pre-acquisition reserves & profit (70,000 x 75%)	52,500 (B)	2,77,500
Capital reserve (A – B)		7,500

SERIES 400
QUESTIONS ON CONSOLIDATED PROFIT AND LOSS STATEMENT

Q.CFS.SM.401(B):

Given below are the Profit & Loss Accounts of H Ltd and its subsidiary S Ltd for the year ended 31st March, 20X3:

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

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.
H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 20X1-20X2. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 20X1-20X2.
Prepare a consolidated profit and loss account.

SOLUTION

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

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

IV. Profit before tax (II-III)		**4,096**

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	**Revenue from operations**		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	1,000	
		6,000	
	Less: Inter-company sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	(10)	5,865
2.	**Cost of material purchased/consumed**		
	H Ltd.	800	
	S Ltd.	200	
		1,000	
	Less: Purchases by S Ltd. from H Ltd. Direct expenses (Production)	(120)	880
	H Ltd.	200	
	S Ltd.	100	300
			1,180
3.	**Changes of inventories of finished goods**		
	H Ltd.	1,000	
	S Ltd.	200	
	Less: Unrealized profits ₹ 24 lacs X 20/120	(4)	1,196
4.	**Employee benefits and expenses**		
	Wages and salaries:		
	H Ltd.	800	
	S Ltd.	150	950
	Finance cost Interest:		
	H Ltd.	100	
	S Ltd.	50	150
	Depreciation		
	H Ltd.	100	
	S Ltd.	50	150
	Other expenses		
	Administrative expenses		
	H Ltd.	200	
	S Ltd.	100	
	Less: Consultancy fees received by H Ltd. from S Ltd.	(5)	295
5.	**Selling and distribution Expenses:**		
	H Ltd.	200	
	S Ltd.	50	
	Less: Commission received by S Ltd. from H Ltd.	(10)	240
			535

Q.CFS.RMP.402(B): (RTP May'18 and MTP Aug'18; March'21 & Exam Nov'18)

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (Rs. in lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400
	12,000	2,400
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	**1,400**
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	**2,400**	**300**

Other Information:

- **Hello Ltd. sold goods to Sun Ltd. of Rs 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing Rs 48 lacs.**
- Administrative expenses of Sun Ltd. include Rs 10 lacs paid to Hello Ltd. as consultancy fees.
- Selling and distribution expenses of Hello Ltd. include Rs 20 lacs paid to Sun Ltd. as commission.
- Hello Ltd. holds 80% of equity share capital of Rs 2,000 lacs in Sun Ltd. prior to 2015-2016.
- **Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.**

You are required to **prepare** a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.

SOLUTION

Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31st March, 2017

Particulars	Note No.	Rs in Lakhs
I. Revenue from operations	1	11,730
II. Total revenue		**11,730**
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300

Depreciation and amortization expense	7	300
Other expenses	5	1,070
Total expenses		**3,538**
IV. Profit before Tax (II-III)		**8,192**
V. Tax Expenses	8	2,800
VI. Profit After Tax		**5,392**
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	300	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of Rs 300 lacs	(240)	(2,460)
Profit to be transferred to consolidated balance sheet		**2,932**

Notes to Accounts

		Rs in Lacs	Rs in Lacs
1.	**Revenue from Operations**		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	(20)	11,730
2.	**Increase in Inventory**		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	
	Less: Unrealized profits Rs 48 lacs × 20 120	(8)	2,392
			14,122
3.	**Cost of Material purchased/consumed**		
	Hello Ltd.	1,600	
	Sun Ltd.	400	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	(240)	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	600
			2,360
4.	**Employee benefits and expenses**		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	300	1,900
5.	**Other Expenses**		
	Administrative Expenses		

	Hello Ltd.	400	
	Sun Ltd.	200	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	
	Sun Ltd.	100	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	480
			1,070
6.	**Finance Cost**		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	**Depreciation and Amortization**		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	**Provision for tax**		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

SERIES 500
MISC. QUESTIONS

Q.CFS.RMP.501(B): (RTP May'19 & Nov'19, MTP Nov'21, Nov'22)

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

	2017-18	2018-19
	Amount in Rs.	Amount in Rs.
Liabilities		
Share Capital		
Issued and subscribed 7500 Equity Shares of Rs 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000

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

Other Information:

(1) MNT Ltd. is a subsidiary of LTC Ltd.

(2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by Rs 5,000 at the end of 2017-2018 and increased by Rs 12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)

(3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.

(4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of Rs 25 ,000 in 2017-18 and Rs 12,500 in 2018-19 being part of initial Sales Promotion expenditure of Rs 37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

SOLUTION

(a) Restated Balance Sheet of MNT Ltd. as at 31st December, 2019

Particulars		**Note No.**	**(Rs)**
III.	**Equity and Liabilities**		
(2)	**Shareholder's Funds**		
	(a) Share Capital		7,50,000
	(b) Reserves and Surplus	1	7,18,500
(3)	**Current Liabilities**		
	(a) Short term borrowings	2	1,70,000
	(b) Trade Payables		2,46,000
	(c) Short-term provision	3	4,30,000
Total			**23,14,500**
II. Assets			
(1)	**Non-current assets**		
	(a) Property, Plant & Equipment	4	6,37,500
	(b) Non-current Investment		5,30,000
(2)	**Current assets**		
	(a) Inventories (6,90,000 +12,000)	5	7,02,000
	(b) Trade Receivables $\frac{343000}{98} \times 100$		3,50,000
	(c) Cash & Cash Equivalents		42,500

(d) Other current assets	6	52,500
Total		**23,14,500**

Notes to Accounts

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

Working Note:

Adjusted revenue reserves of MNT Ltd.:

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

SECTION C – MASTER QUESTIONS

Question 1:

Following is the Balance sheet of Holding Ltd. and Subsidiary Ltd. as on 31st March 20X3:

PARTICULARS	HOLDING LTD.	SUBSIDIARY LTD.
Equity and Liabilities		
Equity Share Capital (10/- Each)	12,00,000	10,00,000
Preference Share Capital (10/- Each)	5,00,000	3,00,000
Reserves and Surplus		
General Reserve	7,50,000	6,00,000
Profit and Loss A/c	6,00,000	4,50,000
10% Debentures	18,00,000	12,00,000
Trade Creditors	9,00,000	5,00,000
Bills Payables	4,00,000	1,50,000
	61,50,000	**42,00,000**
Assets		
Land and Building	13,50,000	17,00,000
Plant & Machinery	8,20,000	12,00,000
Goodwill	1,00,000	-
Investments:		
Equity Shares of Subsidiary Ltd.	15,00,000	-
10% Debentures of Subsidiary Ltd. (30% Debentures)	3,00,000	-
Trade Debtors	10,00,000	6,00,000
Bills Receivables	2,80,000	2,00,000
Inventory	5,00,000	4,00,000
Cash and Cash Equivalents	3,00,000	1,00,000
	61,50,000	**42,00,000**

Other Relevant Information:

1. Investments were purchased on 1st July of 20X2.
2. Holding Ltd. purchased 75,000 Equity Shares.
3. Balances of Reserves and Surplus of Subsidiary Ltd. on 1st April 20X2 are:
   - General Reserve - 2,10,000
   - Profit and Loss A/c - 1,50,000
4. On 1st August Dividend is Paid by subsidiary @ 12% on Equity Share Capital. Amount received by Holding is correctly recorded in the books
5. There is an Abnormal loss of Rs. 15,000 in the month of October
6. Market Value of Land & Building on 1st July 20X2 was 22,00,000 and Depreciation is 15%.
7. In the month of January 20X3, Goods sold by Holding Ltd. having Cost of Rs. 2,50,000 at Rs. 3,00,000. 60% of such goods are unsold and laying with Subsidiary.
8. In the month of March 20X3, Goods costing Rs. 1,25,000 sold by subsidiary at 20% Profit on Sales. Out of which, goods of 50,000 (sales value) are unsold with Holding.
9. On 31st March, Subsidiary Ltd. has issued Bonus Equity Shares in the ratio of 1:5, whose entry is not yet passed.
10. All Bills Payable of S Ltd. are accepted in favour of H Ltd. However H Ltd. has Already discounted 40% of those Bills from Bank

11. Trade Creditors of S Ltd. includes 40,000 payable to H Ltd. but Trade Debtors of H Ltd. includes 50,000 receivable from S Ltd. The difference can be treated as Cash in Transit.

PREPARE CONSOLIDATED FINANCIAL STATEMENT ALONG WITH PROPER WORKING NOTES

SPACE FOR SOLUTION:

8 ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

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Quote:-

Start where you are. Use what you have. Do what you can.

–Arthur Ashe

SECTION – A
(All ICAI Study Module, RTP, MTP, Past Exam Questions)

SERIES 100
Dependent Branch - Final Account System Cost Basis

Q.BRN.SM.101(A):

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 20X1:

	Head Office (Rs.)	Branch (Rs.)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.0. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 20X1.

SOLUTION

Working Note 1: -

Head Office

Opening Stock – 2,25,000 + Purchases – 25,50,000		
Total – 27,750000		
Sale @180 COGS = 27,81,000/180 x 100 = 15,45,000	**GSTB @180** COGS = 9,54,000/180 x 100 = 5,30,000	**Closing Stock (b/f)** 7,00,000

Working Note 2: -

Branch

Opening Stock – 0 + Purchases – 0 + Goods Received from HO – 5,30,000	
Total – 5,30,000	
COGS = 9,50,000/200 x 100 =4,75,000	**Closing Stock (b/f)** 55,000

Branch Trading (Cost Basis)

Goods Received from HO	5,30,000	Sales	9,50,000
Gross Profit	4,75,000	Closing Stock	55,000
	10,05,000		**10,05,000**

SERIES 200
Dependent Branch - Final Account System IP / WP Basis

Q.BRN.SM.201(A):

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 20X1:

	Head Office (Rs.)	Branch (Rs.)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 20X1.

