

ADVANCED ACCOUNTING

CA INTER | Exam-Oriented Study Material

Master Accounting.
Conquer the Exam.

BALANCE SHEET

Particulars	Amount
Assets	12,45,60,000
Liabilities	7,25,40,000
Equity	5,20,20,000



PROFIT & LOSS ACCOUNT

Particulars	Amount
Income	8,75,50,000
Expenses	6,25,30,000
Profit	2,90,20,000



LEDGER

Particulars	Debit	Credit



PYP | RTP |
MTP
COVERED



CHAPTER-WISE
QUESTIONS



EXAM-ORIENTED
APPROACH



TRY-YOURSELF
QUESTIONS WITH
SOLUTIONS

PROF. RAHUL MALKAN

INDEX

No.	Chapter Name	Page No.
1	Introduction to Accounting Standard	1 - 9
2	AS 1 - Disclosure of Accounting Policies	10 - 17
3	AS 2 - Valuation of Inventory	18 - 30
4	AS 3 - Cash Flow Statements	31 - 51
5	AS 4 - Contingencies & Events Occurring After Balance Sheet Date	52 - 59
6	AS 5 - Net Profit or Loss for the Period, Prior Period Items, & Changes in Accounting Policies	60 - 66
7	AS 7 - Construction Contracts	67 - 75
8	AS 9 - Revenue Recognition	76 - 86
9	AS 10 - Property, Plant and Equipment	87 - 104
10	AS 11 - The Effects of Changes in Foreign Exchange Rates	105 - 111
11	AS 12 - Accounting for Government Grants	112 - 119
12	AS 13 - Accounting for Investments	120 - 131
13	AS 15 - Employee Benefits	132 - 140
14	AS 16 - Borrowing Costs	141 - 149

No.	Chapter Name	Page No.
15	AS 17 – Segment Reporting	150 – 155
16	AS 18 – Related Party Disclosure	156 – 164
17	AS 19 – Leases	165 – 177
18	AS - 20 - Earnings Per Share	178 – 187
19	AS 21 – Consolidated Financial Statements	188 – 205
20	AS 22 – Accounting for Taxes on Income	206 – 212
21	AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements	213 – 217
22	AS 24 – Discontinuing Operations	218 – 223
23	AS 25 – Interim Financial Reporting	224 – 230
24	AS 26 – Intangible Assets	231 – 242
25	AS 27 – Financial Reporting of Interests in Joint Ventures	243 – 248
26	AS 28 – Impairment of Assets	249 – 259
27	AS 29 – Provisions, Contingent Liabilities and Contingent Assets	260 – 271
28	Framework for Preparation and Presentation of Financial Statements	272 – 277

No.	Chapter Name	Page No.
29	Preparation of Financial Statements	278 - 296
30	Amalgamation of Companies	297 - 320
31	Buyback of Securities	321 - 333
32	Inter Reconstruction	334 - 360
33	Accounting for Branches Including Foreign Branches	361 - 387

01

INTRODUCTION TO ACCOUNTING STANDARDS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



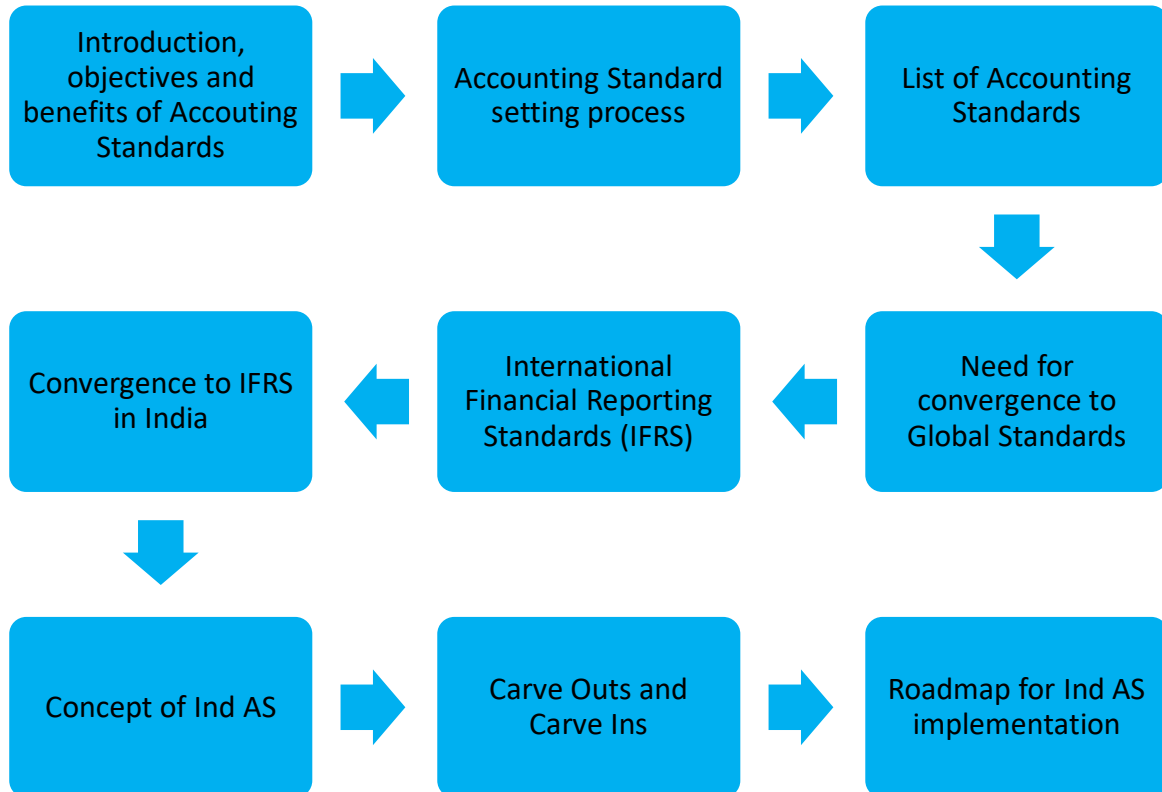
[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. BENEFITS OF ACCOUNTING STANDARDS
3. STANDARD SETTING PROCESS
4. ACCOUNTING STANDARDS
5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS
6. INTERNATIONAL ACCOUNTING STANDARD BOARD
7. INTERNATIONAL FINANCIAL REPORTING STANDARDS
8. WHAT ARE CARVE OUTS/INS IN IND AS?
9. WHAT ARE INDIAN ACCOUNTING STANDARDS (IND AS)
10. GOVERNMENT OF INDIA'S COMMITMENT TO IND AS

"Why do we fall? So that we can learn to pick ourselves up."

CHAPTER OVERVIEW



1. INTRODUCTION :

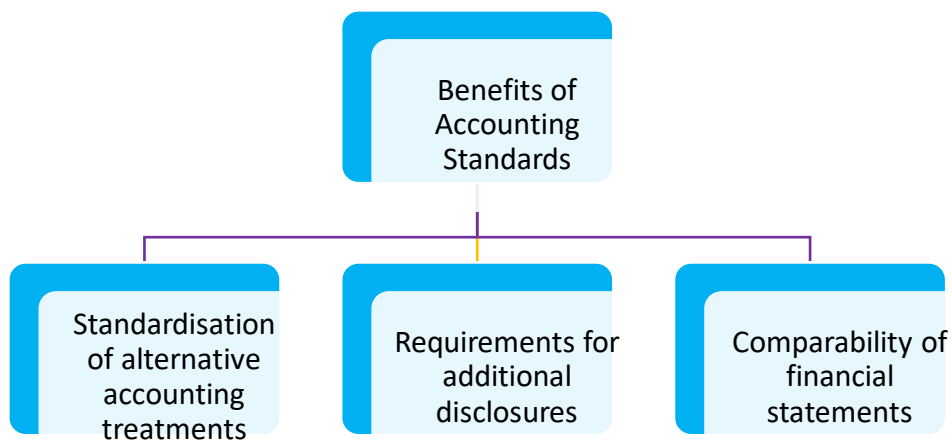
Generally accepted accounting principles (GAAP) refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements.

At international level such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India we have authoritative standards named as AS and IND-AS.

Accounting Standards Deal with			
Recognition of events and transactions	Measurement of trasaction and Events	Presentation of transactions and Events	Disclosure requirements

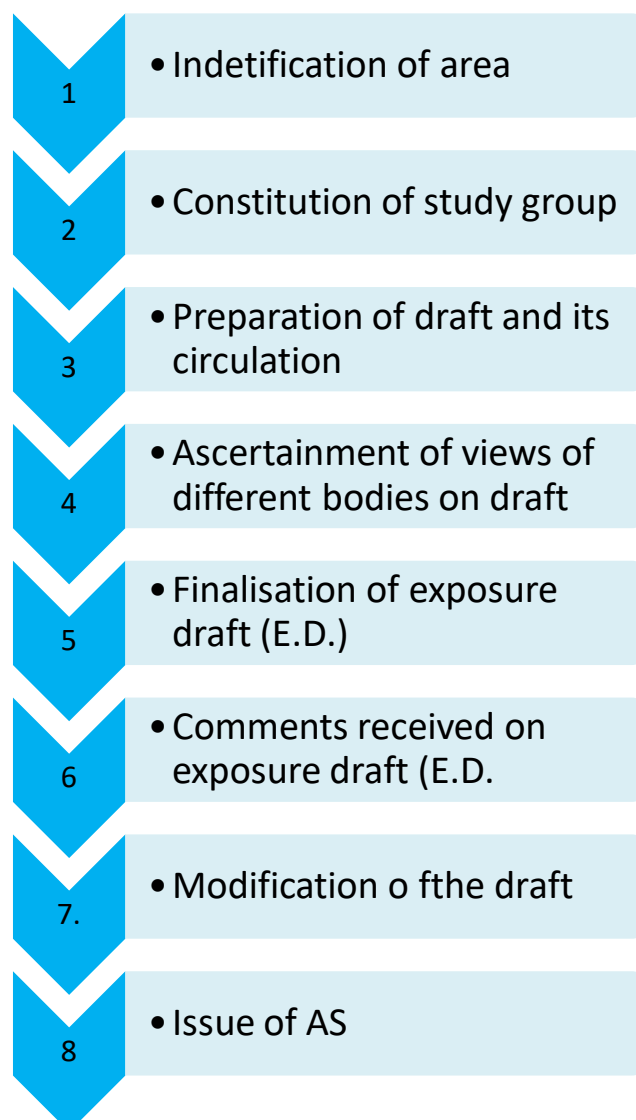
2. BENEFITS OF ACCOUNTING STANDARDS :

1. Standardisation of alternative accounting treatments:
2. Requirements for additional disclosures:
3. Comparability of financial statements:



3. STANDARD SETTING PROCESS :

The Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by constituting the Accounting Standards Board (ASB) in 1977.



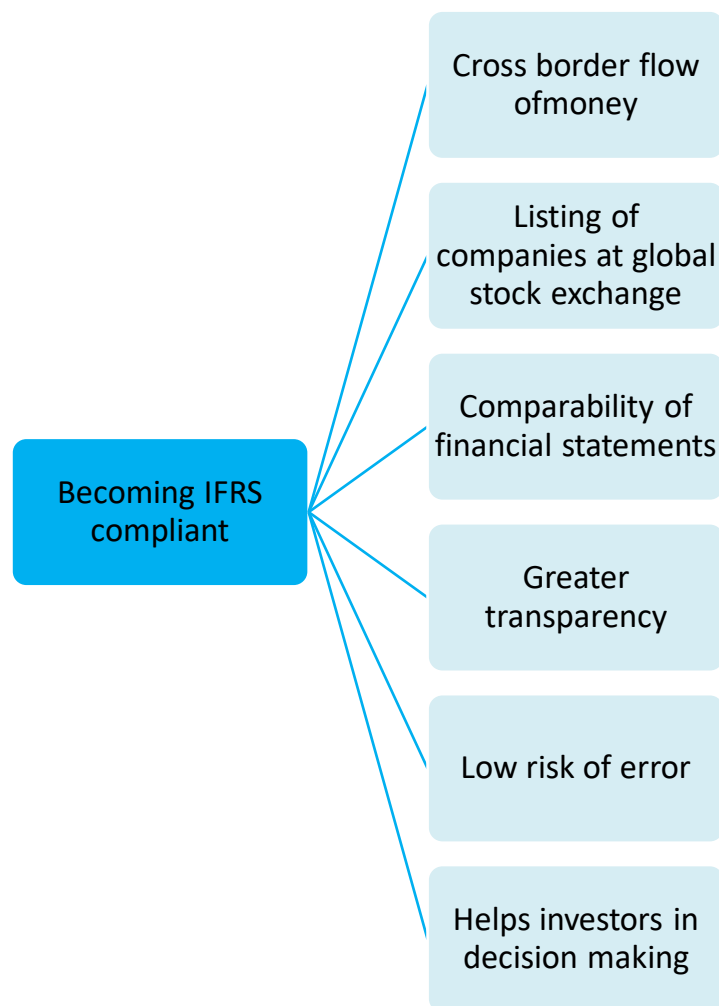
4. ACCOUNTING STANDARDS :

AS No	AS title	Date
1.	Disclosure of Accounting Policies	01/04/1993
2.	Valuation of Inventories (Revised)	01/04/1999
3.	Cash Flow Statement	01/04/2001
4.	Contingencies and Events Occurring after the Balance Sheet Date (Revised)	01/04/1998
5.	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	01/04/1996
7.	Construction Contracts	01/04/2002
9.	Revenue Recognition	01/04/1993
10.	Property, Plant and Equipment (Revised)	01/04/2016
11.	The Effects of Changes in Foreign Exchange Rates	01/04/2004
12.	Accounting for Government Grants	01/04/1994
13.	Accounting for Investments (Revised)	01/04/1995
14.	Accounting for Amalgamations (Revised)	01/04/1995
15.	Employee Benefits	01/04/2006
16.	Borrowing Costs	01/04/2000
17.	Segment Reporting	01/04/2001
18.	Related Party Disclosures	01/04/2001
19.	Leases	01/04/2001
20.	Earnings per share	01/04/2001
21.	Consolidated Financial Statements (Revised)	01/04/2001
22.	Accounting for Taxes on Income	01/04/2006
23.	Accounting for Investments in Associates in Consolidated Financial Statements	01/04/2002
24.	Discontinuing Operations	01/04/2004
25.	Interim Financial Reporting	01/04/2002
26.	Intangible Assets	01/04/2003
27.	Financial Reporting of Interests in Joint Ventures	01/04/2002
28.	Impairment of Assets	01/04/2008
29.	Provisions, Contingent Liabilities and Contingent Assets (Revised)	01/04/2004

NOTE: AS 1; AS 2 (Revised); AS 3; AS 10 (Revised); AS 11; AS 12; AS 13 (Revised); AS 16 are covered in the syllabus of this paper at Intermediate Level.

5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS :

1. **Standardization** : A single set of accounting standard would enable standardization. In fact, they establish broad rules rather than dictating specific treatments. Standardization would ensure better quality of financial statements.
2. **International capital Flow** : It would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems.
3. **Beneficial to regulators** : It would be beneficial to the regulators too, as complexity associated with understanding various reporting regimes would be reduced.

**6. INTERNATIONAL ACCOUNTING STANDARD BOARD :**

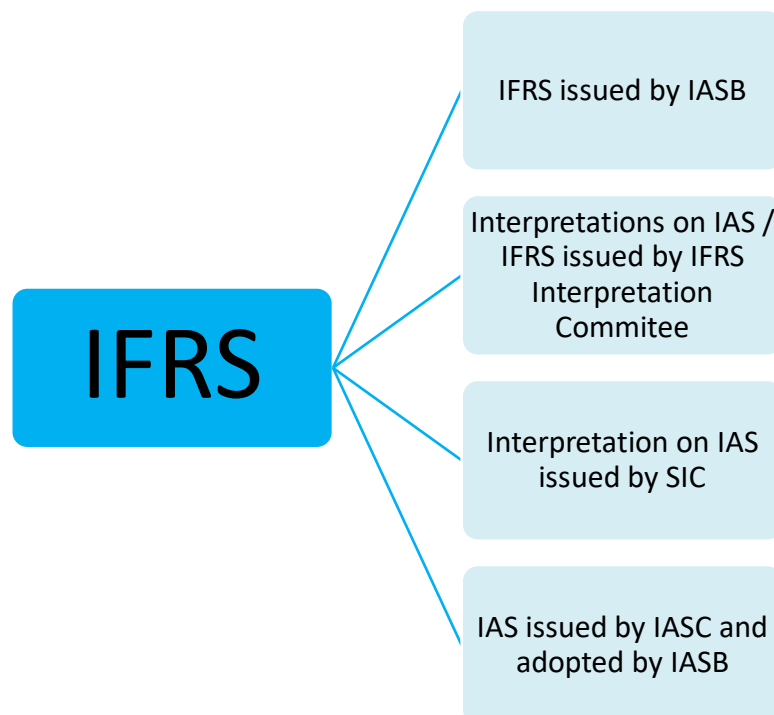
With a view of achieving these objectives, the London based group namely the International Accounting Standards Committee (IASC), responsible for developing International Accounting Standards, was established in June, 1973. It is presently known as International Accounting Standards Board (IASB), The IASC comprises the professional accountancy bodies of over 75 countries (including the Institute of Chartered Accountants of India).

Between 1973 and 2001, the International Accounting Standards Committee (IASC) released International Accounting Standards. Between 1997 and 1999, the IASC restructured their

organisation, which resulted in formation of International Accounting Standards Board (IASB). These changes came into effect on 1st April, 2001. Subsequently, IASB issued statements about current and future standards IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). However, IASB has not rejected the standards issued by the ISAC. Those pronouncements continue to be designated as “International Accounting Standards” (IAS).

7. INTERNATIONAL FINANCIAL REPORTING STANDARDS :

International Accounting Standards (IAS) (Upto April 2001) / International Financial Reporting Standards (IFRS) (Collectively referred as IFRS) issued by International Accounting Standards Board (IASB) since 1973 are now widely recognised as Global Accounting Standard. Note : Standing Interpretation Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC) are also part of IFRS.



8. WHAT ARE CARVE OUTS/INS IN IND AS? :

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

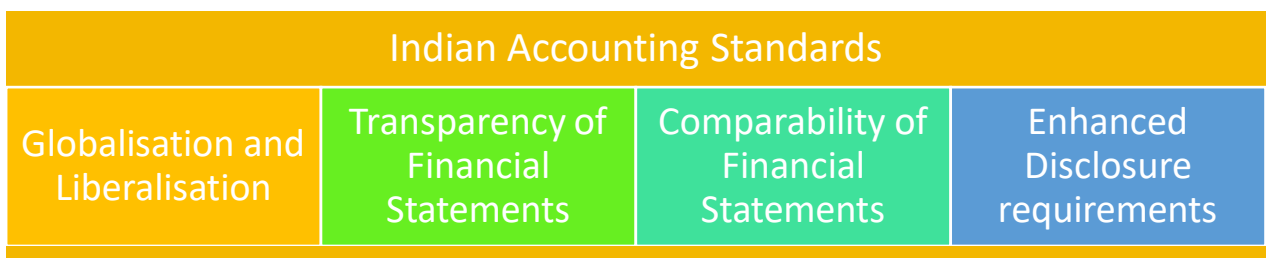
Accordingly, while formulating IFRS converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., ‘statement of profit and loss’ in place of ‘statement of comprehensive income’ and ‘balance sheet’ in place of ‘statement of financial position’.

- Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will not result into carve outs
- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as ‘Carve-outs’.
- Additional guidance given in Ind AS over and above what is given in IFRS, is termed as ‘Carve in’.

9. WHAT ARE INDIAN ACCOUNTING STANDARDS (IND AS) :

Indian Accounting Standards (Ind AS) are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA.

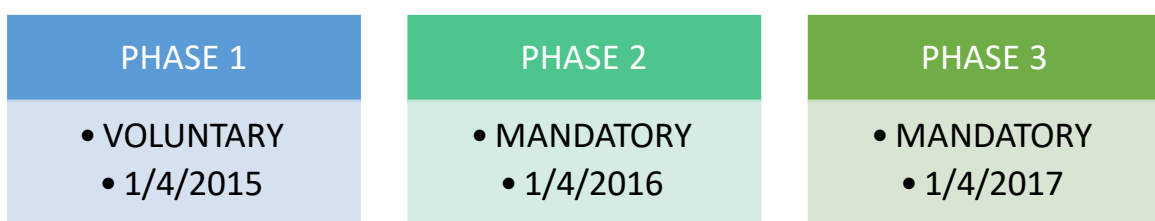


10. GOVERNMENT OF INDIA’S COMMITMENT TO IND AS :

Consistent, comparable and understandable financial reporting is essential to develop a robust economy. With a view to achieve international benchmarks of financial reporting, the Institute of Chartered Accountants of India (ICAI), as a proactive role in accounting, set out to introduce Indian Accounting Standards (Ind AS) converged with the International Financial Reporting Standards (IFRS). This endeavour of the ICAI is supported by the Government of India.

Initially Ind AS were expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Ind AS.

ROAD MAP TO IMPLEMENTATION OF IND AS



PHASE 1	1st April 2015 or thereafter: Voluntary Basis for all companies	
PHASE 2	1st April 2016: Mandatory Basis	
	A	Companies listed / in process of listing on Stock Exchanges in India or Outside India having net worth \geq 500 crore
	B	Unlisted Companies having net worth \geq 500 crore
	C	Parent, Subsidiary, Associate and Joint venture of above
PHASE 3	1st April 2017: Mandatory Basis	
	A	All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
	B	Unlisted companies having net worth \geq 250 crore
	C	Parent, Subsidiary, Associate and Joint venture of above

MCQs :

- Accounting Standards for non-corporate entities in India are issued by
 - Central Govt.
 - State Govt.
 - Institute of Chartered Accountants of India.
- Accounting Standards
 - Harmonise accounting policies and eliminate the non-comparability of financial statements.
 - Improve the reliability of financial statements.
 - Both (a) and (b).
- It is essential to standardize the accounting principles and policies in order to ensure
 - Transparency.
 - Consistency.
 - Both (a) and (b).
- Which committee is responsible for approval of accounting standards and their modification for the purpose of applicability to companies?
 - NFRA.
 - MCA.
 - Central Government Advisory Committee.
- Global Standards facilitate
 - Cross border flow of money.
 - Comparability of financial statements.
 - Both (a) and (b).
- Additional guidance given in Ind AS over and above what is given in IFRS are called
 - Carve-outs.
 - Carve-ins.

- (c) Carve clarifications.
7. IASB stands for
- (a) International Accounting Standards Bureau
 - (b) International Advisory Standards Board
 - (c) International Accounting Standard Board.
8. IFRS stands for
- (a) International Financial Reporting System
 - (b) International Finance Reporting Standard
 - (c) International Financial Reporting Standard.
9. Phase I of Ind AS was applicable to:
- (a) All listed companies in India or outside India
 - (b) Companies with turnover INR 500 crores or more
 - (c) Companies with net worth INR 500 crores or more.

Thanks



02

AS 1 DISCLOSURE OF ACCOUNTING POLICIES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. ACCOUNTING POLICIES
2. OBJECTIVE OF AS 1
3. FUNDAMENTAL ACCOUNTING ASSUMPTIONS
4. AREAS IN WHICH DIFFERENT ACCOUNTING POLICIES ARE ENCOUNTERED
5. SELECTION OF ACCOUNTING POLICIES
6. MANNER OF DISCLOSURE
7. CHANGES IN ACCOUNTING POLICIES
8. MCQ'S

"It's not who I am underneath, but what I do that defines me."

1. ACCOUNTING POLICIES :

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

2. OBJECTIVE OF AS 1 :

- Accounting standard cannot and do not cover all possible areas of accounting and enterprise have reasonable degree of freedom in adopting accounting policies in areas not covered by standard.
- Also, since entities operate in diverse situations, it is impossible to develop a single set of policies applicable to all enterprises for all time.
- Accounting standard therefore permits more than one policy even in the areas covered by it. Such difference in accounting policies lead to difference in reported information even if underlying transactions are same.
- Due to the above reasons AS 1, requires enterprise to disclose significant accounting policies actually adopted by them in preparation of financial statements.