SOLUTION

Trading and Profit and Loss A/c
For the year ended 31st March 20X1

	Head office Rs.	Branch Rs.		Head office Rs.	Branch Rs.
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to branch	9,54,000	_
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	44,35,000	**10,49,000**		**44,35,000**	**10,49,000**
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	_			
To Net Profit	13,89,000	68,200			
	16,60,000	**95,000**		**16,60,000**	**95,000**

Working Notes:

(1)	Calculation of closing stock of head office:	**Rs.**
	Opening Stock of head office	2,25,000
	Goods purchased by head office	25,50,000
		27,75,000
	Less: Cost of goods sold [37,35,000 x 100/180]	(20,75,000)
		7,00,000
(2)	Calculation of closing stock of branch:	**Rs.**
	Goods received from head office [At invoice value]	9,54,000
	Less: Invoice value of goods sold [9,50,000 x 180/200]	(8,55,000)

		99,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock Rs. 99,000 Profit included 80% of cost	
	Hence, unrealized profit would be = Rs. 99,000 x 80/180	Rs. 44,000

Q.BRN.SM.202(A): (Sep'24 Exam)

Following is the information of Kullu Branch of M/s Best Enterprises of Shimla for the year ending 31st March 2023:

(1) Goods are invoiced to the branch at cost plus 20%

(2) Branch sold goods at invoice price plus 25%.

(3) Other Information is as follows:

(i) Stock (at cost price) as on 1st April, 2022 is Rs. 2,25,000

(ii) Goods sent by Head office to branch during the year (at cost price) are Rs. 14,85,000

(iii) Goods returned by Branch to Head office during the year (at Invoice price) are Rs. 75,000

(iv) Sales by the branch during the year Rs. 19,50,000

(v) Expenses incurred at Branch Rs. 56,000.

You are required to ascertain the following:

(a) Profit earned by the Branch by Preparing Trading and profit and loss account for the year ended 31st March 2023

(b) Also find the stock reserve on Closing stock

Answer

(i) In the books of Kullu Branch Trading and Profit and Loss Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000
To Net profit (Bal fig)	3,34,000		
	24,42,000		**24,42,000**

(ii) Calculation of Closing Stock

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	**4,17,000**

Stock reserve in respect of unrealised profit = 4,17,000 x (20/120) = Rs. 69,500

SERIES 300
Dependent Branch – Stock & Debtors Method

Q.BRN.RMP.301(A): (EXAM May'22) (Similar to Example 6)

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its Branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and the credit sales at Catalouge price (i.e. list price).

The following information was available at the branc for the year ended 31st March, 2022.

(Figures in Rs.)

Stock on 1st April, 2021 (invoice price)	12,000
Debtors on 1st April, 2021	10,000
Goods received from head office (invoice price)	1,32,000
Sales: Cash 46,000	
Credit 1,00,000	1,46,000
Cash received from debtors	85,000
Expenses at branch	17,500
Debtors on 31st March, 2022	25,000
Stock on 31st March, 2022 (invoice price)	17,600
Remittances to head office	1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account for the year ended 31st March, 2022.

SOLUTION

In the books of walkaway footwears

Patna Branch Stock Account

	Particulars		Amount (Rs.)		Particulars		Amount (Rs.)
1.1.21	To	Balance b/d	12,000	31.12.21	By	Bank A/c (Cash sales)	46,000
31.12.21	To	Goods sent to branch A/c	1,32,000				
	To	Branch adjustment A/c (Surplus over invoice price)	20,000		By	Branch debtor's A/c (credit sales)	1,00,000
				31.12.21	By	Shortage in stock A/c	400
					By	Balance c/d	17,600
			1,64,000				**1,64,000**

Patna Branch Adjustment Account

	Particulars		Amount (Rs.)		Particulars		Amount (Rs.)
31.12.21	To	Stock reserve - Rs. 17,600 x 60/160 (closing stock)	6,600	31.12.21	By	Stock reserve – Rs. 12,000 x 60/160 (Opening stock)	4,500
	To	Shortage (400x 60/160)	150		By	Goods sent to branch A/c (Rs. 1,32,000 x 60/160)	49,500
	To	Branch profit & loss A/c (Gross profit)	67,250		By	Branch stock A/c	20,000
			74,000				**74,000**

Branch Profit & Loss Account

Particulars		Amount (Rs.)	Particulars		Amount (Rs.)
To	Branch expenses A/c	17,500	By	Branch adjustment A/c (Gross Profit)	67,250
To	Shortage in stock A/c	250			
To	Net profit (transferred to Profit & Loss A/c)	49,500			
		67,250			**67,250**

Branch Debtors Account

	Particulars		Amount (Rs.)		Particulars		Amount (Rs.)
1.1.21	To	Balance b/d	10,000	31.12.21	By	Bank A/c	85,000
31.12.21	To	Branch stock A/c	1,00,000		By	Balance c/d (bal. fig.)	25,000
			1,10,000				**1,10,000**

Q.BRN.SM.302(A):

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

	Rs.
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-20X1 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000
Cash Sales for the year @invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balances as on	**1-1-20X1**	**31-12-20X1**
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

SOLUTION

Books of Harrison

Branch Stock Account

	Rs.		Rs.
To Balance b/d	30,000	By Branch Debtors	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Bank	59,000
To Branch Adjustment A/c (Excess of sale over invoice price)	2,000	By Balance c/d	
		Goods in Transit (Rs. 2,40,000 –Rs. 2,20,000)	20,000
		By Stock at Branch	28,000
	2,72,000		**2,72,000**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock	1,65,000	By Branch Cash- collection (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		**1,97,750**

Branch Cash Account

	Rs.		Rs.
To Balance b/d	5,000	By Bank Remit to H.O.	2,22,500
To Branch Stock	59,000	By Branch profit & loss A/c [Bal. fig. (exp. Paid by Branch)]	10,000
To Branch Debtors	1,71,000	By Balance c/d	2,500
	2,35,000		**2,35,000**

Branch Adjustment Account

	Rs.		Rs.
To Stock Reserve (on closing stock (48,000 × 1/6)	8,000	By Stock Reserve opening (25000 ×20%)	5,000
To Gross Profit c/d	39,000	By Goods sent to Branch A/c	40,000
		By Branch Stock A/c	2,000
	47,000		**47,000**

Branch Adjustment Account

	Rs.		Rs.
To Cash (H.O)	12,000		
To Branch Cash	10,000	By Branch P&L a/c	22,000
	22,000		**22,000**

Branch Profit and Loss Account

	Rs.		Rs.
To Branch Expenses (paid by HO: Rs. 12,000 and paid by Branch Rs. 10,000)	22,000	By Gross Profit b/d	39,000
To Branch Debtors-Bad debts	750		
To Net Profit	16,250		
	39,000		**39,000**

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c To Purchase A/c –Transfer	40,000 2,00,000	By Branch to Stock A/c	2,40,000
	2,40,000		**2,40,000**

Q.BRN.SM.303(A):

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Rs.
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 20X1	60,000
Sales in the year- Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan.20X1	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 20X1 at invoice price	1,20,000

Prepare Branch accounts in books of head office by Stock and debtors' method.

SOLUTION

Books of Hindustan Industries,
Mumbai Cochin Branch Stock Account

	Rs.		Rs.
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000
To Branch Debtors A/c (sales return)	8,000	By Goods sent to Branch (Returns to H.O.)	12,000
To Branch P & L A/c (surplus)	24,000	By Balance c/d (closing stock)	1,20,000
	6,92,000		**6,92,000**

Cochin Branch Stock Adjustment Account

	Rs.		Rs.
To Goods sent to Branch A/c (1/5 of Rs. 12,000) (on returns)	2,400	By Balance b/d (1/5 of Rs. 60,000)	12,000
To Branch P & L A/c (Profit on sale at invoice price)	1,29,600	By Goods sent to Branch A/c (1/5 of Rs. 6,00,000)	1,20,000
To Balance c/d (1/5 ofRs.1,20,000)	24,000	By Branch Stock	24,000
	1,56,000		**1,56,000**

Goods Sent to Branch Account

	Rs.		Rs.
To Cochin Branch Stock Adj. A/c	1,20,000	By Cochin Branch Stock A/c	6,00,000
To Cochin Branch Stock A/c (Returns)	12,000	By Cochin Branch Stock Adj. A/c	2,400
To Purchases A/c	4,70,400		
	6,02,400		**6,02,400**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock A/c	3,60,000	By Branch P & L A/c	
		Discount 6,000	
		Bad Debts 4,000	10,000
		By Branch Stock (Sales Returns.)	8,000
		By Balance c/d	94,000
	4,32,000		**4,32,000**

Branch Expenses Account

	Rs.		Rs.
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000
To Bank A/c (Salaries & Wages)	60,000		
To Bank A/c (office exp.)	6,000		
	84,000		**84,000**

Branch Profit & Loss Account for the year ending 31st Dec. 20X1

	Rs.		Rs.
To Branch Expenses A/c (60,000+6,000+18,000)	84,000	By Branch Stock Adj. A/c	1,05,600
Discount 6,000 Bad debts 4,000	10,000	By Branch stock A/c	24,000
To Net Profit transferred to Profit & Loss A/c	35,600	(Sale over invoice price)	
	1,29,600		**1,29,600**

Q.BRN.RMP.304(A): (MTP May'18)

Ayan Ltd. Invoices goods to its branch at cost plus $33\frac{1}{3}$%From the following Particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	Rs
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs. 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31stMarch, 2018.

SOLUTION

In the books of Head Office Branch Stock Account

Particulars	Rs	Particulars	Rs
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing	36,000	By Goods sent to Branch A/c	1,20,000

fig. (Surplus)***		(Returns to H.O.)	
		By Branch Adjustment A/c* (Rs. 24,000 x25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d: In hand in transit	 2,88,000 48,000
	27,96,000		**27,96,000**

- Alternatively, combined posting for the amount of Rs. 24,000 may be passed through Goods pilfered account.
- Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.
- It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	(Rs)	Particulars	(Rs)
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (Rs. 3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (Rs. 24,00,000 – Rs. 1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (Rs. 3,36,000x25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		**6,96,000**

Branch Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & LA/c	5,52,000		
	5,70,000		**5,70,000**

SERIES 400
Dependent Branch – Debtors Method

Q.BRN.SM.401(A):

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

			Rs.
Cost of goods sent to Branch at cost			2,00,000
Goods received by Branch till 31-12-20X1 at invoice price			2,20,000
Credit Sales for the year @ invoice price			1,65,000
Cash Sales for the year @invoice price			59,000
Cash Remitted to head office			2,22,500
Expenses paid by H.O.			12,000
Bad Debts written off			750
Balances as on	**1-1-20X1**	**31-12-20X1**	
Stock	25,000 (Cost)	28,000 (invoice price)	
Debtors	32,750	26,000	
Cash in Hand	5,000	2,500	

prepare branch account following debtors' method.

SOLUTION

Books of Harrison New Delhi

Branch Account

	Rs.		Rs.
To Balance b/d		By Balance b/d	5,000
Stock	30,000	Stock Reserve	
Debtors	32,750	By Goods Sent to Branch A/c	40,000
Cash	5,000	By Bank-Remittance received from the Branch:	2,22,500
To Goods Sent to Branch A/c (2,00,000 + 20%of2,00,000)	2,40,000	Cash sales 59,000	
To Bank (Exp. paidby H.O.)	12,000	Debtors Collection 1,63,500	
To Net Profit Transferred to H.O. Profit & Loss A/c	16,250	(W.N.1) (Net of expense)	
To Balance c/d (Stock reserve on closing stock)	8,000	By Balance c/d	
		Stock (including Transit) (W.N.2)	48,000
		Debtors	26,000
		Cash	2,500
	3,44,000		**3,44,000**

Working Note:

1. Collection from debtors = Total collection – Cash sales
   = 2,22,500 – 59,000 = 1,63,500
2. Closing stock = Stock at branch + Goods sent by H.O. – Goods received by Branch
   = 28,000 +2,40,000 – 2,20,000 = 48,000

Q.BRN.SM.402(A):

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office.

From the following, prepare Nagpur branch account in the books of head office by Debtors method.

	Rs.		Rs.
Opening balance (1-1-20X1) Imprest Cash	2,000	Bad Debts	1,000
Sundry Debtors	25,000	Discount to Customers	2,000
Stock: Transferred from H.O.	24,000	Remittances to H.O.	
Direct Purchases	16,000	(recd. by H.O.)	1,65,000
Cash Sales	45,000	remittances to H.O.	
Credit Sales	1,30,000	(Not recd. by H.O. so far)	5,000
Direct Purchases	45,000	Branch Exp. directly paid by H.O.	30,000
Returns from Customers	3,000	Closing Balance (31-12-20X1)	
Goods sent to branch from H.O.	60,000	Stock: Direct Purchase	10,000
Transfer from H.O. for Petty Cash expenses	4,000	Transfer from H.O.	15,000
Petty Cash expenses	4,000	Debtors	?
		Imprest Cash	?

SOLUTION

In the Books of Buckingham Bros,
Bombay Nagpur Branch Account

Particular	Amount	Particular	Amount	Amount
To Opening Branch Assets		By Bank – Remittances received		
Stock (24,000+16,000)	40,000	from branch		
Debtors	25,000	Cash Sales	45,000	
Imprest Cash	2,000	Cash from Debtors	1,20,000	
		Cash from Debtors in transit	5,000	1,70,000
To Goods sent to Branch A/c	60,000	By Stock:		
		Transfer from H.O.		15,000
		Direct Purchase		10,000
To Creditors (Direct Purchases)	45,000	By Sundry Debtors (W.N. 2)		24,000
To Bank (Sundry exp.)	30,000	By Imprest Cash (W.N. 3)		2,000
To Bank (Petty cash exp.)	4,000			
To Net Profit transferred to General Profit & Loss A/c	15,000			
	2,21,000			2,21,000

Working Notes:

(1) Memorandum Debtors A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	25,000	By Sales Return	3,000
To sales	1,30,000	By Bad Debts	1,000
		By Discount	2,000
		By Cash	1,25,000

		By Balance c/d	24,000
	1,55,000		**1,55,000**

(2) Memorandum Petty Cash

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	2,000	By Expenses (met by Br.)	4,000
To transfer from H.O	4,000	By Balance c/d	2,000
	6,000		**6,000**

Q.BRN.SM.403(A): (Similar in RTP Nov'23)

Widespread invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after with-holding Rs. 10,000 necessary for meeting immediate requirements of cash. On 31st March, 20X1 the assets at the branch were as follows:

	Rs. ('000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs. 72,000. Other transactions at the branch during the year were as follows:

	(Rs. '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 20X2 the branch purchased new furniture for 1 lakh for which payment was made by head office through a cheque.

On 31st March, 20X2 branch expenses amounting to Rs. 6,000 were outstanding and cash in hand was again Rs. 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 20X2.

SOLUTION

In the Head Office Books

Branch Account

for the year ended 31st March, 20X2

	Rs.'000		Rs.'000
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve Rs. 1,080 × 1/6	180
Trade debtors	384	By Goods sent to branch A/c (Returns to H.O.)	72
Stock	1,080	By Goods sent to branch A/c (Loading on net goods sent to branch – 13,128X1/6	2,188
Furniture and fittings	500		

To Goods sent to branch A/c	13,200	Bank A/c (Remittance from branch to H.O.) (W.N.5)	11,700
To Bank A/c (Payment for furniture)	100	By Balance c/d	
To balance c/d stock reserve 1,470 x 1/6	245	Cash in hand	10
To Outstanding expenses	6	Trade debtors (W.N.3)	485
To Net profit transferred to General P/L account	1,096	Stock (W.N.1)	1,470
		Furniture & fittings (W.N.4)	516
	16,621		**16,621**

Working Notes:		
1. Invoice price and cost		
Let cost be		100
So, invoice price		120
Loading		20
Loading: Invoice price	= 20 : 120 = 1 :6	

2. Invoice price of closing stock in branch

Branch Stock Account

	Rs. '000		**Rs. '000**
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	14,382		**14,382**

3. Closing balance of branch debtors

Branch Debtors Account

	Rs. '000		**Rs. '000**
To Balance b/d	384	By Branch cash	2,842
To Branch stock	3,140	By Branch expenses discount	58
		By branch stock (Returns)	102
		By Branch expenses (Bad debts)	37
		By Balance b/d	485
	3,524		**3,524**

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	Rs. '000		**Rs. '000**
To Balance b/d	500	By depreciation [(500x16%) + (100x16%x3/12)]	84
To Bank	100	By Balance c/d	516
	600		**600**

Note: Since the new furniture was purchased on 1st Jan 20X2 depreciation will be for 3 months.

5. Remittance by branch to head office

Branch Cash Account

	Rs. '000		Rs. '000
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O. (b.f)	11,700
To Branch debtors	2,842	By Balance b/d	10
	12,552		**12,552**

Q.BRN.SM.404(A):

Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	Jan. 20X1	Feb. 20X1	March 20X1
	Rs.	Rs.	Rs.
Goods sent to Branch (Purchase Price)	40,000	50,000	60,000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Invoice price to Branch)	1,200	600	2,400

The stock of goods held by the branch on March 31, 20X1 amounted to Rs. 53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution.

SOLUTION

Books of Sell Well

Branch Account

	Rs.			Rs.
To Goods sent to Branch A/c (1,50,000 + 10%)	1,65,000	By Cash-collected from debtors		1,06,000
To goods sent to Branch A/c (4,200 X 10/100	382	By Goods sentto Branch-returns		4,200
To Stock Reserve (W.N.2)	4,855	By Goods sent to Branch (W.N.1)		15,000
To Profit (bal.) transferred to General Profit & Loss A/c	37,363	By Balance c/d		82,400
		Stock	53,400	
		Debtors	29,000	
	2,07,600			**2,07,600**

Memorandum Branch Debtors Account

	Rs.		Rs.
To Balance b/d	—	By Cash/Bank	1,06,000
To Sales	1,35,000	By Balance c/d	29,000
	1,35,000		**1,35,000**

Goods Sent to Branch Account

	Rs.		Rs.
To Branch A/c (Returns)	4,200	By Branch A/c	1,65,000
To Branch A/c (Loading) (W.N.1)	15,000	By Branch A/c –Loading on returns	382

To Purchases A/c	1,46,182		
	1,65,382		**1,65,382**

Q.BRN.SM.405(A):

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ Rs. 1,000 per tin and 15 tins of Ghee @ Rs. 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi	**Lucknow**
		Rs.	**Rs.**
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

	(Delhi)	
Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	1,50,000	3,12,500
Oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

	(Lucknow)	
Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	17,000	13,250
Oil	27,000	44,750
Debtors	75,750	?
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

- Addition to Plant/Machinery on 1-1-20X1 Rs. 6,02,750.
- Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).
- The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of Rs. 2,000 p.m. General expenses incurred by H.O. Rs. 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

SOLUTION

In the books of Arnold

Lucknow Branch Account

To Balance b/d		By Bank (Remittance to H.O.)	6,13,250
To Opening stock:		By Balance c/d	
Ghee	17,000	Closing stock:	
Oil	27,000	Ghee	13,250
Debtors	75,750	Oil	44,750
Cash on hand	7,540	Debtors (W.N. 1)	86,900
Furniture & fittings	6,250	Cash on hand (W.N. 2)	12,350
To Goods sent to Branch A/c		Furniture & fittings	5,625
Ghee (15 x 1500 x 12)	2,70,000		
Oil (25 x 1000 x 12)	3,00,000		
To Bank (Expenses paid by H.O.)	14,250		
To Branch Manager commission (Rs. 58,335 × 1/11)	5,303		
To Net Profit transferred to General P & L A/c	53,032		
	7,76,125		**7,76,125**

Arnold Trading and Profit and Loss account for the year ended 31st December, 20X1 (Excluding branch transactions)

	Rs.		**Rs.**
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:	12,05,000	By Closing Stock:	
Ghee 14,75,000		Ghee	3,12,500
Less: Goods sent to Branch (2,70,000)		Oil	4,17,250
Oil 29,32,000	26,32,000		
Less: Goods sent To Branch (3,00,000)			
To Direct Expenses	3,83,275		
To Gross Profit	5,97,075		
	53,17,350		**53,17,350**
To Manager's Salary	24,000	By Gross Profit	5,97,075
To General Expenses	24,000	By Branch Profit transferred	53,032
To Depreciation			
Furniture @10% 2,150			
Plant & Machinery @ 15% (W.N.3) 1,36,500	1,38,650		
To General Manager's Commission @ 10% (i.e., 4,63,457 × 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		**6,50,107**

Working Notes:

1. Debtors Account

	Rs.		**Rs.**
To Balance b/d	75,750	By Cash Collections	6,47,330
To Sales made during the		By Balance c/d	86,900

year:			
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		**7,34,230**

2. Branch Cash Account

	Rs.		**Rs.**
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		**6,54,870**

3. Depreciation on Plant & Machinery 3,07,250 x 15% + 6,02,750 x 15% = Rs. 1,36,500

Q.BRN.RMP.406(A): (RTP May'18, May'21)

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 percent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 percent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

	Rs		**Rs**
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2017.