3. FUNDAMENTAL ACCOUNTING ASSUMPTIONS :

Going concern

Consistency

Accrual

1. **Going concern :**

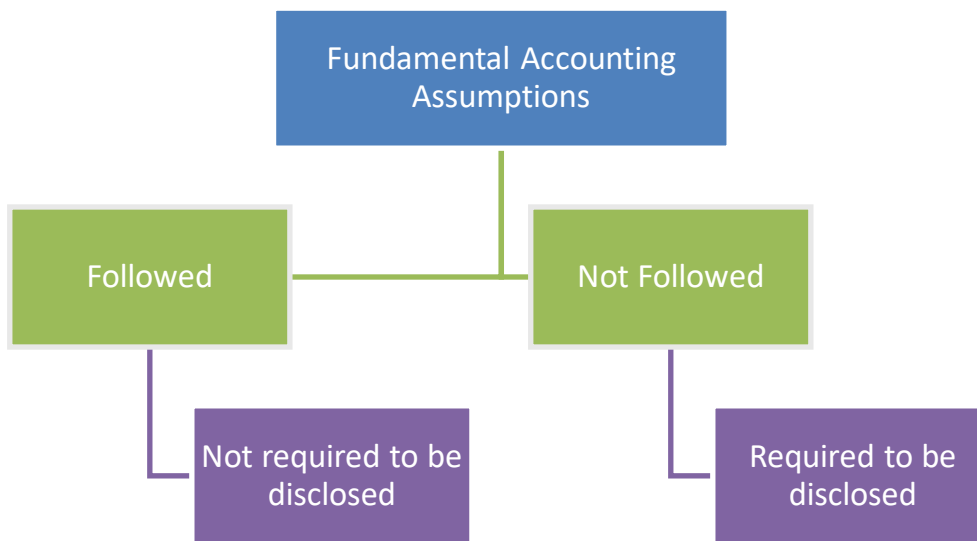
It is assumed that the enterprise will continue its operations for the foreseeable future. The enterprise has neither the necessity nor the intention of liquidation or of curtailing materially the scale of operations.

2. **Consistency :**

It is assumed that accounting policies are consistent from one period to another.

3. **Accrual :**

Revenues and costs are accrued, i.e. , recognized as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

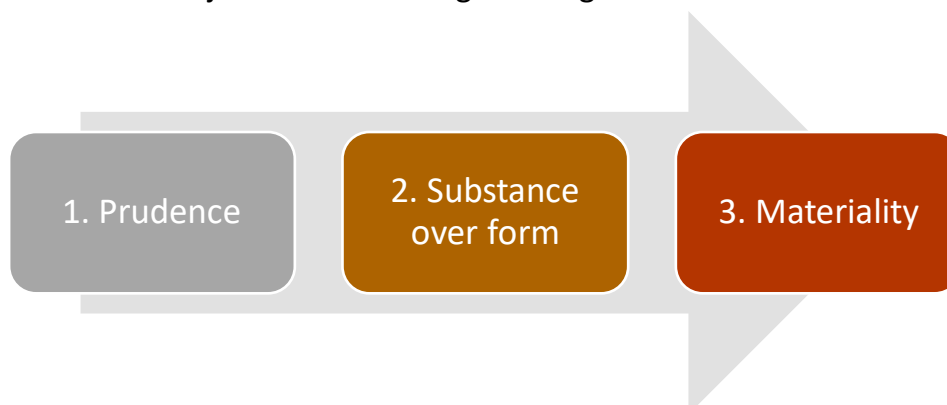


4. AREAS IN WHICH DIFFERENT ACCOUNTING POLICIES ARE ENCOUNTERED :

- Method of depreciation
- Valuation of inventories
- Treatment of goodwill
- Valuation of investments
- Treatment of retirement benefits
- Valuation of Fixed Assets
- Treatment of contingent liabilities

5. SELECTION OF ACCOUNTING POLICIES :

Financial statements are prepared to present true and fair view of performance and position of the entity. In selecting a policy, alternative accounting policies should be evaluated keeping the above objective in mind. Major consideration governing the selection of accounting policies are



1. Prudence (Conservatism) :

Profits are not anticipated, but losses are provided for. Exercise of prudence will help in ensuring that

1. Profits are not overstated
2. Losses are not understated

3. Assets are not overstated
4. Liabilities are not understated

Example :

1. A trader is holding 100 units of its product in closing stock. Cost is 10,000 and NRV is 15,000
2. A trader is holding 100 units of its product in closing stock. Cost is 15,000 and NRV is 10,000

2. Substance over form :

Transactions and Events should be governed by their substance (actual facts) and not merely by legal form.

Example : When an asset is leased, in case of finance lease, the lessee charges the depreciation in the asset and not the lessor, the owner of the asset.

3. Materiality :

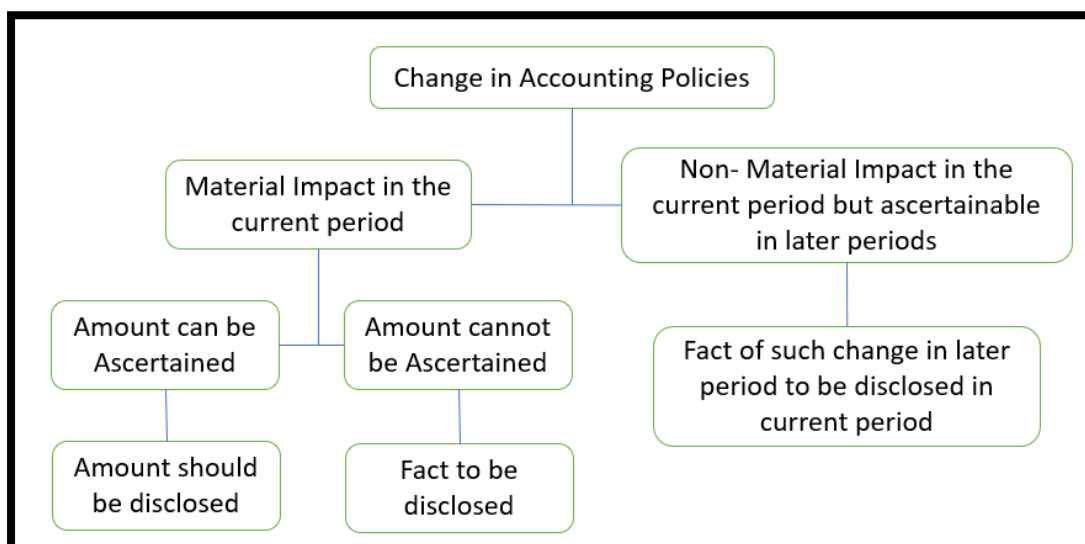
Financial statements should disclose all 'material items' i.e the items the knowledge of which might influence the users of financial statements.

6. MANNER OF DISCLOSURE :

All significant Accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form the part of financial statements and significant accounting policies should normally be disclosed in one place.

Note : Being a part of the financial statements, the opinion of auditors should cover the disclosures of accounting policies.

7. CHANGES IN ACCOUNTING POLICIES :

**Question 1 : M/s Prashant Ltd.**

In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15.

On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to Rs 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to Rs 1,95,000.

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

**Question 2 : Rani Ltd.**

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

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

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

**Question 3 : ABC Ltd.**

ABC Ltd. was making provision for non-moving inventories based on issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2017 based on technical evaluation:

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

Does this amount to change in Accounting Policy?

Can the company change the method of provision?

**Question 4 : HIL Ltd.**

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

Total value of stock Rs.120 lakhs

Provision required based on technical evaluation Rs.3.00 lakhs.

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

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

1:

- (i) Does this amount to change in accounting policy?
- (ii) Can the company change the method of accounting?



Question 5 :

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

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



Question 6 :

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

- (1) Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed in the Notes on Accounts. Management is of the view that the financial statements give a true and fair view as non-compliance with AS-2 is disclosed.
- (2) Cee Limited sold its Office Building for Rs. 10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is Rs. 4,00,000. On 31st 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.
- (3) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.
- (4) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.



Question 7 : Jagannath Ltd.

Jagannath Ltd. had made a rights issue of shares in 2004. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on

31st March, 2015. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided on the following:

- i. Value year-end inventory at works cost (Rs. 50 crores) instead of the hitherto method of valuation of inventory at prime cost (Rs. 30 crores).
- ii. Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at Rs. 27 crores is lower than the amount of Rs. 45 crores which would have been provide had the old method been followed, by Rs. 18 crores.
- iii. Not to provide for “after sales expenses” during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of “matching of costs against revenue” and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.
- iv. Provide for permanent fall in the value of investments – which fall had taken place over the past five years – the provision being Rs. 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2014-2015.

MCQs :

1. Which of the following is NOT a major consideration in selection and application of accounting policies?
 - (a) Prudence
 - (b) Comparability
 - (c) Materiality
 - (d) Substance over form
2. Adoption of different accounting policies by different companies operating in the same industry affects which of the qualitative characteristics the most?
 - (a) Comparability
 - (b) Relevance
 - (c) Faithful representation
 - (d) Reliability
3. Which of the following statement would not be correct in relation to disclosures to be made in the financial statements after making any change in an accounting policy?
 - (a) Any change in an accounting policy which has a material effect should be disclosed.
 - (b) The amount by which any item in the financial statements is affected by such change should be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

- (c) If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.
- (d) If a change is made in an accounting policy which has material effect on the financial statements for the current period and is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed only in the later periods i.e. year(s) next to the year in which the change is adopted.

Thanks



03

AS 2 VALUATION OF INVENTORY



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

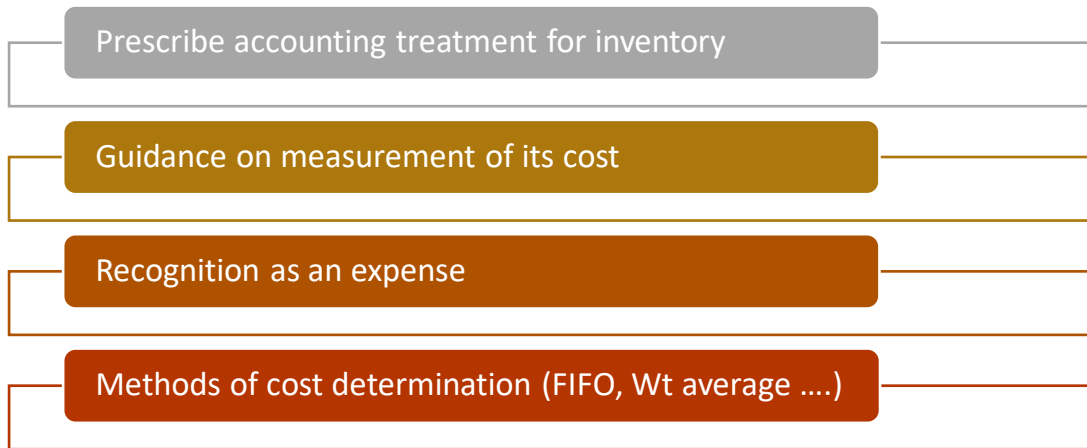
CHAPTER DESIGN

1. OBJECTIVE
2. SCOPE
3. DEFINITIONS
4. MEASUREMENT OF INVENTORIES
5. COST OF INVENTORY
6. NET REALIZABLE VALUE
7. JOINT PRODUCT / BY PRODUCT
8. INVENTORY VALUATION TECHNIQUES
9. MCQ'S

“With great power comes great responsibility.”

1. OBJECTIVE :

The objective of this standard is to

**2. SCOPE :**

AS - 2 does not apply to:

- a) WIP of Construction Contracts, (AS - 7)
- b) WIP of Service Providers,
- c) Shares, Debentures, other financial instruments etc. held as stock in trade.
- d) Producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realizable value in accordance with well - established practices in those industries.

3. DEFINITIONS :**INVENTORIES :**

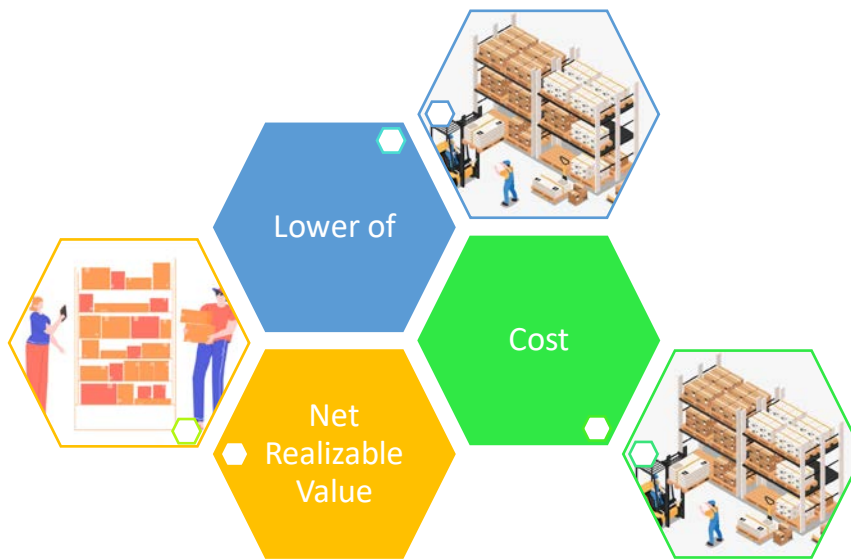
Inventories are Assets

- held for sale in the ordinary course of business
- in the process of production for such sale
- for consumption in the production of goods and services for sale
- including maintenance supplies and consumables
- other than machinery spares, servicing equipment and stand by equipment meeting the definition of Property, Plant and Equipment

Net Realizable Value means

Estimated Selling Price of Finished Goods	XXX
Less Estimated cost of Sales (FG/WIP)	XXX
Less Estimated cost of Completion (WIP)	<u>XXX</u>
	XXX

4. MEASUREMENT :



We should remember that

1. Raw material should be valued "AT COST"
Only if the SP FG is less than is CP then raw material should be valued "AT REPLACEMENT COST"
2. Work in progress and Finished goods should be valued at lower of cost or Net Realizable Value.

5. COST OF INVENTORY :

Inclusions	Exclusions
<input checked="" type="checkbox"/> Cost of Purchase	<input type="checkbox"/> Storage Cost
<input checked="" type="checkbox"/> Cost of Conversions	<input type="checkbox"/> Abnormal Wastages
<input checked="" type="checkbox"/> Other cost	<input type="checkbox"/> Admin Cost
	<input type="checkbox"/> Selling cost

Cost of inventory includes

1. Cost of purchase
2. Cost of conversion
3. other cost incurred in bringing the inventory to its present condition and location.

1. Cost of Purchase includes :

- a. Purchase price
- b. Import duty and taxes (non-refundable)
- c. Transport handling charges
- d. Other direct cost
- e. trade discounts and rebates (Subtracted)

2. Cost of conversion :

- a. Direct Material
- b. Direct Labor
- c. Direct Overheads
- d. Fixed Overheads
- e. Variable overheads

Note : Fixed overheads should be absorbed at Normal (budgeted cost) or Actual production Cost whichever is lower. That is any inefficiency should be transferred to P & L A/c

3. Other costs :

Other cost to be included in the valuation of inventory should be only to the extent of those costs that are incurred in bringing the inventory to its present location and condition.



Question 1 : Venus Trading Company

Venus Trading Company purchases cars from several countries and sells them to Asian countries. During the current year, this company has incurred following expenses:

1. Trade discounts on purchase
2. Handling costs relating to imports
3. Salaries of accounting department
4. Sales commission paid to sales agents
5. After sales warranty costs
6. Import duties
7. Costs of purchases (based on supplier's invoices)
8. Freight expense
9. Insurance of purchases
10. Brokerage commission paid to indenting agents

Evaluate which costs are allowed by Ind AS 2 for inclusion in the cost of inventory in the books of Venus.

**Question 2 : Pluto Ltd.**

Pluto Ltd. has a plant with the normal capacity to produce 5,00,000 unit of a product per annum and the expected fixed overhead is Rs.15,00,000. Fixed overhead on the basis of normal capacity is Rs.3 per unit (15,00,000/5,00,000). How shall u treat Fixed overheads under following circumstances a. Actual production is 5,00,000 units b. Actual production is 3,75,000 units c. Actual production is 7,50,000 units.

**Question 3 :**

You are required to value the inventory per kg of finished goods consisting of:

	Rs per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is Rs 20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

**Question 4 :**

In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is Rs.1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

**Question 5 :**

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

- (i) You are required to calculate cost of material per KG;
- (ii) Allocation of material cost.

6. NET REALIZABLE VALUE :

Net Realizable Value = Estimated Selling Price in the ordinary course of business

- (-) Estimated Cost of Completion
- (-) Estimated costs necessary to make the sale.

**Question 6 :**

Cost of a partly finished unit at the end of 2016-17 is Rs 150. The unit can be finished next year by a further expenditure of Rs 100. The finished unit can be sold at Rs 250, subject to payment of 4% brokerage on selling price. Determine the value of inventory.

**Question 7 :**

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

**Question 8 : X Co. Limited**

X Co. Limited purchased goods at the cost of Rs.40 lakhs in October, 2016. Till March, 2017, 75% of the stocks were sold. The company wants to disclose closing stock at Rs.10 lakhs. The expected sale value is Rs.11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2017.

**Question 9 : Sarah Limited**

Following information of Sarah Limited is given :

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

Closing balances of Raw Material 'A' in units on 31st March, 2022	750
	Price Per Unit in Rs.
Cost Price	150
Freight inward	10
Replacement Cost	152
Closing balance of Finished Goods 'B' in units on 31st March, 2022	1600
	Price Per Unit in Rs.
Material Consumed	225
Direct Labour	75
Direct variable overhead	60

Total fixed Overheads amounts to Rs.1,00,000 on normal capacity of 20,000 units.

You are required to calculate the value of Closing Stock of Raw materials and Closing Stock of Finished Goods, as on 31st March, 2022, as per AS 2, when selling price of Finished Goods 'B' is Rs.360 per unit.



Question 10 : Mr.Jatin

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

- (i) 900 units of Raw Material X (purchased @ Rs.100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is Rs.80 per unit.
- (ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is Rs.245 per unit. These units can be finished next year by incurring additional cost of Rs.50 per unit.
- (iii) 800 unit of Finished goods P and total cost incurrent is Rs.295 per unit.
Expected selling price of product P is Rs.280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2019.

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



Question 11 : Rich Ltd.

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

Details of cost for these products are:

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

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

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



Question 12 : Joy Ltd.

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

Particulars	Units	Amount (Rs.)
Opening Inventory :		
Finished Goods	2,000	1,00,000

Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory :		
Finished Goods	2,400	
Raw Materials	1,800	

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

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



Question 13 : SR Limited

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

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

Particulars		Units	Rs.
Opening Inventory	MP	4,000	1,20,000
	RP	4,400	52,800
Purchase of RP		40,000	4,80,000
Labour			3,23,200
Overheads (Fixed)			3,15,000
Sales		40,200	11,20,000
Closing Inventory	MP	4,200	
	RP	4,000	

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

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



Question 14 : Alpha Ltd.

Alpha Ltd. sells flavored milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty

bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

Keeping this in view:

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

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

7. JOINT PRODUCT AND BY - PRODUCT :

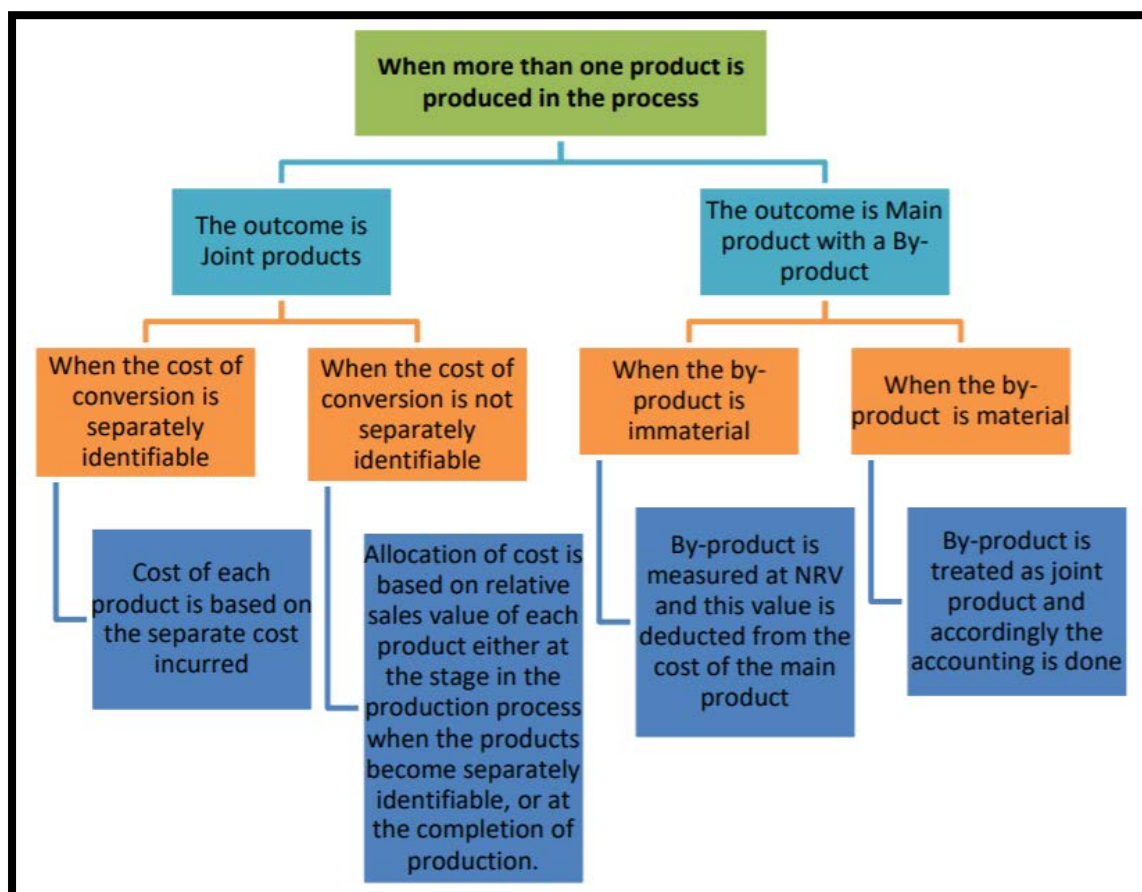
A production process may result into more than one product produced simultaneously. There may be a case where joint product or main product and by product may be produced together.

Valuation process

Scrap = valued at scrap

By product = Valued at NRV (Profit element should be ignored)

Joint product = the remaining cost should be allocated on rational and consistent basis.



**Question 15 : Mars Ltd.**

In a manufacturing process of Mars Ltd., one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount	Output	Closing Stock 31/3/2011
Raw Material	14,500	1,50,000	MP – I 5,000 units	250
Wages		90,000	MP – II 4,000 units	100
Fixed Overhead		65,000	BP – 2,000 units	
Variable Overhead		50,000		

Average market price of MP1 and MP2 is Rs.60 per unit and Rs.50 per unit respectively, by product is sold @ Rs.20 per unit. There is a profit of Rs.5,000 on sale of by-product after incurring separate processing charges of Rs.8,000 and packing charges of Rs.2,000, Rs.5,000 was realised from sale of scrap.

Required: Calculate the value of closing stock of MP1 and MP2 as on 31-03-2011

**Question 16 : Zing Ltd.**

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

Raw Material:

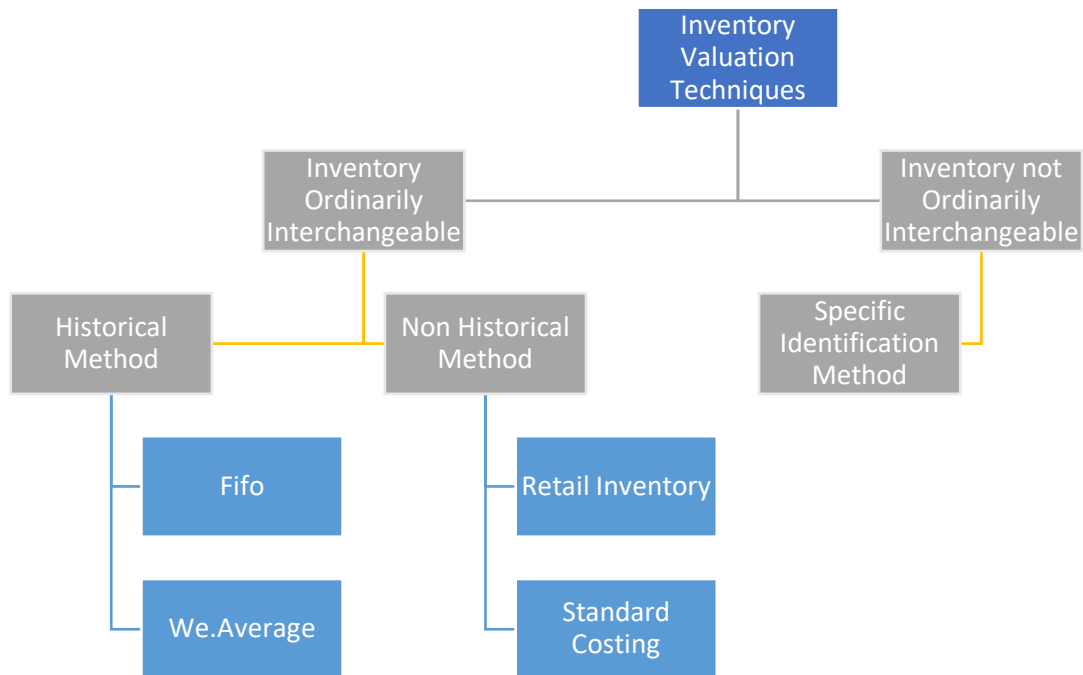
Closing Stock	700 units	
Cost price	Rs. 35 per unit	
Replacement cost	Rs. 20 per unit	
Finished product:	FP 1	FP 2
Production (units)	3,000	1,600
Closing stock (units)	500	300
Material consumed	Rs. 3,20,000	
Direct labour	Rs. 1,60,000	
Direct expenses	Rs. 78,000	

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

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

Calculate the value of closing stock of Zing Ltd. as per AS 2.