SOLUTION

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	**Rs**	**Particulars**	**Rs**
To Opening Stock (Rs. 74,736 + 1/3 of Rs. 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (Rs. 2,89,680 + 1/3 of Rs. 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		**4,85,888**

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	**Rs**	**Particulars**	**Rs**
To Opening [Rs. 74,736 + 1/3 of Rs. 74,736]	99,648	By Sales	3,61,280

To Gross sent to Branch A/c (Rs. 2,89,680 + 1/3 of Rs. 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (Rs. 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		**6,06,080**

Step 3: **Calculation of Commission still due to manager**

		Rs
A	Calculation at 10% profit before charging his commission [Rs. 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of Rs. 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
E	**Balance due (C-D)**	**1,384**

SERIES 500
Independent Branch

Q.BRN.SM.501(A):

Messrs Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit &Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit &Loss Account and Branch Assets Account in the Head Office Books.

Trial Balance of the Delhi Branch as on 31-12-20X1

Debit	**Rs.**	**Credit**	**Rs.**
Head office opening balance on 1-1-20X1	15,000	Sales	1,00,000
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock		Sundry Creditors	3,000
(H.O. supplies goods at invoice prices)	4,000		
Opening Stock of other goods	500		
Salaries	7,000		
Rent	3,000		
Office expenditure	2,000		
Cash on Hand	500		
Cash at Bank	4,000		
Sundry Debtors	15,000		

	1,21,000		**1,21,000**

The Branch balances as on 1st January, 20X1, were as under: Furniture Rs. 5,000; Sundry Debtors Rs. 9,500; Cash Rs. 1,000, Creditors Rs. 30,000. The closing stock at branch of the head office goods at invoice price is Rs. 3,000 and that of purchased goods at cost is Rs. 1,000. Depreciation is to be provided at 10 per cent on branch assets.

SOLUTION

Delhi Branch Trading and Profit &Loss Account
for the year ended 31st Dec.,20X1

			Rs.				**Rs.**
To	Opening Stock:			By	Sales		1,00,000
	Head office Goods (4,000 x 80%)	3,200		By	Goods from Branch		3,000
				By	Closing Stock:		
	Others	500	3,700		Head Office goods (3,000 x 80%)	2,400	3,400
To	Goods to Branch (50,000 x 80%)		40,000		Others	1,000	
To	Purchases		20,000				
To	Gross Profit c/d		42,700				
			1,06,400				**1,06,400**
To	Salaries		7,000	By	Gross profit b/d		42,700
To	Rent		3,000				
To	Office Expenses		2,000				
To	Dep. On furniture @ 10%		500				
To	Net profit		30,200				
			42,700				**42,700**

Branch (Fixed) Assets Account (In Head Office Books)

20X1			**Rs.**	**20 X1**			**Rs.**
Jan. 1	To	Balance b/d	5,000	Dec . 31	By	Delhi Branch A/c (Depreciation)	500
					By	Balance c/d	4,500
			5,000				**5,000**
20X2 Jan. 1	To	Balance b/d	4,500				

Note: Furniture A/c is maintained in Head office books; it is not a part of either opening or closing balance.

Q.BRN.RMP.502(A): (RTP Nov'18)

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid Rs. 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of Rs. 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office; depreciation charged for the year Rs. 15,000 not recorded by Branch.

(iv) Head Office expenses Rs. 75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected Rs. 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to Rs. 50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of Rs. 10,000 on behalf of other Branches, but not recorded in the books of Branch.

Head office made payment of Rs. 16,000 for purchase of goods by branch, but not recorded in branch books.

SOLUTION

Books of Branch

Journal Entries

			Amounts Rs	
			Dr.	**Cr.**
(i)	Head Office Account To Salaries Account (Being rectification of salary paid on behalf of Head Office)	Dr.	5,000	5,000
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c To Head Office Account (Being depreciation of assets accounted for)	Dr.	15,000	15,000
(iv)	Expenses Account To Head Office Account (Being allocated expenses of Head Office recorded)	Dr.	75,000	75,000
(v)	Head Office Account To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	Dr.	60,000	60,000
(vi)	Goods in-transit Account To Head Office Account (Being goods sent by Head Office still in-transit)	Dr.	50,000	50,000
(vii)	Head Office Account To expenses Account / To Cash (Being expenditure incurred, wrongly recorded in books)	Dr.	10,000	10,000
(vii)	Purchases account A/c / Creditors To Head Office Account (Being purchases booked)	Dr.	16,000	16,000

Q.BRN.SM.503(A):

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter – branch transactions assuming that only head office maintains different branch accounts in its books.

A. Delhi branch:

(1) Received goods from Mumbai – Rs. 35,000 and Rs. 15,000 from Kolkata.

(2) Sent goods to Chennai – Rs. 25,000, Kolkata – Rs. 20,000.

(3) Bill Receivable received – Rs. 20,000 from Chennai.

(4) Bill Acceptances sent to Mumbai – Rs. 25,000, Kolkata – Rs. 10,000.

B. Mumbai Branch (apart from the above):

(1) Received goods from Kolkata – Rs. 15,000, Delhi – Rs. 20,000.

(2) Cash sent to Delhi – Rs. 15,000, Kolkata – Rs. 7,000.

C. Chennai Branch (apart from the above):

(3) Received goods from Kolkata – Rs. 30,000.

(4) Acceptances and Cash sent to Kolkata – Rs. 20,000 and Rs.10,000 respectively.

D. Kolkata Branch (apart from the above):

(5) Sent goods to Chennai – Rs. 35,000.

(6) Paid cash to Chennai – Rs.15,000.

(7) Acceptances sent to Chennai – Rs.15,000.

SOLUTION

(a) Journal entry in the books of Head Office

Date	Particulars		Dr.	Cr.
			Rs.	Rs.
30th April, 20X1	Mumbai Branch Account	Dr.	3,000	
	Chennai Branch Account	Dr.	70,000	
	To Delhi Branch Account			15,000
	To Kolkata Branch Account			58,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)			

Working Note:

		Delhi	Mumbai	Chennai	Kolkata
		Rs.	Rs.	Rs.	Rs.
A.	Delhi Branch				
1	Received goods	50,000(Dr.)	35,000(Cr.)		15,000(Cr.)
2	Sent goods	45,000(Cr.)		25,000(Dr.)	20,000(Dr.)
3	Received Bills receivable	20,000(Dr.)		20,000(Cr.)	
4	Sent Acceptance	35,000(Cr.)	25,000 (Dr.)		10,000(Dr.)
B.	Mumbai Branch				
5	Received goods	20,000(Cr.)	35,000 (Dr.)		15,000(Cr.)
6	Sent cash		22,000 (Cr.)		
C.	Chennai Branch				
7	Received goods			30,000 (Dr.)	30,000(Cr.)
8	Sent cash and acceptances			30,000(Cr.)	30,000 (Dr.)
D.	Kolkata Branch				
9	Sent goods			35,000(Dr.)	35,000(Cr.)
10	Sent cash			15,000(Dr.)	15,000(Cr.)
11	Sent acceptances			15,000(Dr.)	15,000(Cr.)
		15,000 (Cr.)	**3,000(Dr.)**	**70,000(Dr.)**	**58,000(Cr.)**

Q.BRN.SM.504(A):

Ring Bell Ltd. Delhi has a branch at Bombay where a separate set of books is used. The following is the Trail balance extracted on 31st Dec.,2010:

Particulars	HO		Branch	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital	-	8,00,000	-	-
Profit & Loss a/c (01/01/2010)	-	25,310	-	-
Profit for 2010	-	82,200	-	31,700
Interim dividend paid	30,000	-	-	-

General Reserve	-	1,00,000	-	-
Fixed Assets	5,30,000	-	95,000	-
Stock	2,22,470	-	50,460	-
Debtors and Creditors	50,500	21,900	19,100	10,400
Cash Balance	62,730	-	6,550	-
HO a/c in branch books	-	-	-	1,29,010
Branch a/c in HO books	1,33,710	-	-	-

The difference between the balance of HO a/c and Branch a/c in both set of books is accounted for as follows:

(1) Cash remitted by the branch on 31st Dec 2010 but received by the HO on 1st Jan. 2011- 3,000/-

(2) Stock Stolen in transit from HO and charged to branch by the HO, but not credited to HO a/c in the branch books as the branch manager declined to admit any liability (not covered by insurance)- 1,700/-.

Give the Branch a/c in the HO books after incorporating the branch Trail balance through journal entries. Also prepare company's Balance Sheet as on 31st Dec., 2010.

(Answer: 10,39,810/-)

SOLUTION

The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances. Therefore, in order to reconcile them, the following journal entries will be passed in the Head Office books:

Journal Entries

		Dr.	Cr.
20X1		Rs.	Rs.
Dec., 31	Cash in Transit A/c Dr. To Branch Current A/c (Cash sent by the Branch on 31st Dec., 20X1 but received at H.O. on 1st Jan.,20X2)	3,000	3,000
	Loss by theft A/c Dr. To Branch Current A/c (Stock lost in transit from H.O. to Branch)	1,700	1,700

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

Journal Entries

20X1			Rs.	Rs.
Dec. 31	Branch Current Account To Profit & Loss Account (Branch Profit for the year)	Dr.	31,700	31,700
	Branch Fixed Assets Branch Stock Branch Debtors Branch Cash To Branch Current Account (Branch assets brought into H.O. Books)	Dr. Dr. Dr. Dr.	95,000 50,460 19,100 6,550	1,71,110
	Branch Current A/c To Branch Creditors (Branch creditors brought into H.O. Books)	Dr.	10,400	10,400

Branch Current Account

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

Profit and Loss Account for 20X1

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

Q.BRN.SM.505(A):

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec.,20X1 in columnar form.

(a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.O.		Branch	
	Rs.	Rs.	Rs.	Rs.
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-20X1				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen Salaries	22,500		6,200	
Other administrative &				
selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry Creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods received from H.O.			44,500	
	3,10,200	**3,10,200**	**67,200**	**67,200**

Notes:

(8) On 28th Dec., 20X1 the branch remitted Rs. 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also, on the same date, the H.O. dispatched goods to the branch invoiced at Rs. 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(9) The stock of raw materials held at the H.O. on 31st Dec.,20X1 was valued at Rs. 2,300.

(10) You are advised that:

- There were no stock losses incurred at the H.O. or at the branch.
- It is KP's practice to value finished goods stock at the H.O. at factory cost.
- There were no opening or closing stock of work-in-progress.