8. INVENTORY VALUATION TECHNIQUES :

**Question 17 : Mars Fashions**

Mars Fashions is a new luxury retail company located in Lajpat Nagar, New Delhi. Kindly advise the accountant of the company on the necessary accounting treatment for the following items:

- (a) One of Company's product lines is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and has reliably informed you that the Company, on average, make a gross margin of 65% on each line.
- (b) Mars Fashions also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, Mars manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company. In accordance with Ind AS 2, explain how the items referred to in a) and b) should be measured.

**Question 18 : Mercury Ltd.**

Mercury Ltd. uses a periodic inventory system. The following information relates to 2011 – 2012

Date	Particulars	Unit	CPU	Total Cost
April	Inventory	200	10	2000
May	Purchase	50	11	550
Sept	Purchase	400	12	4800
Feb	Purchase	350	14	4900
	Total	1000		12,250

Physical inventory at 31.03.2012 400 units. Calculate ending inventory value and cost of sales using: (a) FIFO (b) Weighted Average.

**Question 19 : SM Enterprises**

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

- (i) Sales for the month of June 2021 was Rs.30,40,000.
- (ii) General overheads cost Rs.4,00,000.
- (iii) Inventory at beginning 10,000 litres @ Rs.92 per litre.
- (iv) Purchases - June 1, 2021, 20,000 litres @ Rs.90 per litre, June 30, 2021, 10,000 litres @ Rs.95 per litre.
- (v) Closing inventory 13,000 litres.

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

- (i) Value of Inventory on 30th June, 2021.
- (ii) Amount of cost of goods sold for June, 2021.
- (iii) Profit/Loss for the month of June, 2021

9. MCQs :

1. Which item of inventory is under the scope of AS 2 (Revised)?
 - (a) WIP arising under construction contracts
 - (b) Raw materials
 - (c) Shares
 - (d) Debentures held as stock in trade.
2. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be

- (a) sold at or above cost.
 - (b) sold above cost.
 - (c) sold less than cost.
 - (d) sold at market value (where market value is more than cost).
3. All of the following costs are excluded while computing value of inventories except?
- (a) Selling and Distribution costs
 - (b) Allocated fixed production overheads based on normal capacity.
 - (c) Abnormal wastage
 - (d) Storage costs (which is necessary part of the production process)
4. Identify the statement(s) which is/are incorrect.
- (a) Storage costs which is a necessary part of the production process is included in inventory valuation.
 - (b) Administration overheads are never included in inventory valuation.
 - (c) Full amount of variable production overheads incurred are included in inventory valuation.
 - (d) Administration overheads are always included in inventory valuation.

Thanks



04

AS 3 CASH FLOW STATEMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. MEANING OF CASH FLOW
2. CLASSIFICATION OF CASH FLOW
3. CASH AND CASH EQUIVALENT
4. CASH FLOW FROM OPERATION ACTIVITY
5. MCQ'S

“Winners don’t make excuses when the other side plays the game.”

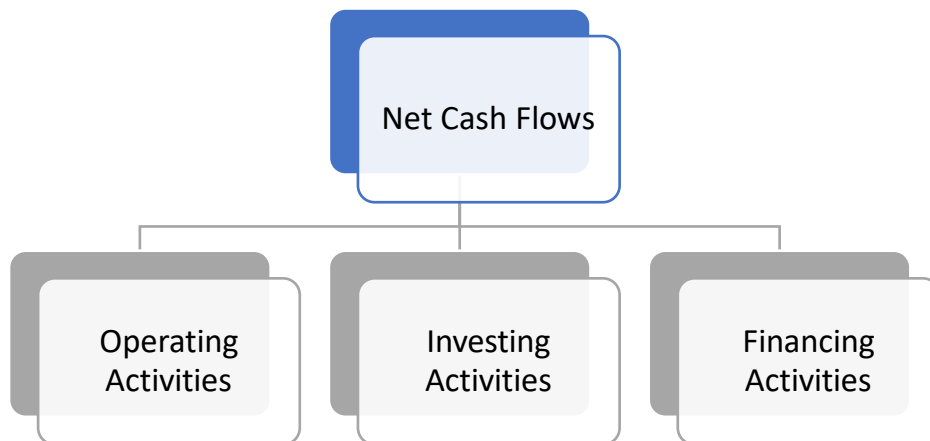
1. MEANING OF CASH FLOW :

Profit and Loss Account of a company reports Net profit / Net loss for the year. Net Profit / net Loss does not mean cash i.e. it does not provide details of movement of cash.

Cash flow statement is a financial statement prepared on cash basis which provides information about movement of cash i.e. Cash inflow and Cash outflow for the year.

2. CLASSIFICATION OF CASH FLOWS :

As per 3 identities 3 types of Cash Flows :



3. CASH AND CASH EQUIVALENT :

It includes:

- (a) Cash in hand and demand deposits with any bank or any other financial institutions.
- (b) Short term, highly liquid investments that are
 - (i) convertible into known amounts of cash and
 - (ii) are not subject to risk of change in value.

4. CASH FLOW FROM OPERATING ACTIVITY :

It refers to movement of cash from pure business operations. There are two methods for calculation of cash from operating activity.

- a) Indirect method (Bottom to Top Approach)
- b) Direct method (Top to Bottom Approach)

LMR :

If in the question P&L A/c is not given, then you cannot solve the sum with Direct Method. It has to be indirect method.

- a) Indirect method (Bottom to Top Approach)

Particulars	Amount Rs.	Amount Rs.
Cash from Operating Activity		
Closing balance of Profit & Loss A/c		XX
(-) Opening balance of Profit & Loss A/c.		<u>XX</u>
Retained of Earnings		XX
(+) <u>Appropriations</u>		
Dividend	XX	
Transfer to General Reserve	<u>XX</u>	<u>XX</u>
Net profit After Tax		XX
(+) Provision for Tax		<u>XX</u>
Net Profit Before Tax		XX
(+) Non Cash Non Operating Expenses		
Depreciation	XX	
Amortization	XX	
Loss on Sale of Asset		<u>XX</u>
		XX
(-) Non Cash Non Operating Income		
Profit on Sale of Asset	XX	
Dividend Received	XX	XX
Fund from Operation (FFO)		XX
Add ↓ WC [↓ CA ↑ CL]		
Decrease in Debtors	XX	
Decrease in Stock	XX	
Increase in creditors	XX	XX
Less : ↑ WC [↑CA ↓CL]		
Increase in Bills Receivable	XX	
Decrease in Bills Payable	XX	XX
Cash from Operations		XX
(-) Tax paid		XX
Cash from Operating Activity [I]		XX

b) Direct method (Top to Bottom Approach)

Particulars	Amount Rs.	Amount Rs.
<u>Inflow</u>		
Cash Sales	XX	

Receipt from Debtors	xx	Xx
<u>Outflow</u>		
Cash Purchase	xx	
Payment to Creditors	xx	
Rent/Salary/Advtg/Printing	xx	xx
Cash from operations (CFO)		xx
(-) Tax Paid		xx
Cash from operating Activities [I]		xx

**Question 1 :**

Classify the following activities as

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

- (1) Cash receipts from Trade Receivables
- (2) Marketable Securities
- (3) Purchase of investment
- (4) Proceeds from long term borrowings
- (5) Wages and Salaries paid
- (6) Bank overdraft
- (7) Purchase of Goodwill
- (8) Interim dividend paid on equity shares
- (9) Short term Deposits
- (10) Underwriting commission paid

**Question 2 :**

From the following particulars calculate cash flows from Operating activities:

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

Additional Information:

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

**Question 3 : AB Ltd.**

From the following financial statements prepare Cash Flow Statement of AB Ltd for the year ended 31st Dec 2014.

Balance Sheet as on

Liabilities	31.03.13	31.03.14	Assets	31.03.13	31.03.14
Share Capital	1,35,000	1,40,000	Goodwill	13,950	4,950
Profit And Loss A/c	30,000	35,000	Land &	32,400	45,000
General Reserve	10,500	19,000	Building	1,13,400	85,050
Debentures	45,000	22,000	Plant &		40,500
Loans	67,950	62,010	Machinery		49,500
Creditors	71,650	43,940	Furniture	40,500	1,14,120
Proposed Dividend	13,500	16,200	Investments	94,500	
Provision for Taxation	10,800	12,600	Debtors	89,650	11,630
			Bank Balance		
Total	3,84,400	3,50,750	Total	3,84,400	3,50,750

**Question 4 : Ryan Ltd.**

The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 2012:

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)	(1,70,000)

		8,000
Other Income (Expenses)		
Dividend received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	<u>(3,000)</u>	15,000
		23,000
Income tax		<u>(7,000)</u>
		<u>16,000</u>

Comparative Balance Sheets

Assets	31st March 12	31st March 11
Plants	7,15,000	5,05,000
Less: Accumulated Depreciation	<u>(1,03,000)</u>	<u>-68,000</u>
	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 2011-2012

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, 2012.
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.



Question 5 : Sun Ltd.

The balance sheets of Sun Ltd. as at 31st March 20X1 and 20X0 were as:

Particulars	Notes	20X1 Rs.	20X0 Rs.
Equity and Liabilities			
1 Shareholder's funds			
(a) Share capital	1	60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
2 Current liabilities			
(a) Trade Payables		4,000	2,500
(b) Other current liabilities	3	-	1,000
(c) Short term provision (provision for tax)		1,500	1,000
Total		70,500	58,500
Assets			
1 Non-current assets			
(a) Property, Plant & Equipment	4	39,500	29,000
2 Current assets			
(a) Current investments		2,000	1,000
(b) Inventories		17,000	14,000
(c) Trade receivables		8,000	6,000
(d) Cash & cash equivalents	5	4,000	8,500
		70,500	58,500

Notes to accounts :

		20X1 Rs.	20X0 Rs.
1	Share Capital		
	Equity Shares of Rs. 10 each	<u>60,000</u>	<u>50,000</u>

2	Reserve & surplus		
	Profit and Loss Account	<u>5,000</u>	<u>4,000</u>
3	Other current liabilities		
	Dividend Payable	=	<u>1,000</u>
4	Property, plant and equipment (at WDV)		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	<u>12,500</u>	<u>8,000</u>
	Total	<u>39,500</u>	<u>29,000</u>
5	Cash and cash equivalents		
	Cash and Bank	<u>4,000</u>	<u>8,500</u>

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

Particulars	Rs.
Profit before tax	4,500
Tax expense: Current tax	(1,500)
Profit for the year	3,000
Declared dividend	(2,000)
Retained Profit	1000

Further information is available :

	Fixtures Rs.	Vehicles Rs.
Depreciation for the year	1,000	2,500
Disposals		
Proceeds on disposal of vehicles	--	1,700
Written down value	--	<u>(1,000)</u>
Profit on disposal		<u>700</u>

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



Question 6 : Harry Ltd.

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

	2018 (Rs.)	2017 (Rs.)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000

Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
	1,44,000	1,17,000
Fixed Assets (at W.D.V) :		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	1,17,000

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

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

Further Information is available:

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

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



Question 7 : Danish Ltd.

The following are the summarized balance sheets of Danish Ltd. as on March 31, 2013 and 2014 :

Liabilities	As on 31.3.13	As on 31.3.14
	(Rs.)	(Rs.)
Equity share capital	10,00,000	12,50,000

Capital Reserve	-	10,000
General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Long-term loan from the Bank	5,00,000	4,00,000
Sundry Creditors	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Proposed Dividends	1,00,000	1,25,000
	25,50,000	27,25,000
Assets		
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	25,50,000	27,25,000

- (i) Dividend of Rs.1,00,000 was paid during the year ended March 31, 2014.
- (ii) Machinery during the year purchased for Rs.1,25,000.
- (iii) Machinery of another company was purchased for a consideration of Rs.1,00,000 payable in equity shares.
- (iv) Income-tax provided during the year Rs.55,000.
- (v) Company sold some investment at a profit of Rs.10,000, which was credited to Capital reserve.
- (vi) There was no sale of machinery during the year.
- (vii) Depreciation written off on Land and Building Rs.20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2013 as per AS 3 (Indirect method).



Question 8 : Grow More Ltd.

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

Liabilities	31.03.2012 (Rs.)	31.03.2011 (Rs.)
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000

Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	-
Provision for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry Creditors	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and Machinery	7,00,000	5,00,000
Land and Building	6,00,000	4,00,000
Investments	1,00,000	-
Sundry Debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand / Bank	2,00,000	2,00,000
	25,00,000	20,00,000

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery,
(ii) During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs.35,000.
(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.



Question 9 : Global Ltd.

The balance sheet of Global Ltd. as on 31st March, 2011 and 2012 are as under :

Liabilities	31.3. 11	31.3. 12	Assets	31.3. 11	31.3. 12
<u>Share Capital</u>			<u>Fixed Assets:</u>		
Equity	1,50,000	2,50,000	Goodwill	60,000	47,000
8% Redeemable Preference Share Capital	1,50,000	1,00,000	Land & Bldg.	1,00,000	75,000
Reserves & Surplus :			Plant & Mach.	90,000	1,91,000
General Reserves	20,000	30,000	Trade Invest.	10,000	35,000
Capital Reserves	-	25,000	<u>Current Assets</u>		
Profit & Loss A/c.	18,000	27,000	<u>Loans & Advances</u>		

<u>Current Liab. & Provisions</u>			Stock	85,000	78,000
Sundry Crs.	26,000	53,000	Sundry Drs.	60,000	90,000
Bills Payable	18,000	12,000	Bills Receivable	15,000	18,000
Prov. for Tax	28,000	32,000	Cash at Bank	10,000	22,000
Prop. Dividend	27,000	33,000	Cash in Hand	7,000	6,000
	4,37,000	5,62,000		4,37,000	5,62,000

The following further particulars are given :

- i) In 2012 Rs.18,000 depreciation has been written off plant and machinery and no depreciation has been charged on Land & Bldg.
- ii) A piece of land has been sold out 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. Profit on revaluation amounted to Rs. 12,500
- iii) A plant was sold for Rs.12,000 (WDV Rs.15,000).
- iv) Dividend received amounted to Rs.2,100 which includes pre acquisition dividend of Rs.600.
- iv) An interim dividend of Rs.10,000 has been paid in 2012.

Prepare a statement of Cash Flow as per AS (3) for the year ended 31.3.2012.



Question 10 :

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

Balance Sheets

Particulars	Note	31.03.2019 (Rs.)	31.03.2018 (Rs.)
I EQUITY AND LIABILITES			
(1) Shareholder's Funds			
(a) Share Capital	1	3,50,000	3,00,000
(b) Reserves and Surplus	2	82,000	38,000
(2) Non-Current Liabilities			
(3) Current Liabilities			
(a) Trade Payables		65,000	44,000
(b) Other Current Liabilities	3	37,000	27,000
(c) Short term Provisions (provision for tax)		32,000	28,000
Total		5,66,000	4,37,000
ASSETS			

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

Note 1 : Share Capital

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

Note 2 : Reserve and Surplus

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	<u>25,000</u>	<u>-</u>
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	<u>1,91,000</u>	<u>90,000</u>
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.



Question 11 : JK Limited

The Balance Sheet of JK Limited as on 31st March, 2012 and 31st March, 2013 are given below Balance Sheet as on

Liabilities	31.03.12	31.03.13	Assets	31.03.12	31.03.13
Share Capital	1,440	1,920	Fixed Assets	3,840	4,560
Capital Reserve	-	48	Less : Depreciation	<u>1,104</u>	<u>1,392</u>
General Reserve	816	960		2,736	3,168
Profit and Loss A/c	288	360	Investment	480	384
9% Debentures	960	672	Cash	210	312
Current Liabilities	576	624	Other Current Assets		
Proposed Dividend	144	174	(including Stock)	1,134	1,272
Provision for Tax	432	408	Preliminary Exp.	96	48
Unpaid Dividend	-	18			
	4,656	5,184		4,656	5,84

Additional Information :

- (i) During the year 2012-2013, Fixed Assets with a book values of Rs.2,40,000 (accumulated depreciation Rs.84,000) was sold for Rs.1,20,000
 - (ii) Provided Rs.4,20,000 as depreciation.
 - (iii) Some investment are sold at a profit of Rs.48,000 and Profit was credited to capital reserve.
 - (iv) It decided that stock be valued at cost, whereas previously the practice was to value stock at cost less 10 per cent. The stock was Rs.2, 59,200 as on 31.03.12. The stock as on 31.03.13 was correctly valued at Rs.3, 60,000.
 - (i) It decided to write off Fixed Assets costing Rs.60,000 on which depreciation amounting to Rs.48,000 has been provided.
 - (ii) Debentures are redeemed at Rs.105
- Prepare a Cash Flow Statement.

**Question 12 :**

The Balance Sheets of a Company as on 31st March, 2008 and 2009 are given below:

Liabilities	31.3.08	31.3.09	Assets	31.3.08	31.3.09
	Rs.	Rs.		Rs.	Rs.
Equity Share Capital	14,40,00	19,20,00	Fixed Assets	38,40,000	45,60,000
Capital Reserve	-	48,000	Less: Depreciation	<u>11,04,000</u>	<u>13,92,000</u>
General Reserve	8,16,000	9,60,000		27,36,000	31,68,000
Profit & Loss A/c	2,88,000	3,60,000	Investment	4,80,000	3,84,000
9% debentures	9,60,000	6,72,000	Sundry Debtors	12,00,000	14,00,000
Sundry Creditors	5,50,000	5,90,000	Stock	1,40,000	1,84,000
Bills Payables	26,000	34,000	Cash in Hand	4,000	-
Proposed dividend	1,44,000	1,72,000	Preliminary Expenses		
Provision for Tax	4,32,000	4,08,000		96,000	48,000
Unpaid dividend	-	19,200			
	46,56,000	51,84,000		46,56,000	51,84,000

Additional Information:

During the year ended 31st March, 2009 the company.

- (1) Sold a Machine for Rs. 1,20,000; the cost of machine was Rs. 2,40,000 and depreciation provided on it was Rs. 84,000.
- (2) Provided Rs. 4,20,000 as depreciation on fixed assets.
- (3) Sold some investment and profit credited to capital reserve.
- (4) Redeemed 30% of the debentures @ 105.
- (5) Decide to write off fixed assets costing Rs. 60,000 on which depreciation amounting to Rs 48,000 has been provided.

You are required to prepare cash flow statements as per AS – 3.

**Question 13 : X Limited**

The following figures have been extracted from the Books of X Limited for the year ended on 31.3.2012. You are required to prepare a cash flow statement.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs. 20 lakhs:
 - (a) Depreciation on Fixed Assets 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 investriients Rs. 60,000.
 - (f) Compensation received Rs. 90,000 by the company in a suit filed.

- (ii) Income tax paid during the year Rs. 10,50,000.
- (iii) 15,000, 10% preference shares of Rs. 100 each were redeemed on 31-3-2012 at a premium of 5%. Further the company issued 50,000 equity shares of Rs.10 each at a premium of 20% on 2.4.2011. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividends paid for the year 2010-2011 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2011-2012.
- (v) Land was purchased on 2.4.2011 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 31.3.2011	As on 31.3.2012
	Rs.	Rs.
Stock	12,00,000	13,18,000
Sundry Debtors	2,08,000	2,13,100
Cash in hand	1,96,300	35,300
Bills receivable	50,000	40,000
Bills payable	45,000	40,000
Sundry Creditors	1,66,000	1,71,300
Outstanding expenses	75,000	81,800



Question 14 : Patiat Oils Limited

Patiat Oils Limited has collected the following information for the preparation of Cash Flow Statement for the year 2012.

	(Rs. in 000)
Net Profit after tax	25,000
Dividend (including CDT)	8,535
Provision for Tax	5,000
Tax paid	4,248
Loss on sale of assets	40
Book Value of assets sold	185
Depreciation	20,000
Amortisation of Capital Grants	6
Profit on sale of investments	100
Carrying amount of investments sold	27,765

Interest income on investments	2,506
Interest expenses	10,000
Interest paid	10,520
Increase in Working Capital (excluding Cash & Bank)	56,075
Purchase of Fixed Assets	14,560
Investments in joint Ventures	3,850
Expenditure on Construction in W-I-P.	34,740
Proceeds from calls in Arrears	2
Receipt of grant for capital projects	12
Proceeds from Long term borrowings	25,980
Proceeds from Short term borrowings	20,575
Opening balance of Cash and Bank	5,003
Closing balance of Cash and Bank	6,988

Required to prepare Cash Flow statement as per AS - 3 issued by ICAI.



Question 15 : Light Ltd.

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

Summary Cash Account

	Rs. in '000	Rs. in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost Rs. 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		<u>1,152</u>
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	<u>450</u>	<u>(27,756)</u>
Balance as on 31.03.2020		1,458

**Question 16 : X Ltd.**

From the following Summary Cash Account of X Ltd. Prepare Cash Flow Statement for the year ended 31st March, 2012 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 31.3.2014

	Rs. '000		Rs. '000
Balance on 1.4.2013	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expenses	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2014	150
	3,250		3,250

**Question 17 : Raj Ltd.**

Raj Ltd. gives you the following information for the year ended 31st March, 2014:

- (i) Sales for the year Rs.48,00,000. The Company sold goods for cash only.
- (ii) Cost of goods sold was 75% of sales.
- (iii) Closing inventory was higher than opening inventory by Rs. 50,000
- (iv) Trade creditors on 31.3.2012 exceed the outstanding on 31.3.2011 by Rs.1,00,000.
- (v) Tax paid during the year amounts to Rs.1,50,000.
- (vi) Amounts paid to Trade creditors during the year Rs.35,50,000.
- (vi) Administrative and Selling expenses paid Rs.3,60,000.
- (vii) One new machinery was acquired in December, 2006 for Rs.6,00,000.
- (viii) Dividend paid during the year Rs.1,20,000.
- (ix) Cash in hand and at Bank on 31.3.2012 Rs. 70,000.
- (x) Cash in hand and at Bank on 1.4.2011 Rs. 50,000.

Prepare Cash Flow Statement for the year ended 31.3.2012 as per the prescribed Accounting standard.

**Question 18 : Gamma Ltd.**

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

- (1) Sales for the year amounted to Rs. 135 crores out of which 60% was cash sales.

- (2) Purchases for the year amounted to Rs. 55 crores out of which credit purchase was 80%.
- (3) Administrative and selling expenses amounted to Rs. 18 crores and salary paid amounted to Rs. 22 crores.
- (4) The Company redeemed debentures of Rs. 20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs. 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs. 1.5 crores.
- (5) Dividend paid during the year amounted to Rs. 11.7 crores.
- (6) Investment costing Rs. 12 crores were sold at a profit of Rs. 2.4 crores.
- (7) Rs. 8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs. 21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs. 12 crores but the vendor took over the old plant at a value of Rs. 10 crores only. The balance was paid in cash to the vendor
- (9) The following balances are also provided :

	Rs. in crores	Rs. in crores
	1.4.20X0	31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	18.2



Question 19 :

On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024 :

- Total Sales for the year were Rs.380 lakhs out of which Cash Sales amounted to Rs.262 Lakhs.
- Receipts from credit customers during the year, total Rs.134 lakhs, i
- Total Purchases for the year amounted to Rs.220 lakhs, out of which 80% were credit purchases.
- Opening balance in creditors Rs.84 lakhs and Closing balance in creditors 92 lakhs.
- Suppliers of other consumables and services were paid Rs.19 lakhs in cash.
- Employees of the enterprise were paid Rs.20 lakhs in cash.
- Fully-paid preference shares of the face value of Rs.32 lakhs were redeemed.
- Issued equity shares of the face value of Rs.20 lakhs at a premium of 20%.
- Debenture of Rs.20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.
- Rs.26 lakhs were paid by way of Income Tax.