(11) Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

SOLUTION

In the books of KP

Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Material consumed (W.N.1)	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory Overheads	39,000	-	39,000				
To Opening stock of finished goods	13,000	9,200	22,200	By Closing stock including transit (W.N.2)	15,000	9,560	24,560
To Goods from H.O.		46,000					
To Gross Profit c/d (W.N.3)	66,000	19,560	85,560				
	2,61,000	**74,760**	**2,89,760**		**2,61,000**	**74,760**	**2,89,760**
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & Selling Overheads	12,500	2,300	14,800				
To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	**17,053**	**6,904**	**23,957**				
	66,000	**19,560**	**85,560**		**66,000**	**19,560**	**85,560**

Balance Sheet as on 31st Dec., 20X1

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Capital	50,000	-	50,000	Fixed Assets	-	-	-
Profit: H.O. 17,053 Branch 6,904	17053		23,957	Current Assets:			
				Raw material	2,300		2,300
Trade Creditors	13,000		13,000	Finished	15,000	9,560	23,313

				Goods (Less Stock Res.)			*
Bonus Payable		156	156	Debtors	37,000	-	37,000
H.O. Account*		3500		Cash (including transit item)	23,500	1,000	24,500
Stock Reserve (W.N.4)	1,247			Branch A/c	3500		
	88,204	**10,560**	**87,113**		**88,204**	**10,560**	**87,113**

*9,560 × 100/115 i.e., (8,313 + 15,000) = Rs.23,313
** (5,000 + 6,904) – 1500 = Rs. 10,404.

Working Notes:

(1) Material Consumed

Opening raw material + Raw Material Purchased – Closing raw material
= 1,800 + 35,000 - 2,300 = 34,500

(2) Closing stock at head office

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead
= 34,500 + 1,08,500 + 39,000 = 1,95,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit
= 2,00,000 – 2,00,000 x 70% = 1,40,000

(c) Stock transferred to branch = 46,000 x 100/115 = 40,000

(d) Closing stock=1,95,000–1,40,000–40,000=15,000

(3) **Gross profit of Branch** = Sales x Gross profit ratio
= 65,200 x 30% =19,560

(4) **Closing stock reserve** = 9,560 x 15/115 = 1,246
Charge to profit and loss=1,247–1,200=47

SERIES 600
Foreign Branch

Q.BRN.SM.601(A):

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 20X2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office

	Bombay (Rs. thousands)		Sydney (Austr dollars thousands)	
	Debit	Credit	Debit	Credit
Share Capital	–	2,000	–	–
Reserves & Surplus	–	1,000	–	–
Land	500	–	–	–
Buildings (Cost)	1,000	–	–	–
Buildings Dep. Reserve	–	200	–	–
Plant & Machinery (Cost)	2,500	–	200	–
Plant & Machinery Dep. Reserve	–	600	–	130
Debtors / Creditors	280	200	60	30
Stock (1.4.20X1)	100	–	20	–
Branch Stock Reserve	–	4	–	–
Cash & Bank Balances	10	–	10	–
Purchases / Sales	240	520	20	123
Goods sent to Branch	–	100	5	–
Managing Director's salary	30	–	–	–
Wages & Salaries	75	–	45	–
Rent	–	–	12	–
Office Expenses	25	–	18	–
Commission Receipts	–	256	–	100
Branch / H.O. A/c Balances	120	–	–	7
	4,880	**4,880**	**390**	**390**

The following information is also available:

Stock as at 31.3.20X2: Bombay Rs. 1,50,000 Sydney A $3,125

You are required to convert the Sydney Branch Trial Balance into rupees; (use the following rates of exchange:

Opening rate 1 $ = Rs.20
Closing rate 1 $ = Rs.24
Average rate 1 $ = Rs.22
For Fixed Assets 1 $ = Rs.18).

SOLUTION

Sydney Branch Trial Balance (in Rupees)
As on 31st March, 20X2

(Rs. '000)

Conversion	rate per A$	Dr.	Cr.
Plant & Machinery (cost)	Rs. 18	36,00	
Plant & Machinery Dep. Reserve	Rs. 18		23,40
Debtors / Creditors	Rs. 24	14,40	7,20
Stock (1.4.20X1)	Rs. 20	4,00	
Cash & Bank Balances	Rs. 24	2,40	
Purchase / Sales	Rs. 22	4,40	27,06
Goods received from H.O.	–	1,00	

Wages & Salaries	Rs. 22	9,90	
Rent	Rs. 22	2,64	
Office expenses	Rs. 22	3,96	
Commission Receipts	Rs. 22		22,00
H.O. Current A/c			1,20
Exchange loss (balancing figure)		2,16	-
		80,86	**80,86**

Q.BRN.RMP.602(A): (MTP May'22)

DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	**£**	**£**
	Dr.	**Cr.**
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

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

London Branch A/c

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information is given:

(a) Fixed assets are to be depreciated @ 10% p.a. on WDV.

(b) On 31st March, 2021:

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April, 2017	-	Rs. 70 to £ 1
1st April, 2020	-	Rs. 76 to £ 1
31st March, 2021	-	Rs. 77 to £ 1
Average	-	Rs. 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM.

SOLUTION

Trial Balance of London Branch as on 31st March, 2021

Particulars	U.K. Pound	Rate Per U.K. Pound	Dr. (Rs.)	Cr. (Rs.)
Fixed Assets	24,000	70	16,80,000	
Stock (as on 1st April, 2020)	11,200	76	8,51,200	
Goods from Head Office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 – 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at Bank	1,200	77	92,400	
Head office Account		-		17,20,000
Difference in Exchange				12,400
			92,09,600	**92,09,600**

Closing stock will be (8,000 × 77) = Rs. 6,16,000

Trading and Profit & Loss A/c for the year ended 31st March, 2021

Particulars		Amount (Rs.)	Particulars		Amount (Rs.)
To	Opening Stock	8,51,200	By	Sales	72,00,000
To	Purchases	9,00,000	By	Closing Stock	6,16,000
To	Goods from H.O.	49,26,000			
To	Gross Profit	11,38,800			
		78,16,000			**78,16,000**
To	Expenses	3,75,000	By	Gross Profit	11,38,800
To	Depreciation	1,68,000	By	Profit due to Exchange difference	12,400
To	Net Profit	6,08,200			
		11,51,200			**11,51,200**

Working Note:

Since London Branch is an integral foreign operation. Hence, (1) Fixed assets (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets. (2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

Q.BRN.SM.603(A):

The Washington branch of XYZ Mumbai sent the following trial balance as on31st December,20X1:

	$	$
Head office A/c	_	22,800
Sales	_	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	_
Cash at bank	1,200	_
Stock, 1 January, 20X1	11,200	_
Goods from H.O.	64,000	_
Expenses	5,000	_

	1,10,200	**1,10,200**

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

		Rs.			Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	29,26,000	By	Balance c/d	8,60,000
		37,36,000			**37,36,000**

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2007, when $ 1.00 = Rs.40.

Rates of exchange were:

1th January, 20X1	$ 1.00	=	Rs. 46
31st December, 20X1	$ 1.00	=	Rs.48
Average	$ 1.00	=	Rs. 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

(i) Prepare the Branch Trading &Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

SOLUTION

(i)

In the Books of Head Office
Branch Trading and Profit & Loss A/c (in Dollars)
for the year ended 31st December, 20X1

Opening stock	11200	By sales	84000
Goods from H.O.	64000	By closing stock	8000
Gross profit c/d	16800		
	92000		**92000**
Expenses	5,000	By Gross Profit b/d	16,800
To deprecation (24000X 10%)	2400		
To manager commission	470		
To net profit C/d	8930		
	16800		**16800**

(i) (a)

Converted Branch Trial Balance (into Indian Currency)

Particulars	Rate per $	Dr. (Rs.)	Cr. (Rs.)
Machinery	40	9,60,000	_
Stock January 1, 20X1	46	5,15,200	_
Goods from head office	Actual	29,26,000	_
Sales	47	_	39,48,000
Expenses	47	2,35,000	_
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	_
Head office A/c	Actual	_	8,60,000
Difference in exchange rate (b.f.)		47,000	_
		49,71,200	**49,71,200**
Closing stock $ 8,000 (W.N. 2)	48		Rs. 3,84,000

(b) Branch Trading and Profit &Loss A/c for the year ended 31st December, 20X1

	Rs.		Rs.
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10%on Rs. 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		8,90,800

(c)

Branch Account

To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	Less:		
To Creditors	1,63,200	By Depreciation	(96,000)	8,64,000
To Outstanding		By Closing stock		3,84,000
To commission	22,560	By Debtors		2,30,400
		By Cash at bank		57,600
	15,36,000			**15,36,000**

Working Notes:

1. **Calculation of manager's commission @ 5% on profit**

i.e.,	5% of $[16,800 – (5,000 + 2,400)]
Or	5% × $9,400 = $ 470
Manager's commission in Rupees = $ 470 x Rs. 48 = Rs. 22,560	

2. **Calculation of closing stock**

	$
Opening stock	11,200
Add: Goods from head office	64,000
	75,200
Less: Cost of goods sold (at invoice price) 84000X100/125	(67,200)
Closing stock	8,000
Closing stock in Rupees = $8,000 x Rs. 48 = Rs.3,84,000.	

Note: Manager is entitled to commission on profits earned at the end of the year.

Q.BRN.RMP.604(A): (MTP Nov'19) (RTP Nov'20, Nov'22)

M & S Co. of Lucknow has a Branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousands)		Canberra Branch (Aust. Dollars in thousands)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		

Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	**4,880**	**390**	**390**

The following information is also available:

(i) Stock as at 31st March, 2019

Lucknow Rs. 1,50,000

Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = Rs. 50
Closing rate	1 A $ = Rs. 53
Average rate	1 A $ = Rs. 51.00
For Fixed Assets	1 A $ = Rs. 46.00

Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

SOLUTION

M & S Co. Ltd.

Canberra, Australia Branch Trial Balance As on 31st March 2019

	($ 'thousands)			(Rs.' thousands)	
	Dr.	**Cr.**	**Conversion rate per $**	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	

Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	**19,063**
Foreign Exchange Loss (bal. fig.)				208	
	390	**390**		**19,063**	**19,063**
Closing stock	**3.125**		**53**	**165.625**	

Trading and Profit & Loss Account for the year ended 31st March, 2019

(Rs.'000)

		H.O.	Branch	Total			H.O.	Branch	Total
To	Opening Stock	100	1,000.000	1,100.000	By	Sales	520	6,273.000	6,793.000
To	Purchases	240	1,020.000	1,260.000	By	Goods sent to Branch	100	–	100.000
To	Goods received from Head Office	–	100.000	100.000	By	Closing Stock	150	165.625	315.625
To	Wages & Salaries	75	2,295.000	2,370.000					
To	Gross profit c/d	355	2,023.625	2,378.625					
		770	**6,438.625**	**7,208.625**			**770**	**6,438.625**	**7,208.625**
To	Rent	–	612.000	612.000	By	Gross profit b/d	355	2,023.625	2,378.625
To	Office expenses	25	918.000	943.000	By	Commission receipts	256	5,100.000	5,356.000
To	Provision for doubtful debts @ 5%	14	159.000	173.000					
To	Depreciation (W. N.)	460	644.000	1,104.000					
To	Balance c/d	112	4,790.625	4,902.625					
		611	**7,123.625**	**7,734.625**			**611**	**7,123.625**	**7,734.625**
To	Managing Partner's Salary			30.000	By	Balance b/d			4,902.625
To	Exchange Loss			208.000	By	Branch stock reserve			4.000
To	Balance c/d			4,668.625					
				4,906.625					**4,906.625**

Working Note:

Calculation of Depreciation

	H.O Rs. '000	Branch Rs. '000
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	**460**	**644**

Note: As the closing stock of Branch does not consist any stock transferred from M&S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&LA/c.

Q.BRN.RMP.605 (A): (Exam May'24)

Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	1,03,095
Cash & bank balances	2,175
Debtors	7,365
Fixed Assets (Gross) (Rate of Depreciation on Fixed Assets : 20%)	34,200
Inventory – Stock 'P'	5,520
Inventory – Stock 'Q'	1,035

(ii) Credit Balances (in USD)

Incomes	1,32,000
Creditors	15,570
HO Control a/c	5,820

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = Rs. 56.
(2) The fixed assets were purchased when the exchange rate was 1 USD = Rs. 55.
(3) The closing exchange rate on reporting date is 1 USD = Rs. 58.
(4) Stock item 'P' is valued at cost of USD 5,520 purchased when the exchange rate was Rs. 56.50. the present net realizable value of this item is Rs. 2,85,000.
(5) Stock item 'Q' is carried at net realizable value of USD 1,035. But its cost in USD is 1,065. It was purchased when exchange rate was 1 USD = Rs. 53.
(6) Branch Control Account as per HO books was Rs. 2,66,265.

You are required to show how it will be reflected in the books of Head office in the form of Trial Balance, if the USA Branch Office is classified as an integral Foreign Operation.

SOLUTION

Converted branch trail balance (in the books of head office)

Particular	Dr. $	Cr. $	Rate per $	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				12,240	
				85,61,325	85,61,325

Working Note:

Inventory P	**$ 5,520**	**Inventory Q**	**$ 1,065**
Purchased Cost rate	56.50	NRV	$ 1,035
NRV	₹2,85,000	Closing rate	58
Cost	₹3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹2,85,000	Value at cost or NRV whichever is less	$ 1,035 @ ₹58 or $1,065 @ ₹53 = 56,445 or 60,030

SECTION B – HOMEWORK QUESTIONS
(Self-Practice Questions)

SERIES 100
Dependent Branch - Final Account System Cost Basis

Q.BRN.RMP.101(B): (MTP Nov'20, May'22)

L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealized profits:

Particulars	Pune Branch Rs.	Goa Branch Rs.
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

(i) Opening stock at Pune Branch includes goods of Rs. 10,000 (invoice price) taken from Goa Branch,

(ii) Opening stock at Goa Branch includes goods of invoice price Rs. 17,000 taken from Pune Branch,

(iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price Rs. 20,000

(iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price Rs. 15,000.

(v) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price Rs. 5,000.

Closing stock at Goa Branch includes goods of Rs. 4,000 (invoice price).

SOLUTION

Pune Branch Trading and Profit and Loss Account

	Particulars	Rs.		Particulars	Rs.
To	Opening Stock (including Rs. 10,000 from Goa Branch)	40,000	By	Sales (including Rs. 20,000 to Goa Branch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including Rs. 5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment for unrealized profit)	55,000			
		3,10,000			**3,10,000**
To	Stock Reserve (For unrealized profit in Closing Stock lying at Goa Branch) (Rs. 4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000

To	Office & Adm. Expenses	13,250	By	Stock Reserve (For unrealized profit in Opening Stock lying at Goa Branch) (Rs. 17,000 x 25/100)	4,250
To	Selling & Distribution Expenses	15,000			
To	Net Profit	30,000			
		59,250			**59,250**

SERIES 200
Dependent Branch - Final Account System IP / WP Basis

Q.BRN.SM.201(B):

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 20X2 from the following:

(1) Goods are invoiced to the branch at cost plus20%.

(2) The sale price is cost plus50%.

(3) Other information:

	Rs.
Stock as on 01.04.20X1(invoice price)	2,20,000
Goods sent during the year (invoice price)	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain

(i) the profit earned by the branch during the year.

(ii) branch stock reserve in respect of unrealized profit.

SOLUTION

(i) Calculation of profit earned by the branch
In the books of Jammu Branch
Trading Account and Profit and Loss Account

Particulars	**Amount**	**Particulars**	**Amount**
	Rs.		**Rs.**
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit	1,95,000		
	15,60,000		**15,60,000**

(ii) Stock reserve in respect of unrealized profit

= Rs. 3,60,000 x (20/120) = Rs. 60,000

(iii) Opening Stock = 36,667/-

Working Note:

	Rs.
Cost Price	100
Invoice Price	120
Sale Price	150
Calculation of closing stock at invoice price	**Rs.**
Opening stock at invoice price	2,20,000
Goods received during the year at invoice price	11,00,000
	13,20,000

Less: Cost of goods sold at invoice price [12,00,000 x (120/150)]	(9,60,000)
Closing stock	**3,60,000**

SERIES 300
Dependent Branch – Stock & Debtors Method

Q.BRN.SM.301(B):

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.20X2:

	Rs.
Stock at the outlet 1.4.20X1	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.20X2	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.20X2:

(a) Outlet Stock Account.
(b) Outlet Profit & Loss Account.
(c) Stock Reserve Account.

SOLUTION

Outlet Stock Account

	Rs.		**Rs.**
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods lost by fire (b.f.)	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		**4,14,000**

Outlet Profit & Loss Account

	Rs.		**Rs.**
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N. 2)	18,000		
To Profit transferred	22,000		
	60,000		**60,000**

Stock Reserve Account

	Rs.		**Rs.**
To HO P & L A/c –Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&L A/c (W.N. 3)	7,200
	13,200		**13,200**

Working Notes:

WN 1

Whole sale Price	100+25	= 125
Retail Price	125 + 20%	= 150
Gross Profit at the outlet		
Wholesale Price – Retail Price	(150 – 125)	25

Retail sales value = 60,000 X 150/25= 3,60,000

WN 2: Goods lost by fire

Opening Stock + Goods Sent + Gross Profit – Sales – Closing Stock

30,000 + 3,24,000 + 60,000 – 3,60,000 – 36,000 = Rs. 18,000

WN 3: Stock Reserve

Opening Stock= 30000 X25/125=6000

Closing stock=36000 X25/125=7200

Q.BRN.SM.302(B):

M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit under **Stock and Debtors Method'**. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	Rs.
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 20X1	4,50,000
Sales during the year - Cash	15,00,000
- Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 20X1	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 20X1 at invoice price	9,00,000

SOLUTION

Bangalore Branch Stock Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	4,50,000	By Goods sent to branch A/c (Returns)	90,000
To Goods sent to branch A/c	45,00,000	By Bank A/c (Cash sales)	15,00,000
To Branch debtor's A/c (Returns)	60,000	By Branch debtor's A/c (credit sales)	27,00,000
To Branch adjustment A/c (Surplus over invoice price) *	1,80,000	By Balance c/d	9,00,000
	51,90,000		**51,90,000**

*Alternatively, this may directly be transferred to Branch P&L A/c without routing it through

Branch Adjustment Account.

Bangalore Branch Adjustment Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Stock reserve - 20% of Rs. 9,00,000 (closing stock)	1,80,000	By Stock reserve - 20% of Rs. 4,50,000 (Opening stock)	90,000
To Branch profit & loss A/c (Gross profit)	9,72,000	By Goods sent to branch A/c – 20% of Rs. 44,10,000 (45,00,000 – 90,000)	8,82,000
		By Branch stock A/c	1,80,000
	11,52,000		**11,52,000**

Branch Profit & Loss Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Branch expenses A/c	6,30,000	By Branch adjustment A/C (Gross Profit)	9,72,000
To Branch debtors A/c (Discount)	45,000		
To Branch Debtors A/c (Bad debts)	30,000		
To Net profit (transferred to Profit & Loss A/c)	2,67,000		
	9,72,000		**9,72,000**

Branch Expenses Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	5,40,000	By Bank A/c	24,00,000
To Branch stock A/c	27,00,000	By Branch profit and loss A/c (Bad debts and discount)	75,000
		By Branch stock A/c (Sales returns)	60,000
		By Balance c/d (bal. fig.)	7,05,000
	32,40,000		**32,40,000**

Goods sent to Branch Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Branch stock A/c	90,000	By Branch stock A/c	45,00,000
To Branch adjustment A/c	8,82,000		
To Purchases A/c	35,28,000		
	45,00,000		**45,00,000**

Q.BRN.RMP.303(B): (RTP Nov'21)



Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (Rs.)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

SOLUTION

Branch Stock Account

date	particular	Amt	date	particular			Amt
1.4.19	To Balance B/d (opening stock)	36,000	31.3.20	By Sales: Cash		92,500	
31.3.20	To Goods sent to branch a/c	4,20,00		Credit	3,12,500		
				Less: returns	(7,000)	3,05,500	3,98,000
	To Branch P&L	47,000		By Goods sent to branch – returns			30,000
				By Balance c/d (closing stock)			75,000
		5,03,000					**5,03,000**
1.4.20	To Balance b/d	75,000					

Branch Debtors Account

			Rs.				Rs.
1.4.19	To	Balance b/d	48,000	31.3.20	By	Cash	2,19,000
31.3.20	To	Sales	3,12,500		By	Returns	7,000
					By	Discounts	3,750
					By	Bad debts	2,750
					By	Balance c/d	1,28,000
			3,60,500				**3,60,500**
1.4.20	To	Balance b/d	1,28,000				