- A new machinery costing Rs.20 lakhs was purchased in a part exchange of an old machinery. The book value of the old machinery was Rs.13 lakhs, but the vendor agreed to take over the old machinery at a higher value of Rs.15 lakhs. The balance due to vendor was paid in cash.
- Dividend Rs.15 lakhs (including dividend distribution tax of Rs.2.7 lakhs) was also paid on 30th March, 2024.
- Debenture interest Rs.3 lakhs was paid.
- During the year Rs.8 lakhs rent was received from property held as investment.
- Rs.0.50 lakh interest was earned on the advance payments to suppliers of Goods.
- Cash and cash equivalents on 1st April 2023, Rs.2 lakhs.

5. MCQs :

1. Crown Ltd. wants to prepare its cash flow statement. It sold equipment of book value of Rs. 60,000 at a gain of Rs. 8,000. The amount to be reported in its cash flow statement under operating activities is
 - (a) Nil
 - (b) Rs. 8,000
 - (c) Rs. 68,000
 - (d) Rs. 60,000
2. While preparing cash flows statement, an entity (other than a financial institution) should disclose the dividends received from its investment in shares as
 - (a) operating cash inflow
 - (b) investing cash inflow
 - (c) financing cash inflow
 - (d) cash & cash equivalent
3. XYZ Co. is a financial enterprise. In its cash flow statement, interest paid and dividends received should be
 - (a) classified as operating cash flows.
 - (b) classified as financing cash flows.
 - (c) Not shown in cash flow statement.
 - (d) classified as investing cash flows.
4. In the cash flow statement, 'cash and cash equivalents' donot include
 - (a) Bank balances .
 - (b) Short-term investments readily convertible into Cash are subject to an insignificant risk of changes in value.
 - (c) Cash balances.
 - (d) Loan from bank.
5. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the "Cash flow from Operating activities"?
 - (a) Interest income
 - (b) Gain on sale of a fixed asset.

- (c) Depreciation. (d) Gain on sale of inventory
6. While preparing cash flow statement, conversion of debt to equity
- (a) Should be shown as a financing activity.
 - (b) Should be shown as an investing activity.
 - (c) Should not be shown as it is a non-cash transaction
 - (d) Should not be shown as operating activity.
7. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
- (a) Cash outflow to the government for payment of taxes.
 - (b) Cash outflow to purchase bonds issued by another company.
 - (c) Cash outflow to shareholders as dividends
 - (d) Cash outflow to make payment to trade payables.
8. All of the following would be included in a company's operating activities except:
- (a) Income tax payments
 - (b) Collections from customers or Cash payments to suppliers
 - (c) Dividend payments
 - (d) Office and selling expenses.
9. Hari Uttam, a stock broking firm, received Rs. 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
- (a) Operating Activities. (b) Investing Activities.
 - (c) Financing Activities. (d) Non-cash transaction
10. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as
- (a) Operating activity. (b) Financing activity.
 - (c) Investing activity. (d) Non-cash transaction

Thanks



05

AS 4 CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. DEFINITIONS
2. TYPES OF EVENTS
3. TREATMENT OF ADJUSTING AND NON-ADJUSTING EVENTS
4. EXCEPTION TO RULE
5. MCQ'S

"When you're backed against the wall, break the wall down."

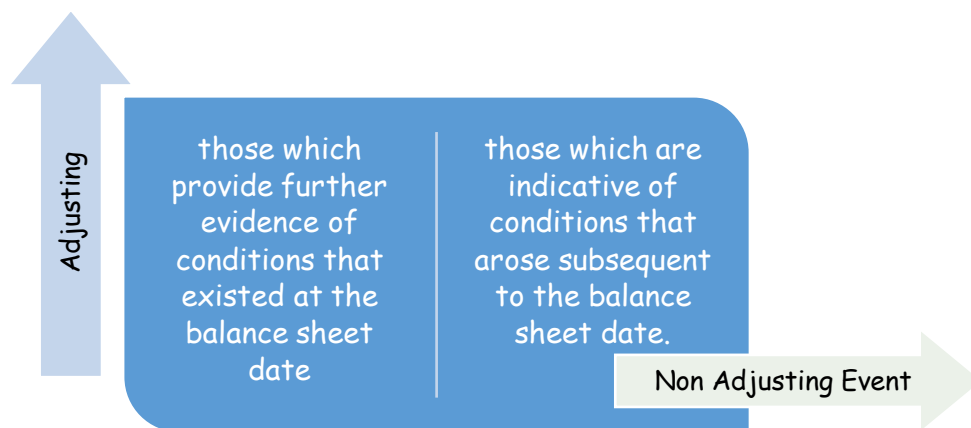
1. DEFINITIONS :

1. **Contingencies** : Contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.
2. **Events Occurring after the Balance Sheet Date** : Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

For example, for the year ending on 31st March 2017, financial statement is finalised and approved by the Board of the directors of the company in its meeting held on 04th September 2017. In this case the events taking place between 01st April 2017 to 04th September 2017 are termed as events occurring after the balance sheet date.

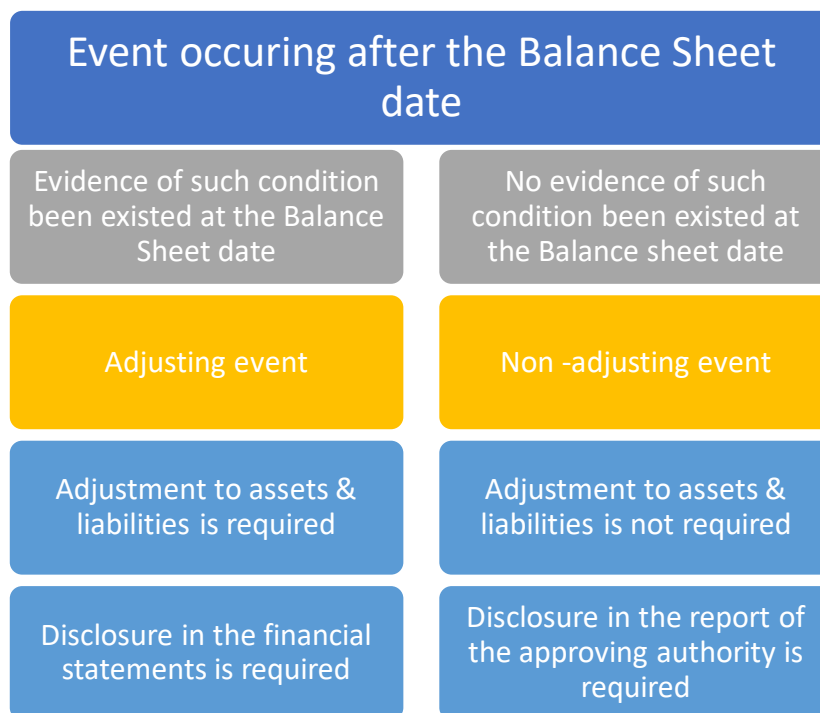
2. TYPES OF EVENTS :

- a. **Adjusting events**- those which provide further evidence of conditions that existed at the balance sheet date. For example a trade receivable declared insolvent and estate unable to pay full amount against whom provision for doubtful debt was created.
- b. **Non-adjusting events**- those which are indicative of conditions that arose subsequent to the balance sheet date.

**3. TREATMENT OF ADJUSTING AND NON ADJUSTING EVENTS :**

- A. **Adjusting Events** : Adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. For example, an adjustment may be made for a loss on a trade receivable account which is confirmed by the insolvency of a customer which occurs after the balance sheet date.

- B. Non-Adjusting Events :** Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. An example is the decline in market value of investments between the balance sheet date and the date on which the financial statements are approved. Ordinary fluctuations in market values do not normally relate to the condition of the investments at the balance sheet date, but reflect circumstances which have occurred in the following period.



4. EXCEPTION TO THE RULE :

Events indicating going concern assumption inappropriate:

As per AS 4 (Revised), an event occurring after the balance sheet date should be an adjusting event even if it does not reflect any condition existing on the balance sheet date, if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

Suppose a fire occurred in the factory and office premises of an enterprise after 31/03/17 but before approval of financial statement of 2016-17. The loss on fire is of such a magnitude that it is not reasonable to expect the enterprise to start operations again, i.e., the going concern assumption is not valid. Since the fire occurred after 31/03/17, the loss on fire is not a result of

any condition existing on 31/03/17. In such a case, the entire accounts need to be prepared on a liquidation basis with adequate disclosures.

**Questions 1 : X Co. Ltd.**

In X Co. Ltd., theft of cash of Rs 5 lakhs by the cashier in January, 2017 was detected only in May, 2017. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2017. Decide.

**Questions 2 : ACO Ltd.**

An earthquake destroyed a major warehouse of ACO Ltd. on 20.5.2017. The accounting year of the company ended on 31.3.2017. The accounts were approved on 30.6.2017. The loss from earthquake is estimated at Rs. 30 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

**Questions 3 :**

A company has filed a legal suit against the debtor from whom Rs 15 lakh is recoverable as on 31.3.2017. The chances of recovery by way of legal suit are not good as per legal opinion given by the counsel in April, 2017. Can the company provide for full amount of Rs 15 lakhs as provision for doubtful debts? Discuss.

**Question 4 : A Limited**

A Limited Company closed its accounting year on 30.6.2017 and the accounts for that period were considered and approved by the board of directors on 20th August, 2017. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2017 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs. 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2017.

**Question 5 :**

While preparing its final accounts for the year ended 31st March, 2017 a company made a provision for bad debts @ 5% of its total trade receivables. In the last week of February, 2017 a trade receivable for Rs.2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the trade receivable became a

bankrupt. Can the company provide for the full loss arising out of insolvency of the trade receivable in the final accounts for the year ended 31st March, 2017?



Question 6 : Raj Ltd.

During the year 2015-2016, Raj Ltd. was sued by a competitor for Rs.15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of Rs.10 lakhs in its financial statements for the year ended 31st March, 2016. On 18th May, 2016, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of Rs. 14 lakhs. The financial statements were prepared by the company's management on 30th April, 2016, and approved by the board on 30th May, 2016.



Question 7 : XYZ Ltd.

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

- a. A major property was sold (it was included in the balance sheet at Rs. 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2020 at a price of Rs. 26,50,000.
- b. On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.
- c. A claim for damage amounting to Rs. 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

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



Question 8 : Tee Ltd.

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

- (i) Tee Ltd. has an inventory of 50 stitching machines costing at Rs. 5,500 per machine as on 31st March 2020. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realizable value, whichever is

lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during April, 2020 at a price of Rs. 4,000 per machine.

- (ii) A fire has broken out in the company's godown on 15th April 2020. The company has estimated a loss of Rs. 25 lakhs of which 75% is recoverable from the Insurance company.
- (iii) A suit against the company's advertisement was filed by a party on 10th April, 2020 10 days after the year end claiming damages of Rs. 20 lakhs.

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



Question 9 : MN Limited

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

- (i) On 7th April, 2022, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs.15 crores would be fully covered by the insurance company.
- (ii) A claim for damage amounting to Rs.12 crores for breach of patent had been received by the entity prior to the year end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.
- (iii) A major property was sold (it was included in the balance sheet at Rs.37,50,000) for which contracts had been exchanged on 15th March, 2022. The sale was completed on 15th May, 2022 at a price of Rs.39,75,000.

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



Question 10 : Surya Limited

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

- (i) A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of Rs. 5 lakhs.
- (ii) Company sends a proposal to sell an immovable property for Rs. 45 lakhs in March 2021. The book value of the property is Rs. 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.

- (iii) The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was Rs. 50 lakhs.
- (iv) Theft of cash amounting to Rs. 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.

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



Question 11 : Five Companies

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

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

- a. A Ltd. sold a major property which was included in the balance sheet at Rs. 1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of Rs. 2,50,000.
- b. On 30th April, 2023, a 100% subsidiary of B Ltd. declared a dividend of Rs. 3,00,000 in respect of its own shares for the year ended on 31st March, 2023.
- c. On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to Rs. 2.5 million.
- d. On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for which there would be no corresponding recovery from the customer.
- e. A fire, on 2nd April, 2023, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.

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

5. MCQs :

1. Cash amounting to Rs. 4 lakhs, stolen by the cashier in the month of March 20X1, was detected in April, 20X1. The financial statements for the year ended 31st March, 20X1 were approved by the Board of Directors on 15th May, 20X1. As per Accounting Standards, this is _____ for the financial statements year ended on 31st March, 20X1.
 - (a) An Adjusting event.
 - (b) Non-adjusting event.

- (c) Contingency. (d) Provision
2. As per Accounting Standards, events occurring after the balance sheet date are
- (a) Only favourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors.
 - (b) Only unfavourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors.
 - (c) Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of directors.
 - (d) Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are not approved by the Board of directors.
3. AS 4 does not apply to
- (a) Obligation under retirement benefit plans.
 - (b) Commitments arising from long term lease contracts.
 - (c) liabilities of life assurance and general insurance enterprises arising from policies issued
 - (d) Both (a) & (b).
4. A Ltd. sold its building for Rs. 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is Rs. 30 lakhs. As on 31st March, 20X1, the documentation and legal formalities are pending. For the financial year ended 31st March, 20X1
- (a) The company should record the sale.
 - (b) The company should recognise the profit of Rs. 20 lakhs in its profit and loss account.
 - (c) Both (a) and (b).
 - (d) The company should disclose the profit of Rs. 20 lakhs in notes to accounts.

Thanks



06

AS 5

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

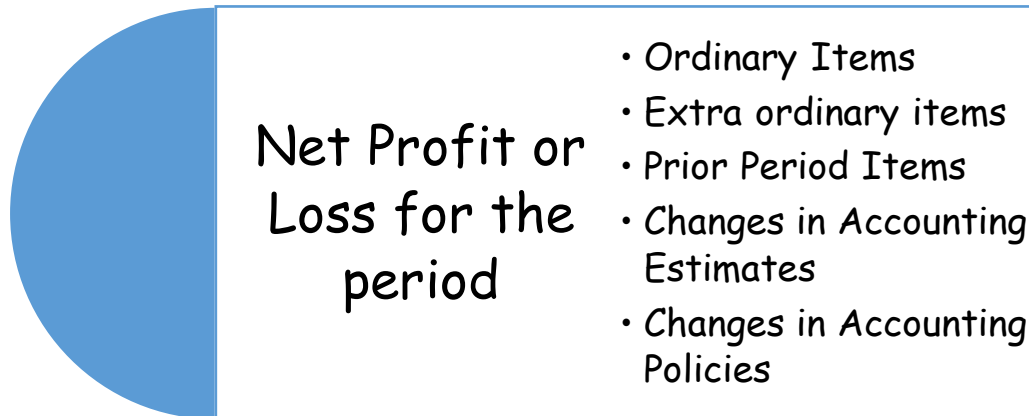
CHAPTER DESIGN

1. NET PROFIT OR LOSS FOR THE PERIOD
2. PROFIT AND LOSS FROM ORDINARY ACTIVITIES
3. EXTRAORDINARY ITEMS
4. EXCEPTIONAL ITEMS
5. PRIOR PERIOD ITEMS
6. CHANGES IN ACCOUNTING ESTIMATES
7. CHANGES IN ACCOUNTING POLICY
8. MCQ'S

"The only time success comes before work is in the dictionary."

1. NET PROFIT OR LOSS FOR THE PERIOD :

All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.

**2. PROFIT OR LOSS FROM ORDINARY ACTIVITIES :**

Any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities. For example profit on sale of merchandise, loss on sale of unsold inventory at the end of the season.

3. EXTRAORDINARY ITEMS :

Income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

- attachment of property of the enterprise
- an earthquake

4. EXCEPTIONAL ITEMS :

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Circumstances which may give rise to the separate disclosure of items of income and expense include:

- (a) The write-down of inventories to net realisable value as well as the reversal of such write-downs
- (b) A restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring
- (c) Disposals of items of fixed assets
- (d) Disposals of long-term investments
- (e) Legislative changes having retrospective application
- (f) Litigation settlements
- (g) Other reversals of provisions

*There is no such term as 'exceptional item' under AS 5 and Schedule III to the Companies Act, 2013, however, the same has been used for better understanding of the requirement. Students may provide a suitable note in this regard in the examination

5. PRIOR PERIOD ITEMS :

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

6. CHANGES IN ACCOUNTING ESTIMATES :

An estimate may have to be revised if changes occur in the circumstances based on which the estimate was made, or as a result of new information, more experience or subsequent developments. The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item.

7. CHANGES IN ACCOUNTING POLICY :

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

Accounting Policies can be changed only:

- when the adoption of a different accounting policy is required by statute; or
- for compliance with an Accounting Standard; or
- when it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

The following are not changes in accounting policies:

- (a) The adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement

gratuity scheme by an employer in place of ad hoc exgratia payments to employees on retirement;

- (b) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

**Question 1 : State Electricity Board**

Fuel surcharge is billed by the State Electricity Board at provisional rates. Final bill for fuel surcharge of Rs. 5.30 lakhs for the period October, 2008 to September, 2015 has been received and paid in February, 2016. However, the same was accounted in the year 2016-17. Comment on the accounting treatment done in the said case.

**Question 2 :**

- (i) During the year 2016-2017, a medium size manufacturing company wrote down its inventories to net realisable value by Rs. 5,00,000. Is a separate disclosure necessary?
- (ii) A company signed an agreement with the Employees Union on 1.9.2016 for revision of wages with retrospective effect from 30.9.2015. This would cost the company an additional liability of Rs. 5,00,000 per annum. Is a disclosure necessary for the amount paid in 2016-17?

**Question 3 :**

The company finds that the inventory sheets of 31.3.2016 did not include two pages containing details of inventory worth Rs 14.5 lakhs. State, how you will deal with the following matters in the accounts of Omega Ltd. for the year ended 31st March, 2017.

**Question 4 :**

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

- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organisation.

**Question 5 : Virus Limited**

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

- (i) Till the previous year the machinery was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
- (ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

**Question 6 :**

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

- (i) Actual bad debts turning out to be more than provisions.
- (ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.
- (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
- (iv) Treating operating lease as finance lease.
- (v) Capitalisation of borrowing cost on working capital.
- (vi) Legislative changes having long term retrospective application.
- (vii) Change in the method of depreciation from straight line to WDV.
- (viii) Government grant becoming refundable.
- (ix) Applying 10% depreciation instead of 15% on furniture.
- (x) Change in useful life of fixed assets.

**Question 7 : Mobile Limited**

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

- (i) Provision for doubtful debts was created @ 2% till 31st March, 2020. From the Financial year 2020-2021, the rate of provision has been changed to 3%.
- (ii) During the year ended 31st March, 2021, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
- (iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.
- (v) During the year ended 31st March, 2021, there was change in cost formula in measuring the cost of inventories.

**Question 8 :**

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

- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

**Question 9 : Heera Ltd.**

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

- (i) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.
- (iii) During the year ended 31st March, 2024, there was change in cost formula in measuring the cost of inventories.

**Question 10 : Beryl Limited**

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

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

8. MCQs :

1. A change in the estimated life of the asset, which necessitates adjustment in the depreciation is an example of
 - (a) Prior period item.
 - (b) Ordinary item.
 - (c) Extraordinary item.
 - (d) Change in accounting estimate.
2. Which of the following is considered as an extraordinary item as per AS 5?
 - (a) Write down or write-off of receivables, inventory and intangible assets.
 - (b) Gains and losses from sale or abandonment of equipment used in a business.
 - (c) Effects of a strike, including those against competitors and major suppliers.
 - (d) Flood damage from unusually heavy rain or a normally dry environment.
3. Which one of the following is an example of extraordinary item?
 - (a) The write down of inventories to their net realisable value
 - (b) Reversal of write down of inventories
 - (c) Government grants become refundable
 - (d) Reversal of provisions.
4. Extraordinary items are income or expenses
 - (a) That arise from events clearly distinct from the ordinary activities of the enterprise.
 - (b) That are not expected to recur frequently or regularly.
 - (c) Both (a) and (b).
 - (d) None of the three.
5. An audit stock verification during the year ended 31st March, 20X1 revealed that opening stock of the year was understated by ` 5 lakhs due to wrong counting. While finalizing accounts, your opinion will be
 - (a) It is not a prior period item and no separate disclosure is required
 - (b) It should be treated as a prior period adjustment and should be separately disclosed in the current year's financial statement
 - (c) The adjustment of ` 5 lakhs in both opening stock of current year and profit brought forward from previous year should be made
 - (d) Both (b) and (c).

Thanks



07

AS 7 CONSTRUCTION CONTRACTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

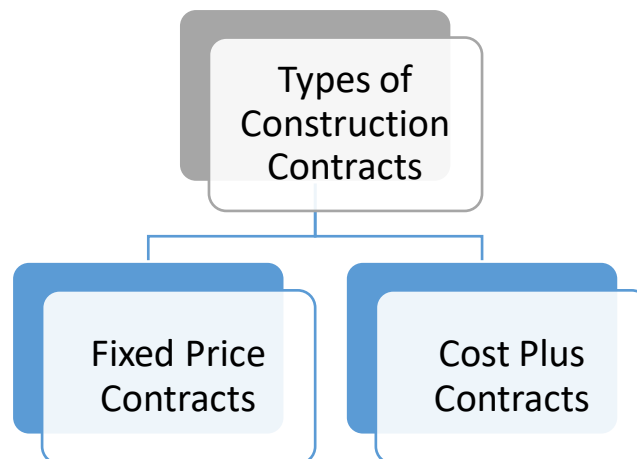
1. CONSTRUCTION CONTRACT
2. TYPES OF CONSTRUCTION CONTRACTS
3. MEASUREMENT OF CONTRACT REVENUE
4. COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS
5. MCQ'S

"I don't have dreams. I have goals."

1. CONSTRUCTIONS CONTACTS :

A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel etc. or it can be construction of a number of assets which are closely interrelated or interdependent in terms of design or technology or a function like construction of refinery.

2. TYPES OF CONSTRUCTION CONTACTS :



3. MEASUREMENT OF CONTRACT REVENUE :

AS-7 prescribes “% completion method” for recognition of contract revenue.

Note :

- 1) % completion method should not be used unless it is possible to make a reasonable estimate of final outcome of a contract. In this case the revenue to be recognized should be to the extent of cost or the amount recoverable which is lower.
- 2) AS-7 also provides that whenever the total contract cost are expected to exceed the total contract revenue, the loss should be recognized immediately.
- 3) % completion = Costs incurred $\frac{\text{Cost incurred till date}}{\text{Total cost estimated}} \times 100$



Question 1 :

Show Profit & Loss A/c (Extract) in books of a contractor in respect of the following data.

	Rs. 000
Contract price (Fixed)	600
Cost incurred to date	390
Estimated cost to complete	260

**Question 2 : X Ltd.**

X Ltd. commenced a construction contract on 01/04/13. The fixed contract price agreed was Rs 2,00, 000. The company incurred Rs 81,000 in 2013-14 for 45% work and received Rs 79,000 as progress payment from the customer. The cost incurred in 2014-15 was Rs 89,000 to complete the rest of work.

**Question 3 : XYZ Ltd.**

XYZ Ltd. commenced a construction contract on 01/04/13. The contract price agreed was reimbursable cost plus 20%. The company incurred Rs 1,00,000 in 2013-14, of which Rs 90,000 is reimbursable. The further non-reimbursable costs to be incurred to complete the contract are estimated at Rs 5,000. The other costs to complete the contract could not be estimated reliably.

**Question 4 : Vishwakarma Construction Co. Ltd.**

On 1st December, 2016, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for Rs 85 lakhs. On 31st March, 2017, the company found that it had already spent Rs 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2017 as per provisions of Accounting Standard 7 (Revised)?

**Question 5 : M/s. Highway Construction**

M/s. Highway constructions undertook the construction of a highway on 01.04.2013. the contract was to be completed in 10 years. The contract price was estimated at Rs. 150 cores. Up to 31.03.2014 the company incurred Rs. 120 cores on the construction. The engineers involved in the project estimated that a further Rs. 45 cores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per the provisions of AS 7 'Construction Contracts? Show the extract of the Profit & Loss Account in the e-books of M/s. Highway Constructions.

**Question 6 : Five Star Construction Limited**

Five Star Construction Limited commenced a construction contract on 1st April, 2014. The fixed contract price agreed was Rs.50,00,000. The company incurred Rs.21,00,000 in 2014-15 for 40% work and received Rs.19,00,000 as progress payment from the customer.

The company estimated that a further Rs 31,50,000 would be incurred to complete it. What amount should be charged to revenue for the year 2014-15 as per AS 7?

Show the extract of Profit & Loss A/c and Customer A/c for the year 2014-15 in the books of the company.



Question 7 : Firm of Contractors

A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2017.

(Rs in lakhs)	
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 issued by your institute.



Question 8 : Fisher Construction Co.

Fisher Construction Co. obtained a contract for construction of a commercial complex. The following details are available in records of a company for the year ended 31st March, 2023:

Particulars	Amount in lakhs
Total contract price	24000
Work certified	12500
Work not certified	2500
Estimated further cost to completion of work	17500
Progress payment received	11000
Progress payment to be received	3000

Applying the provisions of AS 7, you are required to compute:

- (i) Profit / Loss for the year ended 31st March, 2023.
- (ii) Contract work in progress at the end of financial year 2022-2023.
- (iii) Revenue to be recognized out of the total contract value.
- (iv) Amount due from/ to customers as at the year end.



Question 9 : Construction Contractor

A construction contractor has a fixed price contract for Rs.9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

(Amount Rs.in lacs)			
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).



Question 10 : Rajendra

Rajendra undertook a contract for Rs. 20,00,000 on an arrangement that 80% of value of work done as certified by the architect of the contractee should be paid immediately and that remaining 20% be retained until the contract was completed.

In year 1 the amount expended were Rs.8,60,000 the work was certified for 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the contract would be Rs. 10,00,000

In Year 2, the amounts were Rs. 4,75,000. Three-fourth of the contract was certified as done by December 31st and 80% of this was received accordingly it was estimated that future expenditure to complete the contract would be Rs. 4,00,000

In year 3 amount expended were Rs. 3,10,000 and on June 30th the whole contract was completed

Show how contract revenue would be recognized in the P & L account of Mr Rajendra every year.



Question 11 : Construction Limited

Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for Rs.400 crores. The construction of the railway over bridge is expected to be completed in 4 years.

At the outset of the contract, it was estimated that the total costs to be incurred will be Rs.370 crores but by the end of year 1, this estimate stands revised to Rs.375 crores.

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by Rs.10 crores and costs will increase by rs.7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is :

Year 1	: Rs.98.8 crores
Year 2	: Rs.202.4 crores
Year 3	: Rs.310 crores (including unused material of 3 crores)
Year 4	: Rs.382 crores

You are required to :

- Calculate stage of completion of contract for each year
- Profit to be recognised for each year.



Question 12 : M/s.Raj Construction Co. 9 compiler

The following data is provided for M/s. Raj Construction Co.

- Contract Price - Rs. 85 lakhs
- Materials issued - Rs. 21 Lakhs out of which Materials costing Rs. 4 Lakhs is still lying unused at the end of the period.
- Labour Expenses for workers engaged at site - Rs. 16 Lakhs (out of which Rs. 1 Lakh is still unpaid)
- Specific Contract Costs - Rs. 5 Lakhs
- Sub-Contract Costs for work executed - Rs. 7 Lakhs, Advances paid to sub-contractors - Rs. 4 Lakhs
- Further Cost estimated to be incurred to complete the contract - Rs. 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.



Question 13 : Grace Ltd.

Grace Ltd., a firm of contractors provided the following information in respect of a contract for the year ended on 31st March, 2022 :

Particulars	(Rs. in '000)
Fixed Contract Price with an escalation clause	35,000
Work Certified	17,500
Work not Certified (includes Rs.26,25,000 for materials issued, out of which material lying unused at the end of the period is Rs.1,40,000)	3,815
Estimated further cost to completion	17,325
Progress Payment Received	14,000
Payment to be Received	4,900
Escalation in cost is by 8% and accordingly the contract price is increased by 8%	-

From the above information, you are required to :

- (i) Compute the contract revenue to be recognised,
- (ii) Calculate Profit / Loss for the year ended 31st March, 2022 and additional provision for loss to be made, if any, for the year ended 31st March, 2022.

4. COMBININ AND SEGMENTING CONSTRUCTION CONTRACTS :

A contractor may undertake a number of contracts. The standard identifies certain cases where for the purposes of accounting, (i) More than one contract can be taken as one and (ii) a single contract can be taken as to comprise of more than one contract.

- (a) When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:
 - (i) separate proposals have been submitted for each asset;
 - (ii) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
 - (iii) the costs and revenues of each asset can be identified.
- (b) A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:
 - (i) the group of contracts is negotiated as a single package;
 - (ii) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
 - (iii) the contracts are performed concurrently or in a continuous sequence.
- (c) A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:
 - (i) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or
 - (ii) the price of the asset is negotiated without regard to the original contract price.



Question 14 : Mr. Shyam

Mr. Shyam, a construction contractor undertakes the construction of an industrial complex. He has separate proposals raised for each unit to be constructed in the industrial complex. Since each unit is subject to separate negotiation, he is able to identify the costs and revenues attributable to each unit. Should Mr. Shyam treat construction of each unit as a separate construction contract according to AS 7?



Question 15 : GTI Ltd.

GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of “Retail Petrol & Diesel Outlet Stations”. Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. Rs. 102 lacs, Rs. 150 lacs, Rs. 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

5. MCQs :

The below information relates to Questions 1 – 3:

XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 20X1. The expected completion time is 3 years. XY Ltd. incurred a cost of Rs. 30 lakh up to 31st March 20X2. It is expected that additional costs of Rs. 90 lakh. Total contract value is Rs. 112 lakh. As at 31st March 20X2, XY Ltd. has billed GH Ltd. For Rs. 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

- Revenue to be recognized by XY Ltd. for the year ended 31st March 20X2 is

(a) Rs. 28 lakh	(b) Rs. 42 lakh
(c) Rs. 30 lakh	(d) Rs. 32 lakh
- Total expense to be recognised in Year 1 is

(a) Rs. 30 lakh	(b) Rs. 120 lakh
(c) Rs. 38 lakh	(d) Rs. 36 lakh
- Revenue to be recognised for year 2 is

(a) Rs. 84 lakh	(b) Rs. 42 lakh
(c) Rs. 56 lakh	(d) Rs. 28 lakh

Below information relates to Questions 4 – 5

M/s AV has presented the information for Contract No. XY123:

Total contract value	Rs. 370 lakh
Certified work completed	Rs. 320 lakh
Costs incurred to date	Rs. 360 lakh
Progress Payments received	Rs. 300 lakh
Expected future costs to be incurred	Rs. 50 lakh

- Revenue to be recognised by M/s AV is

(a) Rs. 320 lakh	(b) Rs. 370 lakh
------------------	------------------

08

AS 9 REVENUE RECOGNITION



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. WHAT IS REVENUE?
3. REVENUE FROM SALE OF GOODS
4. REVENUE FROM RENDERING OF THE SERVICES
5. REVENUE FROM INTEREST
6. REVENUE FROM ROYALTIES
7. REVENUE FROM DIVIDEND
8. MCQ'S

“Don't ever let somebody tell you that you can't do something.”

1. INTRODUCTION :

AS 9

is mandatory for all enterprises

The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from

- the sale of goods
- the rendering of services
- the use by others of enterprise resources yielding interest, royalties and dividends

2. WHAT IS REVENUE ? :

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In simple words revenue is charge made to customers or clients for goods supplied and services rendered to them.

3. REVENUE FROM SALE OF GOODS :

Revenue from sales or service transactions should be recognised when the requirements as to performance set out in below paragraph are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection.

If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled

the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and

the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Recognition when delivery of goods sold are subject to conditions

Installation and Insepection

Revenue should be recognised when

- Goods are installed at the buyers place to his satisfaction
- Goods are inspected and accepted by the buyer

Sale or Return

Revenue should be recognised when

- Revenue should be recognised when buyer confirms his desire to buy such goods by communication

Guaranteed sales

Revenue should be recognised when

- Revenue should be recognised as per the substance of the agreement of sale or after the reasonable period has expired.

Warranty sales

Revenue should be recognised when

- Sales should be recognised immediately but the provision should be made to cover unexpired warranty.

Consignment sales

Revenue should be recognised when

Revenue should be recognised only when the goods are sold to the third party.

Special order and shipments

Revenue should be Recognised When

Revenue from such sales should be recognised when the goods are identified and ready for delivery.

Subscription for publication

Revenue should be recognised when

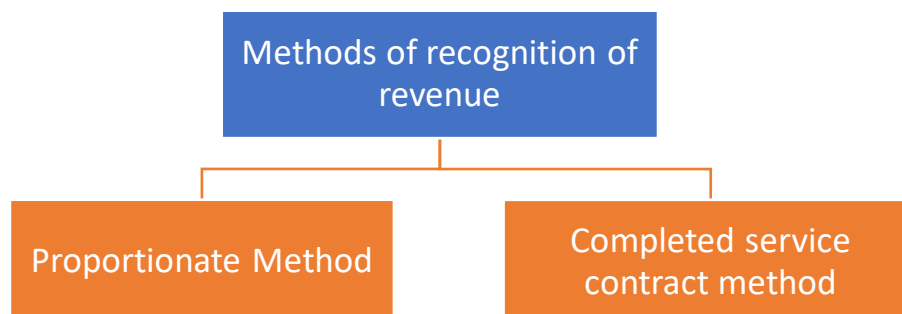
Items delivered vary in value from period to period : Revenue should be recognised on the basis of sales value of items delivered.

Items delivered do not vary in value from period to period : Revenue should be recognised on straight line basis over time.

Instalment sales

Revenue should be recognised when

Revenue of sale price excluding interest should be recognised on the date of sale. Interest should be recognised proportionately to unpaid balance.

4. REVENUE FROM RENDERING OF SERVICES :**Recognition norms for rendering of service under special conditions****Installation and Inseption**

Revenue should be recognised when

It is recognised when the installation has been completed and accepted by the clients.

Agency Commission

Revenue should be recognised when

- Advertising commission is recognised when the advertisement appears before public
- Insurance commission is recognised on the effective commencement / renewal date of the policies.

Financial Services comission

Revenue should be recognised when

- whether the service has been provided “once and for all”
- or is it on continuing basis.
- The incidence of costs relating to the service

Admission Fees

Revenue should be recognised when

- Revenue from artistic performance, banquets and other special events should be recognised when the event takes place.

Tuition Fees

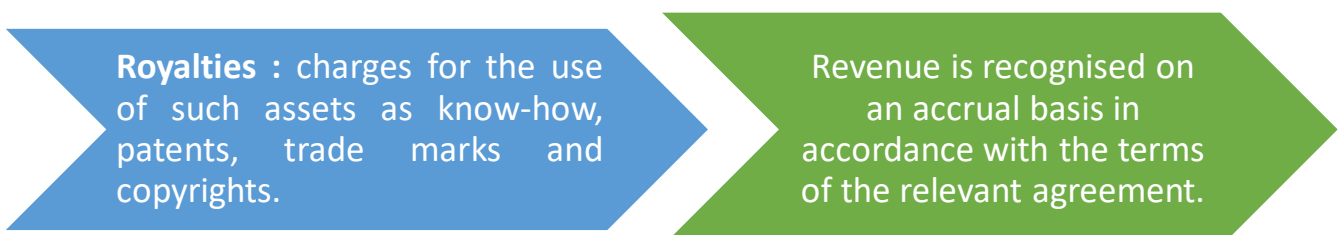
Revenue should be recognised when

- Revenue should be recognised over the period of instruction

Entrance Fees

Revenue should be recognised when

- Recognition depends upon the nature of service being provided against entrance and membership fees, however entrance fees are generally capitalised and membership fees should recognised on systematic and rational basis having regards to timings and nature of service provided.

5. REVENUE FROM INTEREST :**6. REVENUE FROM ROYALTIES :**

7. REVENUE FROM DIVIDENDS :

Dividends : rewards from the holding of investments in shares.

Revenue is recognised when the owner's right to receive payment is established.

**Question 1 : The Board of Directors**

The Board of Directors decided on 31.3.2017 to increase the sale price of certain items retrospectively from 1st January, 2017. In view of this price revision with effect from 1st January 2017, the company has to receive Rs 15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017. Accountant cannot make up his mind whether to include Rs 15 lakhs in the sales for 2016-2017. Advise.

**Question 2 : Y Ltd.**

Y Ltd., used certain resources of X Ltd. In return X Ltd. received Rs 10 lakhs and Rs 15 lakhs as interest and royalties respective from Y Ltd. during the year 2016-17. You are required to state whether and on what basis these revenues can be recognised by X Ltd.

**Question 3 :**

A claim lodged with the Railways in March, 2015 for loss of goods of Rs 2,00,000 had been passed for payment in March, 2017 for Rs 1,50,000. No entry was passed in the books of the Company, when the claim was lodged. Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2017.

**Question 4 : Perfect Ltd.**

Perfect Ltd. Manufactures machinery used in Power Plants. In response to the tenders issued by Power Plants, Perfect Ltd. Quotes its price. As per terms of contract, full price of machinery is not released by the power plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. From the past experience, it is observed that Perfect Ltd. Accounts for only 90% of the invoice value as sales revenue and block the balance amount in the year of receipt to the extent of actual receipts only. Comment on the treatment done by the company.

**Question 5 : A Ltd.**

A Ltd. Entered into a contract with B Ltd. To dispatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd accordingly made the payment of Rs. 1,00,000 and A Ltd. Requested A Ltd. Not to dispatch goods until further notice through A Ltd. Is holding the remaining goods worth Rs. 50,000 ready for dispatch. A Ltd. Accounted Rs. 50,000 as sales and transferred the balance to Advance Received against sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9

**Question 6 :**

A Company sells the goods with right to return. The following pattern has been observed
 Time frame of Return from date of purchase % Of Cumulative Sales
 Within 10 days 5%
 Between 11 days and 20 days 7%
 Between 21 days and 30 days 8%
 Between 31 days and 45 days 9%
 The company has made sales of Rs. 30 lakhs in the month of February 2015 and of Rs. 36 lakhs in the month of March 2015. The total sales for the Financial year have been Rs. 450 lakhs and the cost of sales was Rs. 360 lakhs. Determine the amount of provision to be made and Revenue to be recognized in accordance with AS-9. A year may be considered of 360 days.

**Question 7 : A Limited**

A Limited sells goods with unlimited right of return from its customers.

The following pattern has been observed in the Return of Sales:

Time frame of Return from date of purchase	% of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of Rs. 36 Lakhs in the month of January, Rs. 48 Lakhs in the month of February and of Rs. 60 Lakhs in the month of March. The Total Sales for the Financial Year have been Rs. 400 Lakhs and the Cost of Sales was Rs. 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.

**Question 8 : Victory Ltd.**

Victory Ltd. purchased goods on credit from Lucky Ltd. for Rs 250 crores for export. The export order was cancelled. Victory Limited decided to sell the same goods in the local market with a price discount. Lucky Limited was requested to offer a price discount of 15%.

The chief Accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified.

**Question 9 : New Spice Ltd.**

New Spice Ltd. sells male groaning products to various dealers situated in different states in India. It allows normal credit period of 45 days to its dealers to make payment. Interest at the rate of 2% per month is charged on the dealers for delayed payments. The interest recovery on such overdue outstanding amounts from dealers is only 10%, due to various reasons. During the year 2014-15, the company vents to recognize only the interest received and not the balance 90% of interest receivable on overdue outstanding. Do you agree?

**Question 10 : Rainbow Ltd.**

Given the following information of Rainbow Ltd. :

- (i) On 15th November, goods worth Rs.5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.
 - (ii) On 31st March, goods worth Rs.2,40,000 were sold to Bright Ltd. but due to refurbishing of their show-room being underway, on their request, goods were delivered on 10th April.
 - (iii) Rainbow Ltd. supplied goods worth Rs.6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
 - (iv) Dew Ltd. used certain assets of Rainbow Ltd. Rainbow Ltd. received Rs.7.5 lakhs and Rs.12 lakhs as interest and royalties respectively from Dew Ltd. during the year 2020-21.
 - (v) On 25th December goods of Rs.4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year end on 31st March.
- In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

**Question 11 : Tonk Tanners**

Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31st March, 2020:

- (i) On 31st December, 2019 shoes worth Rs. 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2020.

- (ii) On 10th January, 2020, Tonk Tanner supplied shoes worth Rs. 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April, 2020.
- (iii) On 21st March, 2020 shoes worth Rs. 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2020.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2019 -20 in above cases in the context of AS 9.



Question 12 : B.S. Ltd.

Given below are the following information of B.S. Ltd.

- (i) Goods of Rs. 50,000 were sold on 18-03-2023 but at the request of the buyer these were delivered on 15-04-2023.
- (ii) On 13-01-2023 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.
- (iii) Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2023 in above cases in the context of AS-9.



Question 13 : BS. Products Ltd.

Following information of BS Products Ltd. is given:

- (i) Goods of Rs. 2,00,000 sold to Den Ltd. on 20-03-2023 but at the request of the buyer these were delivered on 10-04-2023.
- (ii) On 15-01-2023 goods of Rs. 3,00,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.
- (iii) Rs. 4,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered as sold. Buyer sent approval for 75% goods upto 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.
- (iv) Apart from the above, BS Products Ltd. sells goods to dealers also. One of the conditions of sale is that interest is payable @ 2% p.m. for delayed payments by dealers. The percentage of interest recovery is only 10% i.e. Rs. 50,000 on such overdue outstanding due to various reasons. During the year 2022-23, the company wants to recognize the entire interest receivable of Rs. 60,000.

You are required to advise the accountant of BS Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS 9 and also determine the total revenue to be recognized for the year ending 31-03-2023.

8. MCQs :

1. Which of the conditions mentioned below must be met to recognize revenue from the sale of goods?
 - (i) the entity selling does not retain any continuing influence or control over the goods;
 - (ii) when the goods are dispatched to the buyer;
 - (iii) revenue can be measured reliably;
 - (iv) the supplier is paid for the goods;
 - (v) it is reasonably certain that the buyer will pay for the goods;
 - (vi) the buyer has paid for the goods.

(a) (i), (ii) and (v)	(b) (ii), (iii) and (iv)
(c) (i), (iii) and (v)	(d) (i), (iv) and (v)
2. Consignment inventory is an arrangement whereby inventory is held by one party but owned by another party. Which of the following indicates that the inventory in question is a consignment inventory?
 - (a) Manufacturer cannot require the dealer to return the inventory
 - (b) Dealer has the right to return the inventory
 - (c) Manufacture is responsible for the pricing of goods and any changes in the pricing can only be approved by the manufacturer .
 - (d) Manufacture is responsible for the holding the goods and any changes in the pricing can only be approved by the dealer
3. Which of the following transactions qualify as revenue for M/s AB Enterprises?
 - (a) Sales of Rs. 20 lakhs made under consignment sales.
 - (b) Sale of an old machine amounting Rs. 5 lakhs
 - (c) Services provided to the customer in the normal course of business. Sales recorded is Rs. 50,000.
 - (d) Sales of Rs. 25 lakhs made under consignment sales
4. The Accounting Club has 100 members who are required to pay an annual membership fee of Rs. 5,000 each. During the current year, all members have paid the fee. However, 5 members have paid an amount of Rs. 10,000 each. Of these, 3 members paid the current year's fee and also the previous year's dues. Remaining 2 members have paid next years' fee of Rs. 5,000 in advance.

Revenue from membership fee for the current year to be recognised will be:

(a) Rs. 5,25,000	(b) Rs. 5,10,000
------------------	------------------

(c) Rs. 5,00,000 (d) Rs. 5,15,000

5. Flix Net International offers a subscription fee model to allow the paid subscribers an annual viewing of movies, sports events and other content. It allows users to register for free and have access to limited content for one month without any charges. The customer has a right to cancel the subscription within a month's time but is required to pay for 1 year subscription fee after the free period.

XY has subscribed for free viewing on 1st March 20X1. After 1 month, he has agreed to pay the annual membership and has paid Rs. 1,200 on 31st March 20X1 for the subscription that is valid up to 31st of March 20X2.

Revenue that can be recognized by Flix Net for the year ended 31st March 20X2 is

- (a) Rs. 100 (b) Rs. 1,200
(c) Nil (d) Rs. 1,100

Thanks



09

AS 10 PROPERTY, PLANT AND EQUIPMENT



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. INTRODUCTION
2. SCOPE
3. DEFINITIONS
4. RECOGNITION
5. MEASUREMENT
 - (A) INITIAL MEASUREMENT
 - (B) SUBSEQUENT MEASUREMENT
6. DEPRECIATION
7. DERECOGNITION
8. MCQ'S

“Never give up on something that you can't go a day without thinking about.”

1. INTRODUCTION :

The objective of this Standard is to prescribe accounting treatment for Property, Plant and Equipment (PPE).

The principal issues in Accounting for PPE are

1. Recognition
2. Measurement
3. Depreciation
4. Derecognition

2. SCOPE :

As a general principle, AS 10 (Revised) should be applied in accounting for PPE.

Exception:

When another Accounting Standard requires or permits a different accounting treatment.

Example:

AS 191 on Leases, requires an enterprise to evaluate its recognition of an item of leased PPE on the basis of the transfer of risks and rewards. However, it may be noted that in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

This Standard does not apply to:

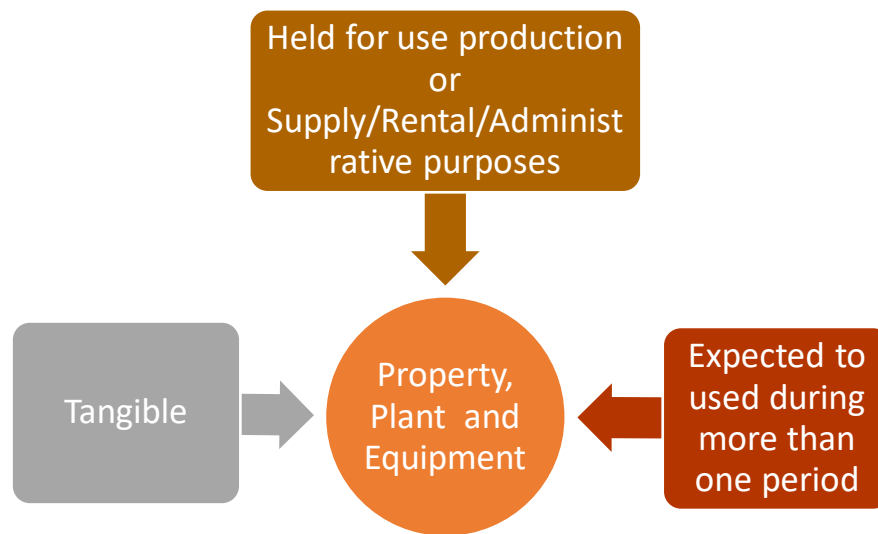
1. Biological Assets (other than Bearer Plants) related to agricultural activity
2. Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources

Note : AS 10 (Revised) applies to Bearer Plants but it does not apply to the produce on Bearer Plants.

3. DEFINITIONS :

1. Property, Plant and Equipment:

- (a) are the tangible items that
- (b) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (c) are expected to be used during more than one period



2. **Biological Asset** : Biological Asset is a living animal or plant.

E.g. Cattle, vines, trees, sheep and other plants.

An Accounting Standard on “Agriculture” is under formulation, which will, inter alia, cover accounting for livestock. Till the time, the AS on “Agriculture” is issued, accounting for livestock meeting the definition of PPE, will be covered as per AS 10 (Revised)

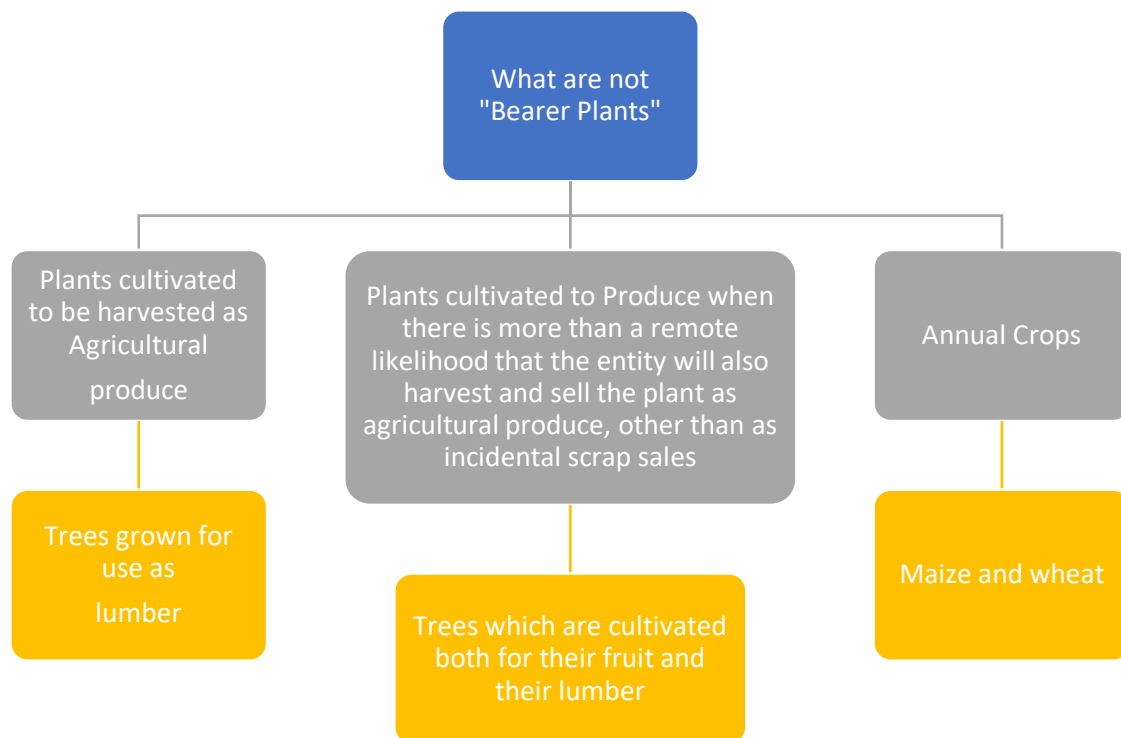
3. **Bearer Plant is a living plant that:**

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than one period; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

E.g. Plants such as tea bushes, grape vines, oil palms and rubber trees.