Branch Expenses Account

			Rs.				Rs.
31.3.20	To	Salaries & Wages	36,000	31.3.20	By	Branch P&L A/c	59,100
	To	Rent, Rates & Taxes	12,000				
	To	Office Expenses	4,600				
	To	Discounts	3,750				

	To	Bad Debts	2,750				
			59,100				**59,100**

Branch Profit & Loss Account for year ended 31.3.20

			Rs.				**Rs.**
31.3.20	To	Branch Expenses A/c	59,100	31.3.20	By	Branch stock	47,000
	To	Net Profit transferred to General P & L A/c	46,900		By	Branch Stock Adjustment account	58,500
					By	Bad debts recovered	500
			1,06,000				**106,000**

Branch Stock Adjustment Account for year ended 31.3.20

			Rs.				**Rs.**
31.3.20	To	Goods sent to branch - returns (30,000x1/6)	5,000	31.3.20	By	Balance b/d (36,000x1/6)	6,000
	To	Branch P & L A/c	58,500		By	Goods sent to branch (4,20,000x1/6)	70,000
	To	Balance c/d (75,000x1/6)	12,500				
			76,000				**76,000**

SERIES 400
Dependent Branch – Debtors Method

Q.BRN.SM.401(B):

Prepare branch account and find out profit earned by branch if transactions are as under:

Goods sent to branch	Rs. 50,000
Furniture sent to branch	Rs. 10,000 (at the beginning of year)
Credit sales at branch	Rs. 62,000
Bad Debts	Rs. 1,000

Other information:

Closing stock at branch	Rs. 10,000
Closing Debtor	Rs. 61,000
Furniture (after depreciation@20%)	Rs. 8,000

SOLUTION

Branch Account

Particulars	Amount Rs.	Particulars		Amount Rs.
To Opening branch assets: (Furniture)	10,000	By Closing branch assets		
		Stock	10,000	
To Goods sent to branch	50,000	Debtor	61,000	79,000
		Furniture	8,000	
To Net Profit	19,000			
	79,000			**79,000**

Q.BRN.RMP.402(B): (RTP Nov'19 & Sep'24)

From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		Rs.
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing Rs. 1,200 were destroyed due to fire and a sum of Rs. 1,000 was received from the Insurance Company.

SOLUTION

Pune Branch Account

Particulars		Rs.	Particulars	Rs.	Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by Debtors directly to H.O	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (Return of goods by the branch to H.O.)		1,000
Rent	2,000				
Salaries	2,400				
Petty Cash	1,000		By Closing Balances:		
Insurance	600	6,000	Stock		5,000
To Net Profit		78,950	Petty Cash		650
			Debtors		4,900
			Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x Rs. 600)		150
		1,81,600			**1,81,600**

Working Note:

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received from the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

Q.BRN.RMP.403(B): (RTP May'22)

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee @ Rs. 5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs. 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O.	Salem B.O.
	Amount (Rs.)	Amount (Rs.)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	01-04-2020 Amount (Rs.)	31-03-2021 Amount (Rs.)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Brach Office		
Balance as on	01-04-2020 Amount (Rs.)	31-03-2021 Amount (Rs.)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?

Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2020 Rs. 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of Rs. 20,000 per month.

(v) General expenses incurred by Head Office is Rs. 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

SOLUTION

In the books of Mr. Chena Swami Salem

Branch Account

		Rs.		Rs.
To	Balance b/d		By Bank (Remittance to H.O.)	19,50,000
	Opening stock:			
	Ghee	40,000	By Balance c/d	
	Refined Oil	22,500	Closing stock:	
	Debtors	1,80,000	Refined oil	19,500
	Cash on hand	25,690	Ghee	90,000
	Furniture & fittings	23,800	Debtors (W.N. 1)	2,10,000
To	Goods sent to Branch A/c		Cash on hand (W.N. 2)	44,800
	Refined Oil (30 x Rs. 1,500x12)	5,40,000	Furniture & fittings	21,420
	Ghee (20 x Rs. 5,000 x12)	12,00,000		
To	Bank (Expenses paid by H.O.)	76,800		
To	Manager's commission in profits 10% (2,26,930x10/110)	20,630		
To	Net Profit transferred to General P & L A/c	2,06,300		
		23,35,720		**23,35,720**

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2021 (Excluding branch transactions)

		Rs.			Rs.
To	Opening Stock:		By	Sales:	
	Refined Oil	44,000		Refined Oil	24,10,000
	Ghee	10,65,000		Ghee	38,40,500
To	Purchases:		By	Closing Stock:	
	Refined Oil 27,50,000			Refined Oil	8,90,000
	Less: Goods sent to Branch (5,40,000)	22,10,000		Ghee	15,70,000
	Ghee 48,28,000				
	Less: Goods sent to Branch (12,00,000)	36,28,000			
To	Direct Expenses	6,35,800			
To	Gross Profit	11,27,700			
		87,10,500			**87,10,500**

To Manager's Salary	2,40,000	By Gross Profit	11,27,700
To General Expenses	1,86,000	By Branch Profit transferred	2,06,300
To Depreciation			
Furniture (88,600 - 79,740)	8,860		
Building (5,10,800 + 2,41,600 - 7,14,780)	37,620		
To Net profit	8,61,520		
	13,34,000		**13,34,000**

Working Notes:

(1) **Debtors Account**

	Rs.		Rs.
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during		By Balance c/d	2,10,000
the year:		(Bal. Figure)	
Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		**22,25,000**

(2) **Branch Cash Account**

	Rs.		Rs.
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		**20,40,690**

Q.BRN.RMP.404(B): (MTP May'18, May'19)

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	(Rs.)		(Rs.)
Stock on 1st April 2017 (Invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office (invoice price)	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch furniture at 10% p.a.	
Cash received from debtors	60,000		
Cash Sales	1,00,000	Stock on 31st March, 2018 (At invoice price)	
Credit sales	60,000		28,000

SOLUTION

In the books of Head Office – XYZ
Kolkata Branch Account (at invoice)

	Rs.		Rs.
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales 1,00,000	
Furniture	3,000	Cash from Debtors 60,000	
To Goods sent to		Less-: Petty expenses (600)	1,59,400
Branch	1,60,000	By Goods sent to branch (loading)	32,000
To Goods returned by	400	By Goods returned by	
branch (loading)		branch (Return to H.O.)	2,000
To Bank (expenses paid by H.O.)		By Balance c/d	
		Stock	28,000
Rent 1,800		Debtors	16,880
Salary 3,200		Furniture (3,000-300)	2,700
Stationary & printing 800			
	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to			
General Profit & Loss A/c	24,180		
	2,46,980		**2,46,980**

Working Note:

Debtors Account

	Rs.		Rs.
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		**78,000**

Note: In the absence of opening cash balance, remittance to Head Office has been made after payment of petty expenses.

SERIES 500
Independent Branch

Q.BRN.SM.501(B):

Goods worth Rs. 50,000 sent by head office but the branch has received till the closing date goods for worth Rs. 40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.

SOLUTION

Journal entry in the books of Head Office No entry

Journal entry in the books of Branch

Goods-in-transit account	Dr.	10,000	
To Head Office account			10,000
(Being goods sent by head office is still in transit)			

Q.BRN.SM.502(B):

Alpha having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1, it was found that the goods dispatched by head office for Rs. 2,00,000 was received by the branch only to the extent of Rs. 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

SOLUTION

Nagpur branch must include the inventory in its books as goods in transit.			
The following journal entry must be made by the branch:			
Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000
[Being Goods sent by Head office is still in transit on the closing date]			

Q.BRN.SM.503(B):

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

(i) Head Office expenses Rs. 3,500 allocated to the Branch, but not recorded in the Branch Books.

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

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

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

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

(vi) Branch A incurred advertisement expenses of Rs. 3,000 on behalf of Branch B.

SOLUTION

Books of Branch A Journal Entries

Particulars	Dr. Amount	Cr. Amount
(i) Expenses account Dr.	3,500	
To Head office account		3,500
(Being the allocated expenditure by the head office recorded in branch books)		

(ii)	Depreciation account To Head office account (Being the depreciation provided)	Dr.	1,500	1,500
(iii)	Head office account To Salaries account (Being the rectification of salary paid on behalf of H.O.)	Dr.	2,000	2,000
(iv)	Head office account To Debtors account (Being the adjustment of collection from branch debtors)	Dr.	10,000	10,000
(v)	No entry in branch books			
(vi)	Head Office account To Cash account (Being the expenditure on account of Branch B, recorded in books)	Dr.	3,000	3,000

Note: Entry (vi) Inter branch transactions are routed through Head Office.

Q.BRN.SM.504(B): (EXAM JAN'21)

Give Journal Entries in the books of an independent Branch to rectify or adjust the following:

1. Branch paid Rs. 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.
2. Assets Purchased by branch for Rs. 25,000, but the Asset account was retained in H.O Books.
3. A remittance of Rs. 8,000 sent by the branch has not been received by H.O.
4. H.O collected Rs. 25,000 directly from the customer of branch but fails to give the intimation to branch.
5. Remittance of funds by H.O to branch Rs. 5,000 not entered in branch books.

SOLUTION

Journal entries in Books of Branch

	Particulars		Dr. Amt (Rs.)	Cr. Amt (Rs.)
(i)	Head office account To salaries account (Being the rectification of salary paid on behalf of H.O.)	Dr.	5,000	5,000
(ii)	Head office account To bank / Liability A/c (Being Asset purchased by branch but Asset account retained at head office books)	Dr.	25,000	25,000
(iii)	No entry in Branch Books			
(iv)	Head office account To Debtors account (Being the amount of branch debtor collected by H.O.)	Dr.	25,000	25,000
(v)	Bank A/c To Head Office (Remittance of Funds by H.O. to Brach)	Dr.	5,000	5,000

Q.BRN.RMP.505(B): (MTP Nov'21)

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Branch incurred travelling expenses of Rs. 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to Rs. 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for Rs. 2,000.

(iv) Branch paid Rs. 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

SOLUTION

Journal Entries in Books of Branch

			Amount in Rs.	
			Dr.	**Cr.**
(i)	Head Office Account To Cash Account (Being expenditure incurred on account of other branch, now recorded in books)	Dr.	4,000	4,000
(ii)	Goods –in- transit Account To Head Office Account (Being goods sent by Head Office still in-transit)	Dr.	8,000	8,000
(iii)	Profit & Loss A/c To Head Office Account (Being the provision for doubtful debts not provided earlier, now provided for)	Dr.	2,000	2,000
(iv)	Head Office Account To Salaries Account (Being rectification of salary paid on behalf of Head Office)	Dr.	2,000	2,000

Q.BRN.SM.506(B):

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books. On 31st March, 20X1 the Branch Balance Sheet was as follows:

Branch Balance Sheet

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	—
		Cash at Bank	8,000
	2,08,000		**2,08,000**

During the six months ending on 30-9-20X1, the following transactions took place at Delhi.