Note: AS 10 (Revised) applies to Bearer Plants but doesn’t apply to the produce on Bearer Plants. The following are not Bearer Plants:

- a) Plants cultivated to be harvested as Agricultural produce. E.g.: Trees grown for use as lumber.
- b) Plants cultivated to produce Agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales. E.g.: Trees cultivated both for their fruit and their lumber.
- c) Annual crops E.g.: Maize and wheat



4. **Agricultural Produce:** Agricultural Produce is the harvested product of Biological Assets of the enterprise.

4. RECOGNITION :

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.



When do we apply the above criteria for Recognition?

- Spare Parts, Stand by Equipment and Servicing Equipment

Case I

If they meet the definition of PPE as per AS 10 (Revised):

- Recognised as PPE as per AS 10 (Revised)

Case II :

If they do not meet the definition of PPE as per AS 10 (Revised):

- Such items are classified as Inventory as per AS 2 (Revised)

2. Cost of day-to-day servicing

An enterprise does not recognise in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the Statement of Profit and Loss as incurred.

3. Replacement of Parts of PPE :

An enterprise recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. Note : The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions of this Standard.

4. Regular Major Inspections :

When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

**Question 1 : RM**

RM acquired an aircraft for Rs.1.5 crore on 1.4.2018. It has a life of 15 years. RM is required to get the aircraft inspected every 3 years to check its travel worthiness. On 1.4.2018, it carried out inspection at a cost of Rs.60,00,000. On 1.4.2021, it incurred Rs.75,00,000 as the cost of new inspection. Show treatment

**Question 2 : RS Ltd.**

RS Ltd. has acquired a heavy plant at a cost of Rs. 2,00,00,000. The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete (which was acquired at price of Rs. 50,00,000) and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is Rs. 60,00,000.

Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year?

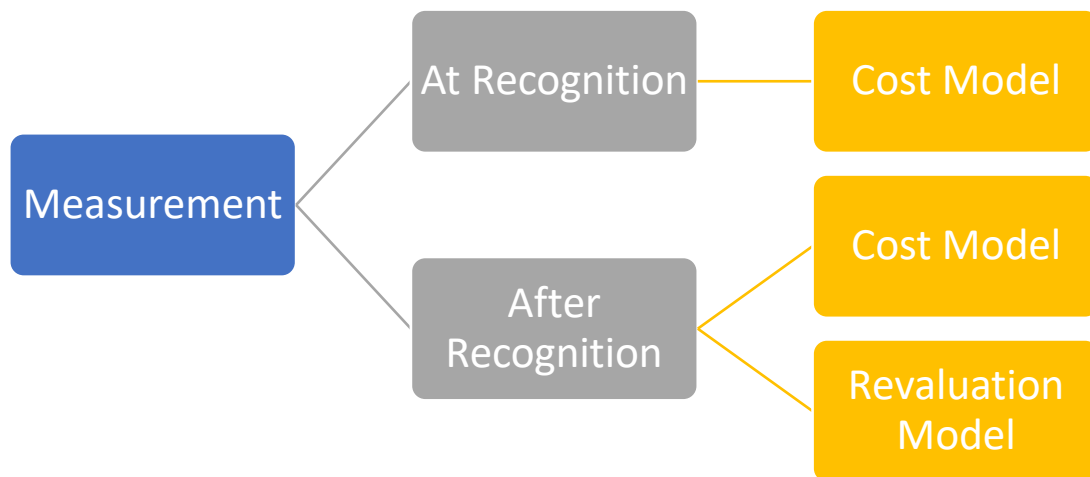


Question 3 : MS Ltd.

MS Ltd. has acquired a heavy machinery at a cost of Rs. 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is Rs. 45,00,000. The discount rate assumed is 5%.

Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used?

5. MEASUREMENT :



5.1 Initial Measurement :

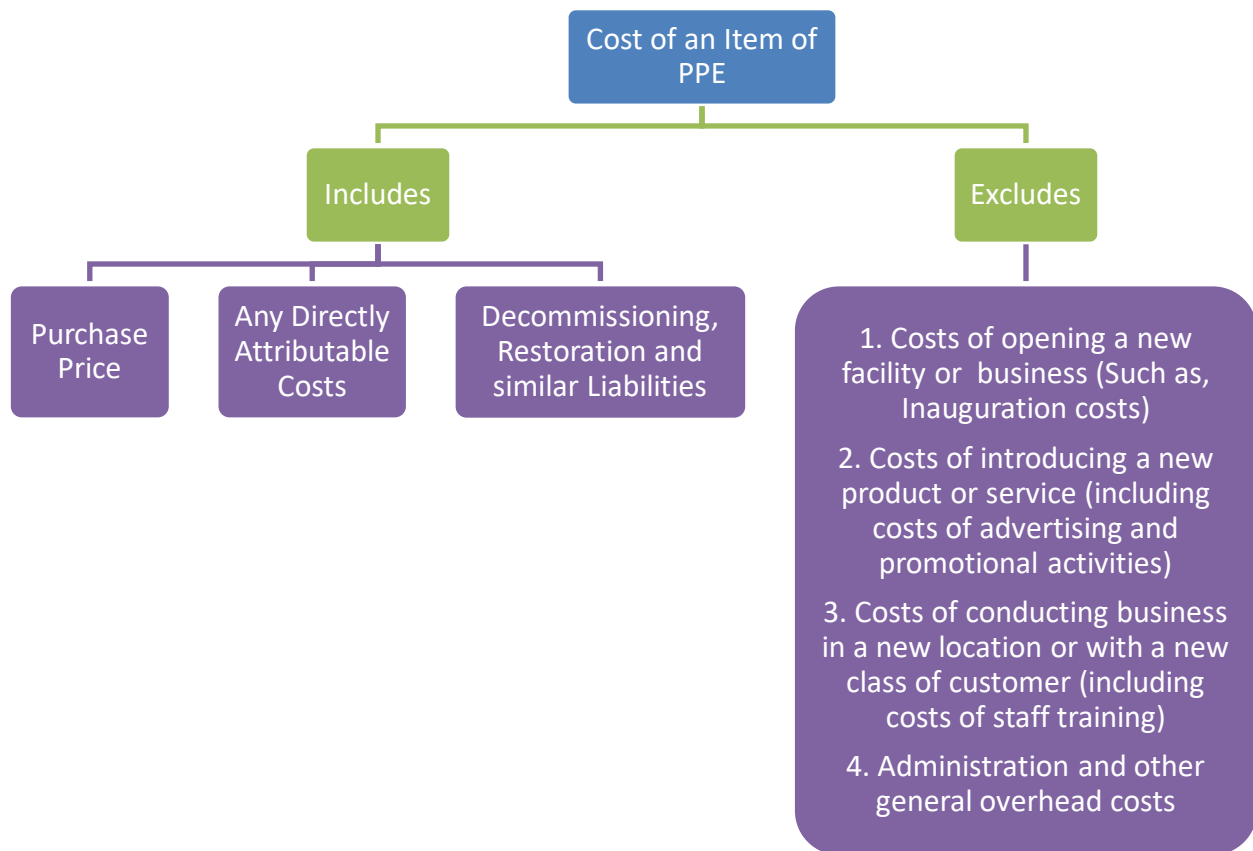
An item of property, plant and equipment that qualifies for recognition as an asset should be initially measured at its cost.

COMPONENT OF COST :

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when

the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period



Question 4 :

The purchase price of the machine is Rs.1,10,000. Other cost are as follows: Freight Rs.2000, Import duty Rs.5000. Installation Expenses Rs.1000. This are all initial cost. What will be the cost of the machinery?



Question 5 : A Ltd.

A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs

8. Cost of site preparation.

**Question 6 : X Ltd.**

The purchase price of the machinery is Rs.110,000. The basic price is 1,00,000 + 10,000 Vat. The entity get the credit of VAT paid on the machinery, while calculating the tax payable on the finished goods sold. What will be the cost of machinery?

**Question 7 : An entity**

An entity constructs a building for its own use. It spends Rs.50 million for material (Rs.2 million of it was lost in a fire) and Rs.5 million on wages and other direct expenses for constructing the building, it uses borrowed cost of Rs.30 million on which it pays interest of Rs.3 million upto the date of completion of construction. What is the amount to be recognised as cost construction.

**Question 8 : Shrishti Ltd.**

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

**Question 9 : Shaisha Ltd.**

Shaisha Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 2,83,740. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 90,000 per

month. The technician's services were given by Department B to Department A, which billed the services at Rs. 99,000 per month after adding 10% profit margin.

The machine was purchased at Rs. 3,16,68,000 inclusive of IGST @ 12% for which input credit is available to Shaisha Ltd. Rs. 1,11,540 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 60,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shaisha Limited. Internally booked profits should be eliminated in arriving at the cost of machine.



Question 10 : A Ltd.

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

	Rs.
1 Cost of the plant (cost per supplier's invoice plus taxes)	25,00,000
2 Initial delivery and handling costs	2,00,000
3 Cost of site preparation	6,00,000
4 Consultants used for advice on the acquisition of the plant	7,00,000
5 Interest charges paid to supplier of plant for deferred credit	2,00,000
6 Estimated dismantling costs to be incurred after 7 years	3,00,000
7 Operating losses before commercial production	4,00,000

Advise A Ltd. on the costs that can be capitalized in accordance with AS 10.



Question 11 : SK Ltd.

SK Ltd set up fire safety devices around its factory premises. The price paid for devices is Rs.1,10, 000 (Including tax of Rs.10,000). The entity gets credit on VAT. Additional cost are Freight Rs.2000, Import Duty Rs.5000 (No refund), installation expense of Rs.1000. The initial expense of dismantling and removing was Rs.3000. After the machinery was put to use Rs.1500 was spent for maintenance. Calculate the initial cost of the asset.



Question 12 : Star Ltd

Star Limited purchased machinery for Rs. 6,80,000 (inclusive of GST of Rs. 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

	Rs.
Cost of preparation of site for installation	21,200
Total Labour charges (200 out of the total of 500 men hours worked,	56,000

were spent on installation of the machinery)	
Spare parts and tools consumed in installation	5,000
Total salary of supervisor (Time spent for installation was 25% of the total time worked)	26,000
Total administrative expense (1/10 relates to the plant installation)	34,000
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of Rs. 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.



Question 13 : Entity A

Entity A has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The following incremental costs will be incurred:

1. Setup costs of Rs 5,00,000 to install machinery in the new location.
2. Rent of Rs 15,00,000
3. Removal costs of Rs 3,00,000 to transport the machinery from the old location to the temporary location. Can these costs be capitalised into the cost of the new building?



Question 14 : Entity A

Entity A, which operates a major chain of supermarkets, has acquired a new store location. The new location requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the supermarket will be closed. Management has prepared the budget for this period including expenditure related to construction and remodelling costs, salaries of staff who will be preparing the store before its opening and related utilities costs. What will be the treatment of such expenditures?



Question 15 : An amusement park

An amusement park has a 'soft' opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is three months later. Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable

of operating in the intended manner. Accordingly, the net operating costs incurred should be capitalised. Comment.

**Question 16 :**

You are required to give the correct accounting treatment for the following in line with provisions of AS 10:

- (a) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (Rs. 18 lakhs), salaries of staff (Rs. 2 lakhs) who will be preparing the store before its opening and related utilities costs (Rs. 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?
- (b) ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

Deferred payment beyond normal credit terms :

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

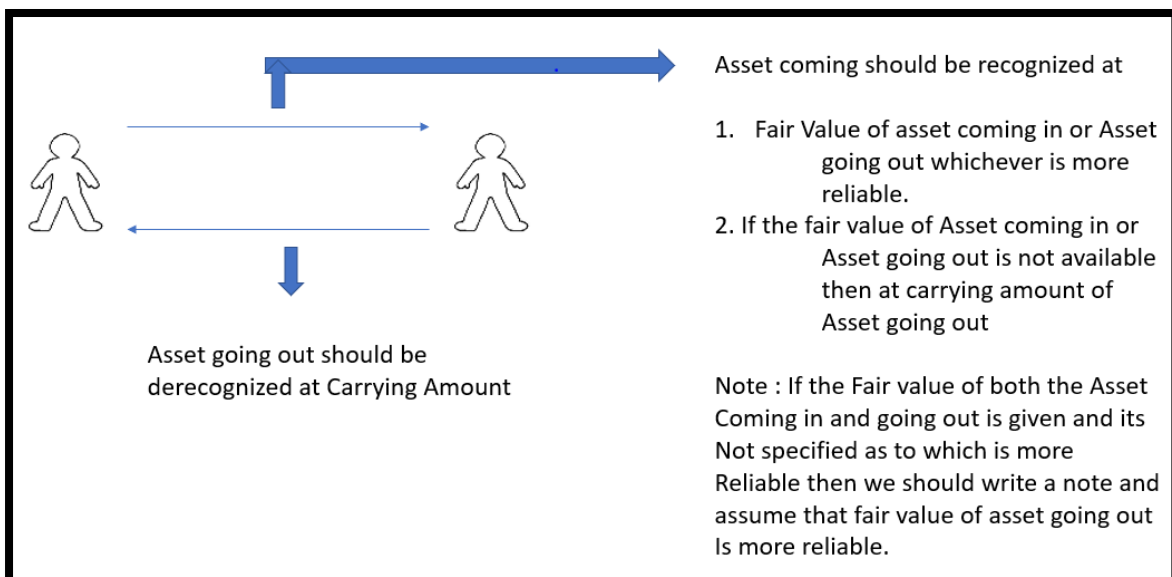
**Question 17 :**

The purchase price of the machinery is Rs.40,000. The company did not have enough cash, and therefore agreed to pay a year later. However they will pay Rs.45,000. What shall be the treated with reference to the above arrangement.

Exchange of Assets :

- A. One or more items of property, plant and equipment may be acquired in exchange for a nonmonetary asset or assets, or a combination of monetary and nonmonetary

- assets. The cost of such an item of property, plant and equipment is measured at fair value (even if an entity cannot immediately derecognise the asset given up) unless:
1. the exchange transaction lacks commercial substance; or
 2. the fair value of neither the asset received nor the asset given up is reliably measurable
- B. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- C. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.



Question 18 : Entity A

Entity A exchanges surplus land with a book value of Rs 10,00,000 for cash of Rs 20,00,000 and plant and machinery valued at Rs 25,00,000. What will be the measurement cost of the assets received?



Question 19 : DM Ltd.

DM Ltd. purchases a Machinery in exchange of Motor Car B. Motor car B has a book Value of Rs.1,50,000. Fair Value of car given up is Rs.1,70,000. Fair value of Machine is Rs.1,80,000. Fair value of Machinery is more evidently known. Journalise.



Question 20 : Topmaker Limited

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1st April, 2022 is Rs.56,30,000.

On scrutiny, it was found that a purchase of Machinery worth Rs.21,12,000 was included in the purchase of goods/m 1st June, 2022.

On 30th June, 2022 the company disposed a Machine having book value of Rs.9,60,000 (as on 1st April, 2022) for Rs.8,25,000 in part exchange)bf a new machine costing Rs.15,65,000.

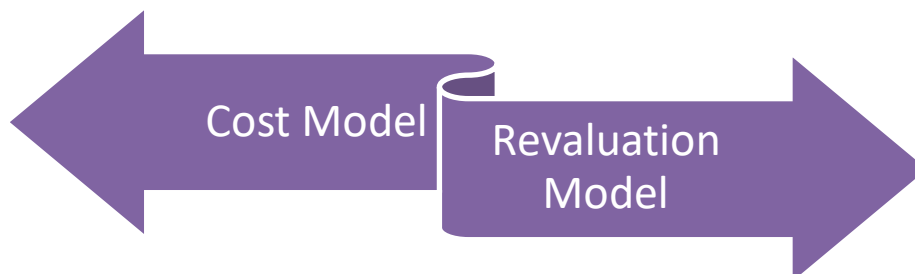
The company charges depreciation @ 10% p.a. on written down value method on Plant and Machinery.

You are required to compute :

- (i) Depreciation to be charged to Profit & Loss Account;
- (ii) Book value of Plant & Machinery as on 31st March, 2023; and
- (iii) Profit/Loss on exchange of Plant & Machinery.

5.2 Subsequent Measurement :

An entity may choose either the cost model or the revaluation model as its accounting policy and should apply that policy to an entire class of property, plant and equipment.



Question 21 : Entity A

Entity A is a large manufacturing group. It owns a number of industrial buildings, such as factories and warehouses and office buildings in several capital cities. The industrial buildings are located in industrial zones, whereas the office buildings are in central business districts of the cities. Entity A's management want to apply the revaluation model as per AS 10 (Revised) to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings.

State whether this is acceptable under AS 10 (Revised) or not with reasons?

? Question 22 : Jupiter Ltd.

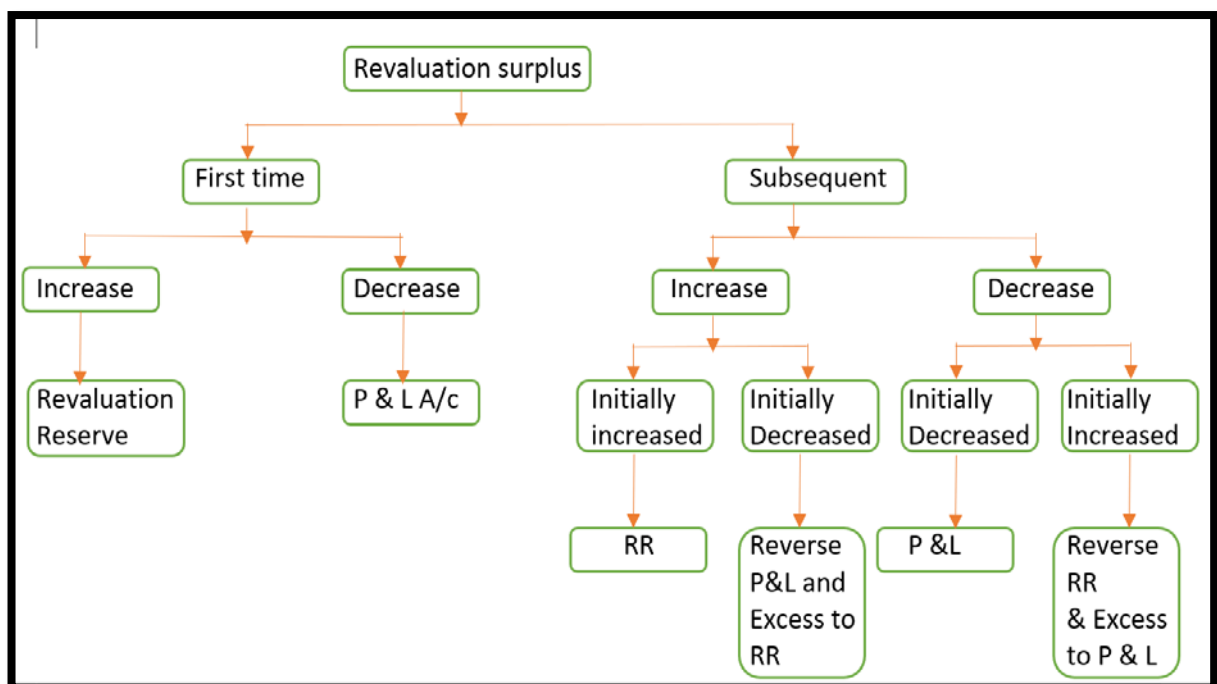
Jupiter Ltd. has an item of plant with an initial cost of Rs.100,000. At the date of revaluation accumulated depreciation amounted to Rs.55,000. The fair value of asset, by reference to transactions in similar assets, is assessed to be Rs.65,000. Find out the entries to be passed?

Frequency of revaluation

Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date.

The frequency of revaluations depends upon the changes in fair values of the items of PPE being revalued.

Revaluation – Increase or Decrease



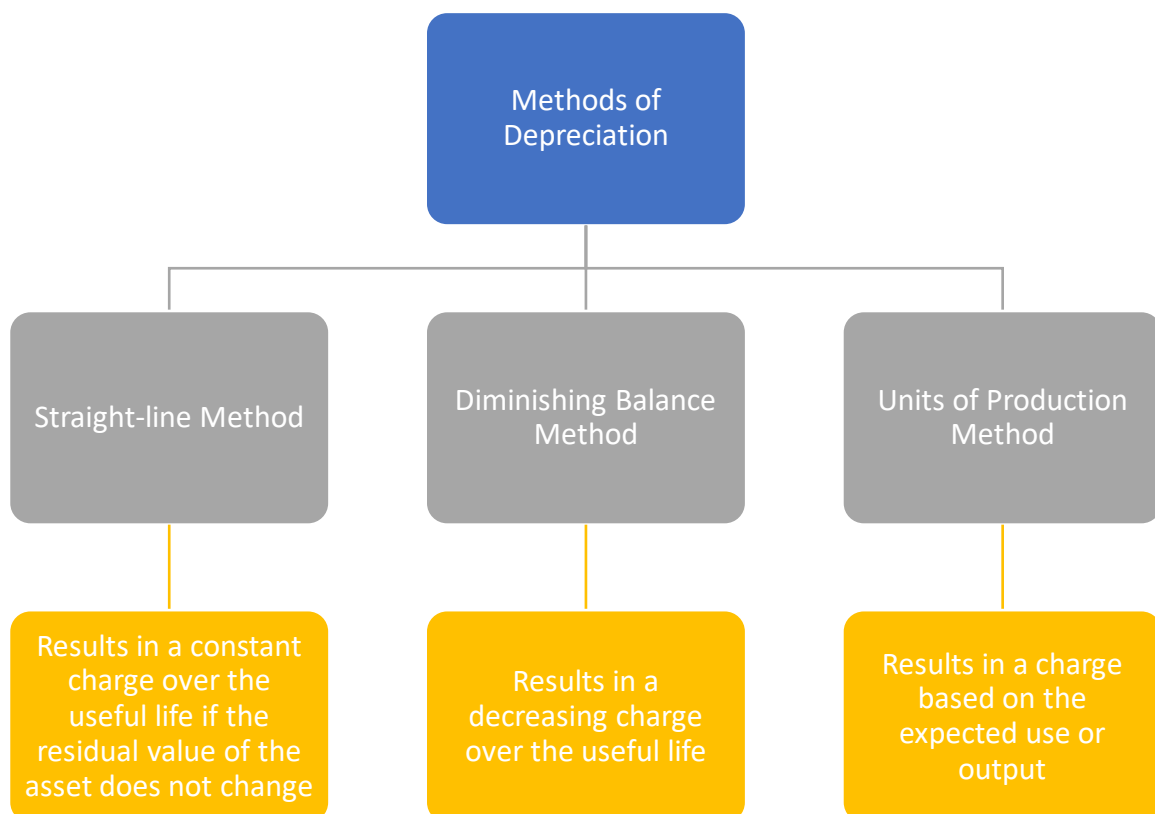
? Question 23 : PPE

An item of PPE was purchased for Rs.9,00,000 on 1st April, 2011. It is estimated to have a useful life of 10 years and is depreciated on a straight line basis. On 1st April, 2013, the asset is revalued to Rs.9,60,000. The useful life remains unchanged as ten years. Ignore impact of deferred taxes. Show the necessary treatment as per Ind AS 16.

6. DEPRECIATION :

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. The method selected is applied consistently from period to period unless:

- There is a change in the expected pattern of consumption of those future economic benefits; Or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.

**Review of Depreciation Method:**

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

**Question 24 : Entity B**

Entity B manufactures industrial chemicals and uses blending machines in the production process. The output of the blending machines is consistent from year to year and they can be used for different products. However, maintenance costs increase from year to year and a new generation of machines with significant improvements over existing machines is available every 5 years. Suggest the depreciation method to the management.

**Question 25 : Zeinth Ltd.**

Zenith Ltd., a medium-sized manufacturing company engaged in the production of precision industrial components, has provided the following details of its fixed assets. You are required to calculate depreciation for each asset for the year ended 31st March, 2025, in accordance with the provisions of AS 10 (Revised) – Property, Plant and Equipment.

- (i) Machinery was purchased on 1st April, 2020 for Rs. 10 lakhs. The management estimated its useful life at 5 years, and the residual value at the end of its useful life, based on 2020 prices, is Rs. 10 lakhs.
- (ii) The company owns a piece of land acquired for Rs. 50 lakhs, which is being held for use in its factory operations.
- (iii) Zenith Ltd. constructed a machine for its own use at a total cost of Rs. 5,00,000. The construction was completed on 1st April, 2024. The machine has a useful life of 10 years; however, the company did not commence using the machine until 31st March, 2025.
- (iv) Another machine was purchased on 1st April, 2022, for Rs. 50,000, having a useful life of 5 years and nil residual value. Subsequently, on April 1, 2024, the management decided that the machine would now be used for only two more years.

**Question 26 : Entity A**

Entity A purchased an asset on 1st January 2016 for Rs.1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

7. DERECOGNITION :

The carrying amount of an item of PPE should be derecognised:

- On disposal
 - o By sale

- o By entering into a finance lease, or
- o By donation, Or
- When no future economic benefits are expected from its use or disposal

8. MCQs :

1. As per AS 10 (Revised) 'Property, plant and equipment', which of the following costs is not included in the carrying amount of an item of PPE
 - (a) Costs of site preparation
 - (b) Costs of relocating
 - (c) Installation and assembly costs.
 - (d) initial delivery and handling costs
2. As per AS 10 (Revised) 'Property, Plant and Equipment', an enterprise holding investment properties should value Investment property
 - (a) as per fair value
 - (b) under discounted cash flow model.
 - (c) under cost model
 - (d) under cash flow model
3. A plot of land with carrying amount of Rs. 1,00,000 was revalued to Rs. 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of Rs. 1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
 - (a) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
 - (b) Initial upward valuation of Rs. 50,000 credited to P/L. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
 - (c) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to Revaluation Reserve.
 - (d) Initial upward valuation of Rs. 50,000 debited to P/L. Subsequent downward revaluation of Rs. 20,000 credited to P/L.
4. A plot of land with carrying amount of Rs. 1,00,000 was revalued to Rs. 90,000 at the end of Year 2. Subsequently, due to increase in market values, the land was determined to have a fair value of Rs. 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
 - (a) Initial downward valuation of Rs. 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of Rs. 15,000 credited to P/L.
 - (b) Initial downward valuation of Rs. 10,000 debited to P/L. Subsequent upward revaluation of Rs. 15,000 credited to P/L.

10

AS 11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS
 - (A) INITIAL RECOGNITION
 - (B) SUBSEQUENT MEASUREMENT
3. FOREIGN CURRENCY OPERATIONS
 - (A) INTEGRAL OR NON-INTEGRAL OPERATIONS
 - (B) INTEGRAL OPERATIONS
 - (C) NON-INTEGRAL OPERATIONS
4. FORWARD EXCHANGE CONTRACT
5. MCQ'S

"I don't play the odds. I play the man."

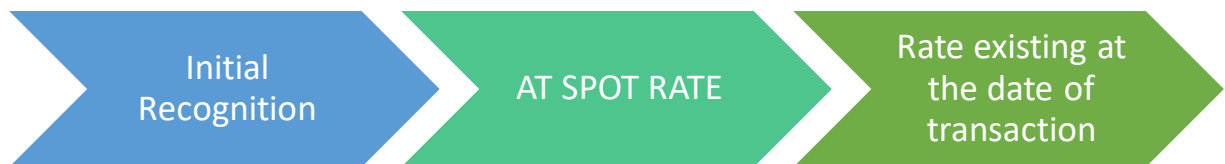
1. INTRODUCTION :



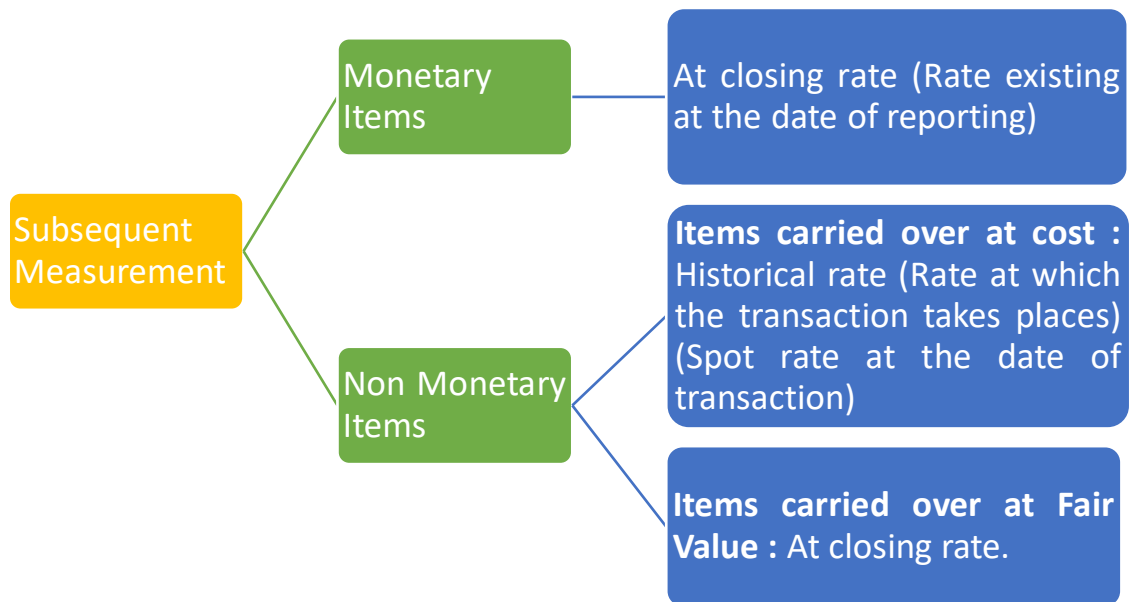
The Standard deals with the issues involved in accounting for foreign currency transactions and foreign operations i.e. to decide which exchange rate to use and how to recognize the financial effects of changes in exchange rates in the financial statements.

2. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS :

(A) Initial Recognition :



(B) Subsequent Measurement :



Monetary items	are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. For example, cash, receivables and payables.
Non-monetary items	are assets and liabilities other than monetary items. For example, fixed assets, inventories and investments in equity shares.

**Question 1 : BC Ltd.**

BC Ltd. borrowed US \$ 5,00,000 on 01/01/2024, which was repaid as on 31/07/2024. ABC Ltd. prepares financial statement ending on 31/03/2024. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

1/1/2024	1 US\$ =	Rs.68.50
31/03/2024	1 US \$ =	Rs.69.50
31/07/2024	1 US \$ =	Rs.70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

**Question 2 : XYZ Ltd.**

Rs. 31.3.2025 in the books of XYZ Ltd. include an amount receivable from Umesh Rs.5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US \$ 1 = Rs.58.50. US \$ 1 = Rs.61.20 on 31.3.2025.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2025.

**Question 3 : Mr.S**

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020

Debtors include amount due from Mr.S Rs.9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = Rs.72.00

US \$ 1 = Rs.73.50 on 31st March, 2020

US \$ 1 = Rs.72.50 on 1st April, 2019

**Question 4 : A company**

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

**Question 5 : Jared Limited**

Trade Payables of Jared Limited includes amount due to Sterling Limited Rs.9,75,000 recorded at the prevailing exchange rate on the date of purchase; transaction recorded at

US \$ 1 = Rs.75.00 The exchange rate on Balance Sheet date (31st March, 2022) was US \$ 1 = Rs.79.00. The payment was made on 1st May, 2022 when the exchange rate was US \$ 1 = Rs.78.30

You are required to calculate the amount of exchange difference on 31st March, 2022 and 1st May, 2022 and also explain the accounting treatment needed in the above case as per AS ii in the books of Jared Limited.



Question 6 : A Ltd.

On 30th January, 20X1, A Ltd. purchased a machinery for \$5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1\$= Rs.60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500. The exchange rate on 31st March, 20X1 is 1\$= Rs.65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$= Rs.67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21.



Question 7 : P Ltd.

On 1st January, 2018, P Ltd. purchased a machine for \$ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was \$1= Rs.68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the \$ in the three months following purchase and by 31st March, 2018 the exchange rate was \$1 = Rs.65. CFO of P Ltd. feels that these exchange fluctuations wouldn't affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. Which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts won't be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per AS.



Question 8 : A Ltd.

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue.

The exchange rates on 1st January, 2018 and 31st March, 2018 are Rs.72 per USD and Rs.75 per USD respectively.

3. FOREIGN CURRENCY OPERATIONS :

- (A) **Foreign Operation** : is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.
- (B) **Integral Foreign Operation** : is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations.
- (C) **Non Integral Foreign Operation** : is a foreign operation that is not an integral foreign operation.

Transitional

Items	Integral	Non Integral
Assets	Date of Purchase / Closing Rate	closing rate
Liabilities	Date of Transaction	closing rate
Incomes	dates of the transactions / Average Rate	dates of the transactions / Average Rate
Expenses	dates of the transactions / Average Rate	dates of the transactions / Average Rate
Difference	foreign currency fluctuation Account to be transferred to P & L	foreign currency translation reserve

4. FORWARD EXCHANGE CONTRACT :

Forward Exchange Contract	Means an agreement to exchange different currencies at a forward rate.
Forward Rate	Is the specified exchange rate for exchange of two currencies at a specified future date. 'Foreign currency' is a currency other than the reporting currency of an enterprise.

- (a) **For Hedge** : A forward exchange contract, which is not intended for trading or speculation purposes, exchange difference should be calculated as difference between Spot Rate and Forward Rate, and should be amortised as expense or income over the life of the contract.

- (b) **For Specification :** In recording a forward exchange contract intended for trading or speculation purposes, the difference should be calculated between rate on the date of re-measurement and Forward Rate and gain / loss is recognised in P & L.



Question 9 : RM Limited

RM Limited purchased a Machine for US \$ 20,000 on 31st December, 2024 payable after four months. It entered into a forward contract for four months @ Rs.78.85 per US \$. On 31st December, 2024, the exchange rate was Rs.77.50 per US \$. How will you recognized the Profits or Loss on Forward Contract for the year ended 31st March, 2025 in the books of RM Limited?



Question 10 : Mr. A

Mr. A bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = Rs.47.10 when exchange rate was US\$ 1 = Rs.47.02. On 31st December when he closed his books exchange rate was US\$ 1 = Rs.47.15. On 31st January, he decided to sell the contract at Rs.47.18 per dollar. Show how the profits from contract will be recognized in the books.



Question 11 : AXE Limited

AXE Limited purchased fixed assets costing \$ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 5 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs.62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 Rs.60.75 per dollar

On 31st March, 2018 Rs.63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

5. MCQs :

- As per AS 11 assets and liabilities of non-integral foreign operations should be converted at _____ rate.

(a) Opening	(b) Average
(c) Closing	(d) Transaction
- The debit or credit balance of "Foreign Currency Monetary Item Translation Difference Account"

(a) Is shown as "Miscellaneous Expenditure" in the Balance Sheet	(b) Is shown under "Reserves and Surplus" as a separate line item
--	---

- (c) Is shown as “Other Non-current” in the Balance Sheet
 - (d) Is shown as “Current Assets” in the Balance Sheet
3. If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at
- (a) Average exchange rate
 - (b) Closing exchange rate
 - (c) Exchange rate at the date of purchase of asset
 - (d) Opening exchange rate
4. Which of the following can be classified as an integral foreign operation?
- (a) Branch office serving as an extension of the head office in terms of operations
 - (b) Independent subsidiary of the parent company
 - (c) Branch office independent of the head office in terms of operational decisions
 - (d) None of the above
5. Which of the following items should be converted to closing rate for the purposes of financial reporting?
- (a) Items of Property, Plant and Equipment
 - (b) Inventory
 - (c) Trade Payables, Trade Receivables and Foreign Currency Borrowings
 - (d) All of the above

Thanks



11

AS 12 ACCOUNTING FOR GOVERNMENT GRANTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. DEFINITION
2. RECOGNITION OF GOVERNMENT GRANTS
3. ACCOUNTING FOR GOVERNMENT GRANTS
4. NON-MONETARY GRANTS
5. PRESENTATION OF GRANTS
6. REFUND OF GOVT GRANTS
7. MCQ'S

You want to change your life? Change the way you think.”

1. DEFINITIONS :

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions.

2. RECOGNITION OF GOVERNMENT GRANTS :

A government grant is not recognised until there is reasonable assurance that:

- the grant will be received; and
- the entity will comply with the conditions
Conditions will be completed.

Example :

1)	Grant received, condition will be fulfilled.			
	Bank A/c.	Dr.	xx	
	To Government Grant A/c.			xx
2)	Grant received, condition fulfilled.			
	Bank A/c.	Dr.	xx	
	To Government Grant A/c.			xx
3)	Grant received, condition may not be fulfilled.			
	Bank A/c.	Dr.	xx	
	To Liability A/c. (Advance)			xx
4)	Grant will be received, condition will be fulfilled.			
	Receivable A/c.	Dr.	xx	
	To government Grant A/c.			xx
5)	Grant will be received, condition fulfilled.			
	Receivable A/c.	Dr.	xx	
	To Government Grant A/c			xx
6)	Grant may not be received, condition fulfilled.			
	No entry			

3. ACCOUNTING FOR GOVERNMENT GRANTS :

There are Two broad approaches for accounting of government grants:

- the capital approach
- the income approach

The method to be used should be based on the nature of the grant.

4. NON MONETARY GRANTS :

Non-monetary grants received from government free of cost shall be recorded at “Nominal value” (Re.1/-)

5. PRESENTATION OF GOVERNMENT GRANTS :**(A) Grants Related to assets :****Method I :**

- Grant is shown as a deduction from asset.

Method II :

- Grants is credited separately to deferred income.

**Question 1 : Z Ltd.**

Z Ltd. purchased a fixed asset for Rs.50 lakhs, which has the estimated useful life of 5 years with the salvage value of Rs.5,00,000. On purchase of the assets government granted it a grant for Rs.10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant amount is deducted from the value of fixed asset.

**Question 2 : Z Ltd.**

Z Ltd. purchased a fixed asset for Rs.50 lakhs, which has the estimated useful life of 5 years with the salvage value of Rs.5,00,000. On purchase of the assets government granted it a grant for Rs. 10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant is treated as deferred income.

**Question 3 : D Ltd.**

D Ltd. acquired a machine on 01-04-2017 for Rs. 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	Rs.
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2017-18- to 2019-20 on Straight Line Method)	<u>12,00,000</u>
	8,00,000
Less: Grant received	<u>(16,00,000)</u>
Balance	<u>(8,00,000)</u>

(B) Grants Related to Revenue :

There are two methods of presentation :

- 1) Grant is shown as deduction from related expenditure.

To Expenses	xx	
(-) Grant	(xx) xx	

- 2) Grant is shown separately as “other income”.

To expenses	xx		By Grant	xx
-------------	----	--	----------	----

(C) Grants of the Nature of Promoters' Contribution :

Grant received as promoters contribution should be credited to capital reserve.

**Question 4 : Santosh Ltd.**

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

**Question 5 : Top & Top Limited**

Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs.50 crore in capital assets received Rs.10 crore from the Government in January, 2017 (accounting period being 2016-2017). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2017.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

**Question 6 : Samrat Limited**

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs. 80 crores in the eligible investments. The company is eligible for the subsidy and has received Rs. 20 crores from the government in February 2022. The

company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

6. REFUND OF GOVT GRANT :

The Government grants sometimes become refundable if certain conditions attached to the grant one not fulfilled. The grant may be refundable in full or in part.

The treatment of the refund should be exactly opposite of the initial treatment.



Question 7 : Z Ltd.

Z Ltd. purchased a fixed asset for Rs.50 lakhs, which has the estimated useful life of 5 years with the salvage value of Rs.5,00,000. On purchase of the assets government granted it a grant for Rs.10 lakhs (This amount was reduced from the cost of fixed asset). Grant was considered as refundable in the end of 2nd year to the extent of Rs.7,00,000. Pass the journal entry for refund of the grant as per the first method.



Question 8 : A fixed asset

A fixed asset is purchased for Rs.20 lakhs. Government grant received towards it is Rs.8 lakhs. Residual Value is Rs.4 lakhs and useful life is 4 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs.5 lakhs due to non-compliance with certain conditions. Pass journal entries for first two years.



Question 9 : ABC Ltd.

On 1. 4.2014, ABC Ltd. received Government grant of Rs.300 lakhs for acquisition of machinery costing Rs.1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2017 due to non-fulfillment of certain conditions. How you would deal with the refund of grant in the books of ABC Ltd. assuming that the company did not charge any depreciation for year 2017?



Question 10 : A Ltd.

A Ltd. purchased a machinery for Rs.40 lakhs. (Useful life 4 years and residual value Rs.8 lakhs) Government grant received is Rs.16 lakhs.

Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:

- (1) the grant is credited to Fixed Assets A/c.
- (2) the grant is credited to Deferred Grant A/c.

**Question 11 : Mac Ltd.**

On 1st April, 2016, Mac Ltd. received a government grant of Rs 60 lakhs for acquisition of machinery costing Rs 300 lakhs. The grant was credited to the cost of the Asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @10% on WDV basis. The company had to refund the grant in June 2019 due to non compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for year 2019-20.

Pass necessary journal entries for the year 2019-20.

**Question 12 : Viva Ltd.**

Viva Ltd. received a specific grant of Rs.30 lakhs for acquiring the plant of Rs.150 lakhs during 2014- 15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs.21 lakhs and written down value of plant was Rs.105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

**Question 13 : Suraj Limited**

Suraj Limited provides you the following information :

- (i) It received a Government Grant @40% towards the acquisition of Machinery worth Rs.25 Crores.
- (ii) It received a Capital Subsidy of Rs.150 Lakhs from Government for setting up a Plant costing Rs.300 Lakhs in a notified backward region.
- (iii) It received Rs.50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.
- (iv) It received Rs.5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.
- (v) It also received a performance award of Rs.500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

**Question 14 : Eleanor Limited**

On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for Rs.60 lakhs, which has an estimated useful life of 10 years with a salvage value of Rs.10 lakhs. On purchase of the Plant, a grant of Rs.20 lakhs was received from the government.

You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:

- (i) If the grant amount is deducted from the value of Plant.
- (ii) If the grant is treated as deferred income.
- (iii) If the grant amount is deducted from the value of Plant, but at the end of the year 2022-2023 grant is refunded to the extent of Rs.4 lakhs, due to non-compliance of certain conditions.
- (iv) If the grant is treated as the promoter's contribution.
(Assume depreciation on the basis of Straight-Line Method.)

7. MCQs :

1. To encourage industrial promotion, IDCI offers subsidy worth Rs. 50 lakhs to all new industries set up in the specified industrial areas. This grant is in the nature of promoter's contribution. How such subsidy should be accounted in the books?
 - (a) Credit it to capital reserve
 - (b) Credit it as 'other income' in the profit and loss account in the year of commencement of commercial operations
 - (c) Both (a) and (b) are permitted
 - (d) Credit it to general reserve
2. Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be
 - (a) recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable as an ordinary item.
 - (b) recognised and disclosed in the Statement of Profit and Loss of the period in which the losses or expenses were incurred.
 - (c) recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item if appropriate as per AS 5.
 - (d) disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item
3. Which of the following is an acceptable method of accounting presentation for a government grant relating to an asset?
 - (a) Credit the grant immediately to Income statement

- (b) Show the grant as part of Capital Reserve
- (c) Reduce the grant from the cost of the asset or show it separately as a deferred income on the Liability side of the Balance Sheet.
- (d) Show the grant as part of general Reserve
4. X Ltd. has received a grant of Rs. 20 crore for purchase of a qualified machine costing Rs. 80 crore. X Ltd has a policy to recognise the grant as a deduction from the cost of the asset. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be:
- (a) Rs. 10 crore (b) Rs. 6 crore
- (c) Rs. 2 crore (d) Rs. 8 crore
5. X Ltd has received a grant of Rs. 20 crore for purchase of a qualified machine costing Rs. 80 crore. X Ltd. has a policy to recognise the grant as deferred income. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of other income to be to be recognised in Profit and Loss Statement will be:
- (a) Rs. 10 crore (b) Rs. 6 crore
- (c) Rs. 2 crore (d) Rs. 8 crore

Thanks



12

AS 13 ACCOUNTING FOR INVESTMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. ACCOUNTING FOR INVESTMENT
2. CLASSIFICATION
3. MEASUREMENT
4. RE-CLASSIFICATION
5. MCQ'S

“Discipline is remembering tomorrow’s result before making today’s

1. ACCOUNTING FOR INVESTMENTS :

- A) Fixed Income Bearing Securities (Debentures / Bonds)
 B) Fluctuating Income Bearing Securities (Equity)

A) Fixed Income Bearing Securities :**Journal entries :**

1) Purchase				
Investment A/c.	Dr.	Ex-Interest		
Interest A/c.	Dr.	Interest		
To Bank				Cum Interest
2) Interest				
Bank A/c.	Dr.			
To Interest A/c				
3) Sale of Investment				
Bank A/c.	Dr.	Cum-Interest		
To Investments A/c.				Ex-Interest
To Interest A/c.				Interest

LMR :

- Interest to be calculated an FV.
- Interest calculation to be done from date of investment to the date of transaction.

Note :

Any Profit / Loss on sale investments should be transferred to P & L A/c.

Format for Investment A/c :

Dr.					Investment A/c.					Cr.				
Date	Particulars	Face Value	Interest	Cost	Date	Particulars	Face Value	Interest	Cost	Date	Particulars	Face Value	Interest	Cost

**Question 1 : M/s. Wye Ltd.**

In 20X1, M/s. Wye Ltd. issued 12% fully paid debentures of Rs.100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 20X2, M/s. Bull & Bear purchased 10,000 of these debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase.

On 1st March, 20X3 the firm sold all of these debentures at Rs.106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3.



Question 2 : Mr. Z

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

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

1.3.20X1 Purchased 200 units, ex-interest at Rs.98.

1.7.20X1 Sold 500 units, ex-interest out of original holding at Rs.100.

1.10.20X1 Purchased 150 units at Rs.98, cum interest.

1.11.20X1 Sold 300 units, ex-interest at Rs.99 out of original holdings.

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



Question 3 : Mr. Purohit

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (Rs.100 each) of P Ltd., held as Current assets:

1.4.20X1 Opening balance – Nominal value Rs.1,20,000, Cost Rs.1,18,000

1.7.20X1 100 Debentures purchased ex-interest at Rs.98

1.10.20X1 Sold 200 Debentures ex-interest at Rs.100

1.1.20X2 Purchased 50 Debentures at Rs.98 cum-interest

1.2.20X2 Sold 200 Debentures ex-interest at V 99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.20X2. Brokerage at 1% is to be paid for each transaction. Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.20X2 is Rs.99.



Question 4 : Alpha Ltd.

Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of Rs.100 each of Pergot Ltd. on 1st May 2017 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ Rs.103 each on ex-interest basis. The market value of the debentures as at the close of the year was Rs.106.

You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.



Question 5 : Mr. Wise

Mr. Wise had 12% Debentures of Face Value Rs. 100 of Alpha Ltd. as current investments. He provides the following details relating to the investments.

1-4-2020	Opening balance 4,000 debentures costing Rs. 98 each
1-6-2020	Purchased 2,000 debentures @ Rs. 120 cum interest
1-9-2020	Sold 3,000 debentures @ Rs. 110 cum interest
1-12-2020	Sold 2,000 debentures @ Rs. 105 ex interest
31-1-2021	Purchased 3,000 debentures @ Rs. 100 ex interest
31-3-2021	Market value of the investments Rs. 105 each

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions. Show investment account in the books of Mr. Wise assuming FIFO method is followed.



Question 6 : Remo Ltd.