	Rs.		**Rs.**
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance		Discount earned	1,200
of Rs. 2,000)	6,400	Cash paid to Creditors	60,000
General Expenses	1,600	Building Account (further payment)	4,000
Fire Insurance (paid for one	3,200	Cash in Hand	1,600

year)			
Remittance to H.O.	38,400	Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-20X1. Also give journal entries in the Delhi books.

SOLUTION

Journal Entries

20X1		Dr.	Cr.
30 Sept.		**Rs.**	**Rs.**
Salary Advance A/c	Dr.	2,000	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to Salary Advance Account)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid Insurance A/c)			
Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)			
Sales Accounts	Dr.	2,40,000	
Discount Earned A/c	Dr.	1,200	
To Head Office A/c			2,41,200
[Revenue accounts (Cr.) transferred to H.O.]			
Head Office Account	Dr.	4,000	
To Building Account			4,000
(Transfer of amounts spent on building extension to H.O. A/c)			

Head Office Account

20X1		Rs.	20X1		Rs.
Sep. 30	To Cash-remittance	38,400	April 1	By Balance b/d	1,68,000
	To Sundries (Revenue A/cs)	88,400	Sep. 30	By Sundries (Revenue A/c s)	2,41,200
	To Building A/c	4,000			
	To Balanced c/d	2,78,400			
		4,09,200			**4,09,200**

Balance Sheet of Delhi Branch as on Sept. 30,20X1

Liabilities	Rs.	Assets	Rs.
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600
		Building Extension A/c	
		transferred to H.O.	—
		Cash in Hand	1,600

		Cash at Bank	28,000
	3,05,200		**3,05,200**

Cash and Bank Account

		Rs.			Rs.
To	Balance b/d	8,000	By	Wages	20,000
To	Collection from Debtors	1,60,000	By	Salaries	6,400
			By	Insurance	3,200
			By	General Exp.	1,600
			By	H.O. A/c	38,400
			By	Manager's Salary	4,800
			By	Creditors	60,000
			By	Building A/c	4,000
			By	Balance c/d	
			By	Cash in Hand 1,600	
			By	Cash at Bank 28,000	29,600
		1,68,000			**1,68,000**

Debtors Account

	Rs.		Rs.
To Balance b/d	2,00,000	By Cash Collection	1,60,000
To Sales	2,40,000	By Discount (allowed)	8,000
		By Balance c/d	2,72,000
	4,40,000		**4,40,000**
To Balance b/d	2,72,000		

Creditors Account

	Rs.		Rs.
To Cash	60,000	By Balance b/d	40,000
To Discount (earned)	1,200	By Purchases	48,000
To Balance c/d	26,800		
	88,000		**88,000**
		By Balance b/d	26,800

Q.BRN.SM.507(B):

The following Trial balances as at 31st December, 20X1 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
	Rs.	Rs.	Rs.	Rs.
Share Capital		1,50,000		
Fixed Assets	75,125		18,901	
Current Assets	1,21,809		23,715	(Note 3)
Current Liabilities		34,567		9,721
Stock Reserve, 1st Jan., 20X1 (Note 2)		693		
Revenue Account		43,210		10,250
Branch Account	31,536			
Head Office Account				22,645

	2,28,470	2,28,470	42,616	42,616

You are required to record the following in the appropriate ledger accounts in both sets of books:

Notes:

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 20X1.
3. Includes goods received from Head Office at invoice price Rs.4,565.
4. Goods invoiced by Head Office to Branch at Rs. 3,641 were in transit at 31st December, 20X1, as was also a remittance of Rs. 3,500 from the Branch.
5. At 31st December, 20X1, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.

The purchase price of lorry, Rs. 2,500, which reached the Branch on December 25th; a sum received on December 30, 20X1 from one of the Branch debtors, Rs. 750.

SOLUTION

H.O. Books

Branch Account

20X1			Rs.	20X1			Rs.
Dec. 31	To	Balance b/d	31,536	Dec. 31	By	Cash in transit	3,500
					By	Balance C/d	28,036
			31,536				**31,536**

Cash in transit Account

20X1			Rs.	20X1			Rs.
Dec. 31	To	Branch A/c	3,500	Dec. 31	By	Balance c/d	3,500

Stock Reserve Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Balance c/d (4,565 + 3,641) x 10 / 110	746	Jan. 1	By Balance c/d	693
				By Revenue A/c (b.f.)	53
		746			**746**

Revenue Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Stock Reserve	53	Dec. 31	By Balance b/d	43,210
	To Balance c/d	43,157			
		43,210			**43,210**

Branch Books Head Office Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Current Assets	750	Dec. 31	By Balance b/d	22,645
	To (Debtors) Balance c/d	28,036		By Goods in transit	3,641
				By Motor Vehicle	2,500
		28,786			**28,786**

Goods in Transit Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Head Office	3,641	Dec. 31	By Balance c/d	3,641

Motor Vehicle Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Head Office	2,500	Dec. 31	By Balance c/d	2,500

Sundry Current Assets A/c

20X1		Rs.	20X1		Rs.
Dec. 31	To Balance b/d	23,715	Dec. 31	By H.O. (Remittance by Debtor)	750
				By Balance c/d	22,965
		23,715			**23,715**

SERIES 600
Foreign Branch

Q.BRN.SM.601(B): (MTP May'18, Nov'18, May'19)

On 31st December, 20X2 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in Rs.	Amount in Rs.
Stock on 1st Jan., 20X2	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	**36,31,400**

Stock on 31st December, 20X2 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $13,400on 31st December, 20X2 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange for 1 $ on 31st December, 20X1 was Rs. 52 and on 31st December, 20X2 was Rs. 51. The average rate for the year was Rs.50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

SOLUTION

In the books of English Firm (Head Office in New York)
Chennai Branch Profit and Loss Account
for the year ended 31st December, 20X2

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		**59,375**
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		

To Net Profit c/d	17,500		
	23,625		**23,625**

Balance Sheet of Chennai Branch
as on 31st December, 20X2

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	1,750
Add: Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		**44,400**

Working Note:

Calculation of Exchange Translation Loss
Chennai Branch Trial Balance (converted in $) as on 31st December, 20X2

	Dr. Rs.	Cr. Rs.	Conversion Rate	Dr. ($)	Cr. ($)
Stock on 1st Jan., 20X2	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	**36,31,400**		**73,775**	**73,775**

Q.BRN.SM.602(B):

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.
Mumbai branch furnishes you with its trial balance as on 31st March, 20X2 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 20X1	300	–
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	–
Rent, rates and taxes	360	–
Sundry charges	160	–
Computers	240	
Bank balance	420	–
New York office a/c	–	1,620
	3,360	**3,360**

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth Rs. 4,20,000 on 31st March, 20X2.

(c) The rates of exchange may be taken as follows:

- on 1.4.20X1 @ Rs. 40 per US$
- on 31.3.20X2 @ Rs. 42 per US$
- average exchange rate for the year @ Rs. 41 per US$
- conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.20X2 in New York books and there were no item spend in reconciliation.

SOLUTION

M/s Carlin

Mumbai Branch Trial Balance in (US $) as on 31st March, 20X2

	Conversion rate per US $ (Rs.)	Dr. US $	Cr. US $
Stock on 1.4.X1	40	7,500.00	–
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	–
Rent, rates and taxes	41	8,780.49	–
Sundry charges	41	3,902.44	–
Computers	–	6,000.00	–
Bank balance	42	10,000.00	–
New York office A/c	–	–	39,609.18
		81,734.62	**81,734.62**

Trading and Profit & Loss Account for the year ended 31st March, 20X2

	US $		US $
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock (4,20,000/42)	10,000.00
To Wages and salaries	13,658.54	By Gross Loss c/d	1,402.45
	40,670.74		40,670.74
To Gross Loss b/d	1,402.45	By Net Loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Depreciation on computers (US $ 6,000 × 0.6)	3,600.00		
	17,685.38		**17,685.38**

Balance Sheet of Mumbai Branch
as on 31st March, 20X2

Liabilities		US $	Assets	US $	US $
New York Office A/c	39,609.18		Computers	6,000.00	
Less: Net Loss	(17,685.38)	21,923.80	Less: Depreciation	(3,600.00)	2,400.00
Sundry creditors		7,142.86	Closing stock		10,000.00
Bills payable		5,714.29	Sundry debtors		9,523.81
			Bank balance		10,000.00
			Bills receivable		2,857.14
		34,780.95			**34,780.95**

Q.BRN.RMP.603(B): (MTP May'21 & Nov'22)

Moon Star has a branch at Virgina (USA). The Branch is non-integral for operation of the Moon Star. The trail balance of the Branch as at 31st March, 2020 is as follows:

Particulars	US $	
	Dr.	Cr.
Office equipment's	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2019)	22,400	
Purchase	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inwards	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	**2,18,800**

The following further information is given:
(1) Salaries outstanding $ 400.
(2) Depreciate office equipment and furniture & Fixture @ 10% p.a. at written down value.
(3) The Head Office sent goods to Branch for Rs. 15,80,000
(4) The Head Office shows an amount of Rs. 20,50,000 due from Branch.
(5) Stock on 31st March, 2020 -$21,500.
(6) There were no transit items either at the start or at the end of the year.
(7) On April 1, 2018 when the fixed assets were purchased the rate of exchange was Rs. 43 to one $. On April 1, 2019, the rate was 47 per$. On March 31, 2020 the rate was Rs. 50 per $. Average rate during the year Rs. 45 to one $.

Prepare Trail balance incorporating adjustments given converting dollars into rupees and Trading, Profit and LOSS Account for the year ended 31st March, 2020 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

SOLUTION

In the books of Moon Star
Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st March, 2022

	Dr.	Cr.	Conversion	Dr.	Cr.
	US $	US $	rate	Rs.	Rs.
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2021)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange gain (bal. fig.)					4,66,800
	2,19,200	**2,19,200**		**1,03,64,800**	**1,03,64,800**

Trading and Profit and Loss Account of Virginia Branch for the year ended 31st March, 2022

	Rs.		Rs.
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000
To Goods from Head Office	15,80,000	(21,500 US $ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		**85,63,000**
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		**15,92,200**