Remo Ltd. held on 1st April, 2021, 1000 9% Government Securities at Rs. 90,000 (Face Value of Security Rs. 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of Rs. 80,000 at Rs. 95 cum-interest. On 1st June, Rs. 60,000 face value of the security was sold at Rs. 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, Rs. 40,000 face value of the Govt. securities were sold at Rs. 97 cum-interest. On 1st December, the company purchased the same security Rs. 10,000 at par ex-interest. On 1st March, the company sold Rs. 10,000 face value of the government securities at Rs. 95 ex-interest. You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof.

B) For Accounting for Equity :

For Accounting Investments in Equity, we are required to understand

- 1) Bonus Issue
- 2) Right issue and
- 3) Dividends
 - a) Final Dividend
 - b) Interim Dividend

**Question 7 : Mr. T. Shekharan**

On 01-04-20X1, Mr. T. Shekharan purchased 5,000 equity shares of Rs.100 each in V Ltd. @ Rs.120 each from a broker, who charged 2% brokerage. He incurred 50 paise per Rs.100 as cost of shares transfer stamps. On 31-01-20X2 bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at Rs.175 per share and Rs.90 per share respectively. On 31-03-20X2, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

**Question 8 : Rajat**

On 1st April, 20X1, Rajat has 50,000 equity shares of P Ltd. at a book value of Rs.15 per share (nominal value Rs.10 each). He provides you the further information:

- (1) On 20th June, 20X1 he purchased another 10,000 shares of P Ltd. at Rs.16 per share.
- (2) On 1st August, 20X1, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
- (3) On 31st October, 20X1, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at Rs. 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of Rs. 2 per share and subscribed the rest on 5th November, 20X1.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 20X2.

**Question 9 : Sundar**

On 1.4.20X1, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of Rs.15 per share (Nominal value Rs.10). On 20.6.20X1, he purchased another 5,000 shares of the company at Rs.16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date 16.8.20X1).

Rights basis 3:7 (Date 31.8.20X1) Price Rs.15 per share.

Due date for payment 30.9.20X1.

Shareholders were entitled to transfer their rights in full or in part. Accordingly, Sundar sold 33.33% of his entitlement to Sekhar for a consideration of Rs.2 per share.

Dividends: Dividends for the year ended 31.3.20X1 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.20X1. Dividends for shares acquired by him on 20.6.20X1 are to be adjusted against the cost of purchase.

On 15.11.20X1, Sundar sold 25,000 equity shares at a premium of Rs.5 per share.

You are required to prepare in the books of Sundar.

- (1) Investment Account
- (2) Profit & Loss Account.

For your exercise, assume that the books are closed on 31.12.20X1 and shares are valued at average cost.



Question 10 : Singh

On 1st January 20X1, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was Rs.10 each but their book value was Rs.16 per share. On 1st June 20X1, Singh purchased 5,000 more equity shares in the company at a premium of Rs.4 per share.

On 30th June, 20X1, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 20X1.

The terms of the rights issue were:

- (a) Rights shares to be issued to the existing holders on 10th August, 20X1.
- (b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at Rs.15 per share-the whole sum being payable by 30th September, 20X1.
- (c) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- (d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of Rs.1.50 per share.
- (e) Dividends for the year ended 31st March, 20X1, at the rate of 15% were declared by the Company and received by Singh on 20th October, 20X1.
- (f) On 1st November, 20X1, Singh sold 20,000 equity shares at a premium of Rs.3 per share.

The market price of share on 31-12-20X1 was Rs.14. Show the Investment Account as it would appear in Singh's books on 31-12-20X1 and the value of shares held on that date.



Question 11 : XY Ltd.

On 1st April, 20X1, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs.15 per share (nominal value Rs.10 per share). On 1st June, 20X1, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs.1,00,000. ABC Ltd. announced a bonus and right issue.

- (1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 20X1.
- (2) Right shares are to be issued to the existing shareholders on 1st September 20X1. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.
- (3) Dividend for the year ended 31.3.20X1 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 20X1.

XY Ltd.

- (i) Took up half the right issue.
- (ii) Sold the remaining rights for Rs.8 per share.
- (iii) Sold half of its shareholdings on 1st January 20X2 at Rs.16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 20X2 assuming the shares are being valued at average cost.



Question 12 : Mr. Popli

Mr. Popli has made following transactions during the financial year 20X1-X2:

Date Particulars

- 01.05.20X1 Purchased 24,000 12% Bonds of Rs.100 each at Rs.84 cum-interest. Interest is payable on 30th September and 31st March every year.
- 15.06.20X1 Purchased 1,50,000 equity shares of Rs.10 each in Alpha Limited for Rs.25 each through a broker, who charged brokerage @ 2%.
- 10.07.20X1 Purchased 60,000 equity shares of Rs.10 each in Beeta Limited for Rs.44 each through a broker, who charged brokerage @2%.
- 14.10.20X1 Alpha Limited made a bonus issue of two shares for every three shares held.
- 31.10.20X1 Sold 80,000 shares in Alpha Limited for Rs.22 each.
- 01.01.20X2 Received 15% interim dividend on equity shares of Alpha Limited.
- 15.01.20X2 Beeta Limited made a right issue of one equity share for every four shares held at Rs.5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at Rs.2.25 per share.
- 01.03.20X2 Sold 15,000 12% Bonds at Rs.90 ex-interest.
- 15.03.20X2 Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 20X2.

**Question 13 : Smart Investments**

Smart Investments made the following investments in the year 20X1-X2:

12% State Government Bonds having nominal value Rs.100

Date	Particulars
01.04.20X1	Opening Balance (1200 bonds) book value of Rs.126,000
02.05.20X1	Purchased 2,000 bonds @ Rs.100 cum interest
30.09.20X1	Sold 1,500 bonds at Rs.105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.20X1	Purchased 5,000 equity shares @ Rs.200 on cum right basis Brokerage of 1% was paid in addition (Nominal Value of shares Rs.10)
03.06.20X1	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.20X1	The company made a rights issue of 1 share for every 7 shares held at Rs.250 per share. The entire money was payable by 31.08.20X1.
22.8.20X1	Rights to the extent of 20% was sold @ Rs.60. The remaining rights were subscribed.
02.09.20X1	Dividend @ 15% for the year ended 31.03.20X1 was received on 16.09.20X1
15.12.20X1	Sold 3,000 shares @ Rs.300. Brokerage of 1% was incurred extra.
15.01.20X2	Received interim dividend @ 10% for the year 20X1 –X2
31.03.20X2	The shares were quoted in the stock exchange @ Rs.220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

**Question 14 : Nidhi**

The following transactions of Nidhi took place during the year ended 31st March 20X2:

1st April	Purchased Rs.12,00,000, 8% bonds at Rs.80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for Rs.40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for Rs.20 each.
1st October	Sold Rs.3,00,000, 8% bonds at Rs.81 ex-interest.

1st November	Received half-year's bond interest.
1st December	Received 18% interim dividend on equity shares (including bonus shares) in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 20X2

2. CLASSIFICATION :

Investment are classified into :

A) Current Invesements :

Intention to hold for less than 1 year.

B) Long Term Investments :

Intention to hold for more than 1 year.

3. MEASUREMENT :

- (a) Initial Measurement = 'At cost''
- (b) Subsequent Measurement
 - (i) Current Investments :
At cost or fair value whichever is low.
 - (ii) Long Term Investments :
At cost or cost less provision for fall in value which is not temporary.



Question 15 : An unquoted

An unquoted long term investment is carried in the books at a cost of Rs 2 lakhs. The published accounts of the unlisted company received in May, 2017 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2017?



Question 16 : X Ltd.

X Ltd. on 1-1-2017 had made an investment of Rs 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realisable value of all such investment on 31-3-2017 became Rs 200 lakhs as Y Ltd. lost a case of copyright. From the given market conditions, it is apparent that the reduction in the value is not temporary in nature. How will you recognise the reduction in financial statements for the year ended on 31-3-2017?

**Question 17 : M/s Innovative Garments**

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2016 at a cost of Rs 2,50,000. It also earlier purchased Gold of Rs 4,00,000 and Silver of RS 2,00,000 on 1st March, 2014. Market value as on 31st March, 2017 of above investments are as follows:

	Rs.
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2017 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

**Question 18 : Gowtham Limited**

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of Rs. 4,25,000. It also earlier purchased Gold of Rs. 8,00,000 and Silver of Rs. 3,50,000 on 31st March, 2019.

Market values as on 31st March, 2022, of the above investments are as follows:

Shares	Rs. 3,50,000
Gold	Rs. 10,25,000
Silver	Rs. 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2022 as per the provisions of AS 13.

4. RE-CLASSIFICATION :

- A) From Long Term to Current :**
Transfers are made at lower of cost and carrying amount.
- B) From Current to Long Term :**
Transfers are made at lower at cost and fair value.

**Question 19 : ABC Ltd.**

ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state on the amount of transfer, based on the following information:

- (1) A portion of current investments purchased for Rs 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was Rs 25 lakhs.

- (2) Another portion of current investments purchased for Rs 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was Rs 6.5 lakhs.
- (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 18 lakhs but had been written down to Rs 12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

**Question 20 : Omega Equity Investments Ltd.**

Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

- (i) Long term investments in Company A, costing Rs.8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs.6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs.6.8 lakhs.
- (ii) Current investment in Company C, costing Rs.10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs.12 lakhs.
- (iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs.18 lakhs but had been written down to Rs.12 lakhs to recognize permanent decline as per AS 13.

**Question 21 : Y Limited**

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

- (1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.14 lakhs but had been written down by Rs.2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs.11 lakhs.
- (2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.7 lakhs but had been written down to Rs.5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs.4.5 lakhs.
- (3) A portion of current investments purchased on 15th March, 2018 for Rs.7 lakhs are to be re-classified as long term investments, as the company has decided to retain

- them. The market value of these investments on 31st March, 2018 was Rs.6 lakhs and fair value on 15th June 2018 was Rs.8.5 lakhs,
- (4) Another portion of current investments purchased on 7th December, 2017 for Rs.4 lakhs are to be re-classified as long term investments. The market value of these investments was:
- | | |
|---------------------|--------------|
| on 31st March, 2018 | Rs.3.5 lakhs |
| on 15th June, 2018 | Rs.3.8 lakhs |

MCQs:

- The cost of Right shares is
 - added to the cost of investments.
 - subtracted from the cost of investments.
 - no treatment is required.
 - added to cost of investments at market value.
- Long term investments are carried at
 - fair value.
 - cost less 'other than temporary' decline.
 - Cost and market value whichever is less.
 - Cost and market value whichever is higher.
- Current investments are carried at
 - Fair value.
 - cost.
 - Cost and fair value, whichever is less.
 - Cost and fair value, whichever is higher.
- A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at Rs. 75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at Rs. 60 per share, which was subscribed for by A. Total cost of investments at the year-end will be Rs.

(a) 2,70,000.	(b) 1,50,000.
(c) 1,20,000.	(d) 1,70,000.
- Cost of investment includes

(a) Purchase costs.	(b) Brokerage and Stamp duty paid.
(c) Both (a) and (b).	(d) none of the above.

Thanks

13

AS 15 EMPLOYEE BENEFITS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. EMPLOYEE BENEFITS
3. SHORT TERM EMPLOYEE BENEFITS
4. PROFIT SHARING AND BONUS PLAN
5. POST EMPLOYMENT PLAN
6. ACCOUNTING TREATMENT
7. ACTUARIAL GAINS AND LOSSES
8. OTHER LONG TERM BENEFITS
9. TERMINATION BENEFITS
10. MCQ'S

“The syllabus is large for everyone. The rank belongs to the one who keeps going.”

1. INTRODUCTION :

The Standard addresses only the accounting of employee benefits by employers. The Standard makes four things very clear at the outset:

1. the Standard is applicable to benefits provided to all types of employees (whether full-time, part-time, or casual staff);
2. employee benefits can be paid in cash or in kind;
3. employee benefits include benefits provided to employees and their dependents (spouses, children and others); and
4. payment can be made directly to employees, their dependent or to any other party (e.g., legal heirs, nominees, insurance companies, trust etc.).



Question 1 :

What are the kinds of employees covered in the revised AS 15 and whether a formal employer employee relationship is necessary or not, for benefits to be covered under the Standard?

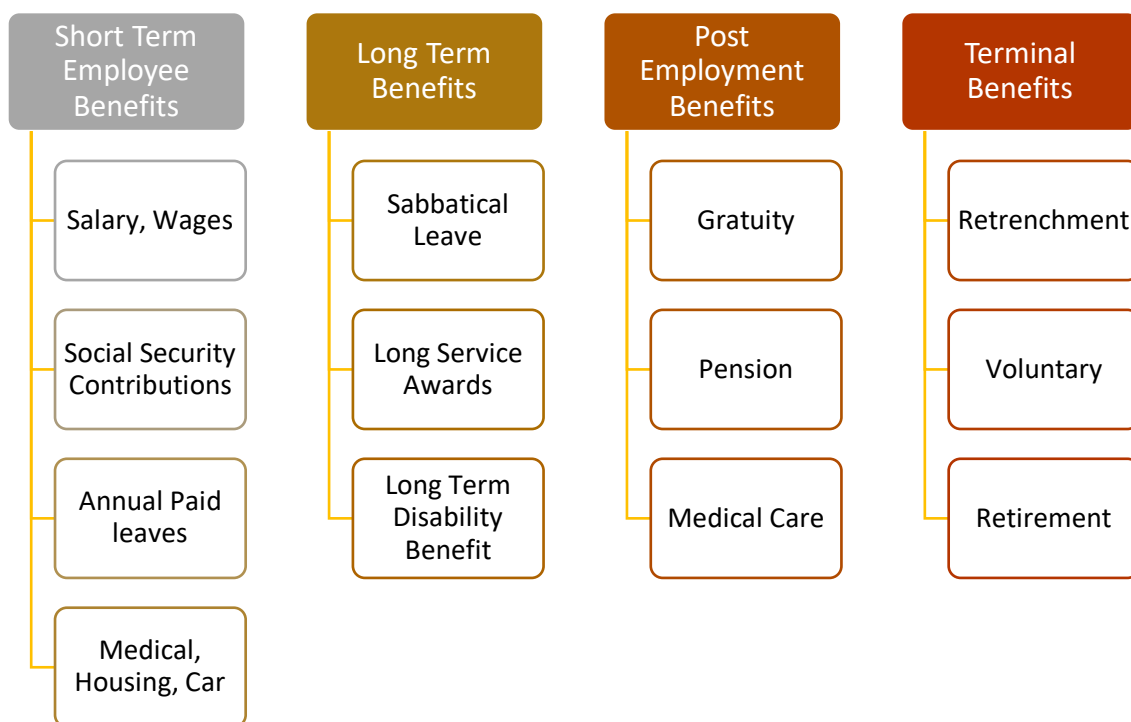


Question 2 :

Whether an enterprise is required to provide for employee benefits arising from informal practices?

2. EMPLOYEE BENEFITS :

Employee benefits include:

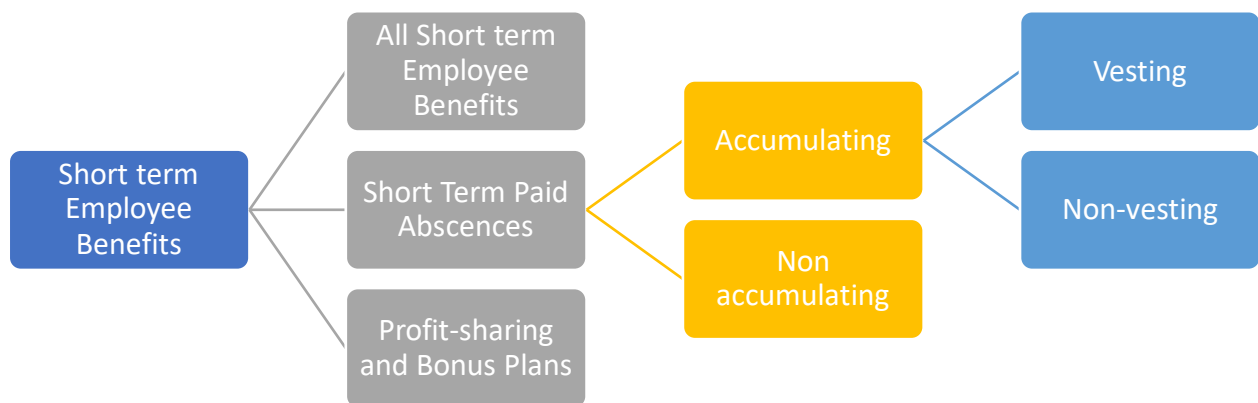


3. SHORT TERM EMPLOYEE BENEFITS :

Short-term employee benefits (other than termination benefits) are payable within twelve months after the end of the period in which the service is rendered.

Short-term employee benefits are broadly classified into four categories:

- (i) regular period benefits (e.g., wages, salaries);
- (ii) short-term compensated absences (e.g., paid annual leave, maternity leave, sick leave etc.);
- (iii) profit sharing and bonuses payable within twelve months after the end of the period in which employee render the related services and
- (iv) non-monetary benefits (e.g., medical care, housing, cars etc.)



Question 3 : Entity XY

Entity XY is required to pay salary of Rs 2 crore for the year 20X1-X2. It actually paid a salary of Rs 1.90 crore up to 31st March 20X2, and balance in April 20X2. Determine the actual costs to be recognized in the year 20X1-X2 and any amounts to be shown through balance sheet.



Question 4 :

An enterprise has 100 employees, who are each entitled to five working days of leave for each year. Unused leave may be carried forward for one calendar year. The leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31st December, 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of leave in 20X5 and that the remaining eight employees will take an average of six and a half days each. How many days of leave shall be accounted for as on 31st Dec, 20x4.

4. PROFIT SHARING AND BONUS PLAN :

Recognition of expenses for profit sharing and bonus plans would depend on fulfillment of conditions mentioned the Standard. The conditions are:

- a) Enterprise has a present obligation to make such payments as a result of past events; and
- b) Reliable estimate of the obligation can be made.

The second condition can be satisfied only when the profit sharing and bonus plans contained a formula for determining the amount of benefit. The enterprise should recognize the expected cost of profit sharing and bonus payments in the financial statements.



Question 5 :

A profit-sharing plan requires an enterprise to pay a specified proportion of its net profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of net profit. The enterprise estimates that staff turnover will reduce the payments to 2.5% of net profit. Can we recognise the expense.



Question 6 :

Whether an entitlement to earned leave which can be carried forward to future periods is a short -term employee benefit or a long-term employee benefit.



Question 7 :

In case an enterprise allows unutilised employee benefits, e.g., medical care, leave travel, etc., to be carried forward, whether it is required to recognise a provision in respect of carried forward benefits.

5. POST EMPLOYMENT PLAN :

1. Defined contribution plans (DCP) are post-employment benefit plans under which an enterprise pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Under defined contribution plans, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. A common example of Defined Contribution plans is Provident Fund.
2. Defined benefit plans are post-employment benefit plans other than defined contribution plans. In defined benefits plans, the actuarial and investment risk fall on the employer.



Question 8 : XYZ Ltd.

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is Rs 14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

6. ACCOUNTING TREATMENT :

In the Balance Sheet of the enterprise, 'the amount recognized as a defined benefit liability should be the net total of the following amounts:

- a) the present value of the defined benefit obligation at the balance sheet date
- b) minus any past service cost not yet recognized;
- c) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.

The recognition of expenses relating to defined benefits in the Statement of Profit and Loss is stated in Para 61 of the Standard. The Standard identifies seven components of defined employee benefit costs:

- a) Current Cost
- b) Interest Cost
- c) the expected return on any plan assets (and on any reimbursement rights)
- d) actuarial gains and losses (to the extent they are recognized)
- e) past service cost (to the extent they are recognized)
- f) the effect of any curtailments or settlements; and
- g) the extent to which the negative net amount of defined benefit liability exceeds the amount mentioned in Para 59(b) of the Standard.

7. ACTUAL GAINS AND LOSSES :

Actuarial gains and losses comprise

- ✚ experience adjustments (the effects of difference between the previous actuarial assumptions and what has actually occurred); and

✚ the effects of changes in actuarial assumptions.

Actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense.

Question 9 : Zeleous Ltd.

As on 1st April, 20X1 the fair value of plan assets was Rs 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of Rs 19,000 and received inward contributions of Rs 49,000. On 31st March, 20X2 the fair value of plan assets was Rs 1,50,000 and present value of the defined benefit obligation was Rs 1,47,920. Actuarial losses on the obligations for the year 20X1- 20X2 were Rs 600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices.

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	<u>(1.00)</u>
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets.

Question 10 : Rock Star Ltd.

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at Rs 18 (10% of Rs 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

- Immediately before the curtailment, gross obligation is estimated at Rs 6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at Rs 5,100.
- The unamortized past service cost is Rs 180.
- Curtailment reduces the obligation by Rs 600, which is 10% of the gross obligation.



Question 11 : Pendra Ltd.

Pendra Ltd. has given the following details in respect of employee 5 benefit pension plan:

Particulars	Amount Rs.
The fair value of plan assets as on 01-04-2023	5,00,000
The benefits paid out on 30-11-2023	63,000
Inward contributions received on 30-09-2023	1,42,000
The fair value of plan assets as on 31-03-2024	7,50,000

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices:

Particulars	%
Interest and dividend income (after tax) payable by fund	10.50
Realised gains on plan assets (after tax)	2.00
Fund administrative costs	-2.00
Expected rate of annual return (Interest is compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.



Question 12 : 'X' Ltd.

The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.20X2 calculate the actual return on plan assets:

Benefits Paid	Rs 2,00,000
Employers contribution	Rs 2,80,000
Fair market value of plan assets on 31.03.20X2	Rs 11,40,000
Fair market value of plan assets as on 31.03.20X1	Rs 8,00,000



Question 13 : Anupam Ltd.

The fair value of plan assets of Anupam Ltd. was Rs 2,00,000 in respect of employee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of Rs 25,000 and received inward contributions of Rs 55,000. On 31st March, 20X2 the fair value of plan assets was Rs 3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.25
Realized gains on plan assets (after tax)	3.00
Fund administrative costs	<u>(3.00)</u>
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 20X2, as per AS 15.

**Question 14 :**

What is the difference between Defined Contribution Plan and Defined Benefit Plan? From the following information calculate the amount of defined benefit liability/asset :

Particulars	Rs.in Lakhs
Present Value of Defined Benefit Obligation as on 31-3-2024	36.0
Fair Value of Plan asset	38.5
Past service cost not yet recognized	7.5
Present value of available future refund from the plan	6.0

8. OTHER LONG TERM BENEFITS :

Other long-term employee benefits include, for example:

1. long-term compensated absences such as long-service or sabbatical leave
2. jubilee or other long-service benefits
3. long-term disability benefits
4. profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related services and
5. deferred compensation paid twelve months or more after the end of the period in which it is earned.

9. TERMINAL BENEFITS :

Termination Benefits are employee benefits payable as a result of either an enterprise's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits (e.g., payments under VRS). Termination benefits are recognized by an enterprise as a liability and an expense only when the enterprise has

- i. a detailed formal plan for the termination which is duly approved, and
- ii. a reliable estimate can be made of the amount of the obligation.

10. MCQs :

1. Gratuity and Pension would be examples of:

(a) Short-term employee benefits	(b) Long-term employee benefits
(c) Post-employment benefits.	(d) None of the above.
2. Non-accumulating compensating absence is commonly referred to as:

(a) Earned Leave	(b) Sick Leave
(c) Casual leave	(d) All of the above

3. The plans that are established by legislation to cover all enterprises and are operated by Governments include:
- (a) Multi-Employer plans
 - (b) State plans
 - (c) Insured Benefits
 - (d) Employee benefit plan
4. Best estimates of the variable to determine the eventual cost of post-employment benefits is referred to as:
- (a) Employer's contribution
 - (b) Actuarial assumptions
 - (c) Cost to Company
 - (d) Employee's contribution
5. Actuarial gains / losses should be:
- (a) Recognised through reserves
 - (b) Charged over the expected life of employees
 - (c) Charged immediately to Profit and Loss Statement
 - (d) Do not charged to Profit and Loss Statement

Thanks



14

AS 16 BORROWING COSTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. BORROWING COST
3. QUALIFYING ASSET
4. CAPITALIZATION OF BORROWING COST
5. TYPES OF LOANS
 - (A) SPECIFIC LOANS
 - (B) GENERAL LOANS
6. PERIOD OF CAPITALIZATION
 - (A) START OF CAPITALIZATION
 - (B) SUSPENSION OF CAPITALIZATION
 - (C) CESSATION OF CAPITALIZATION
7. MCQ'S

“Dreams inspire. Timetables qualify.”

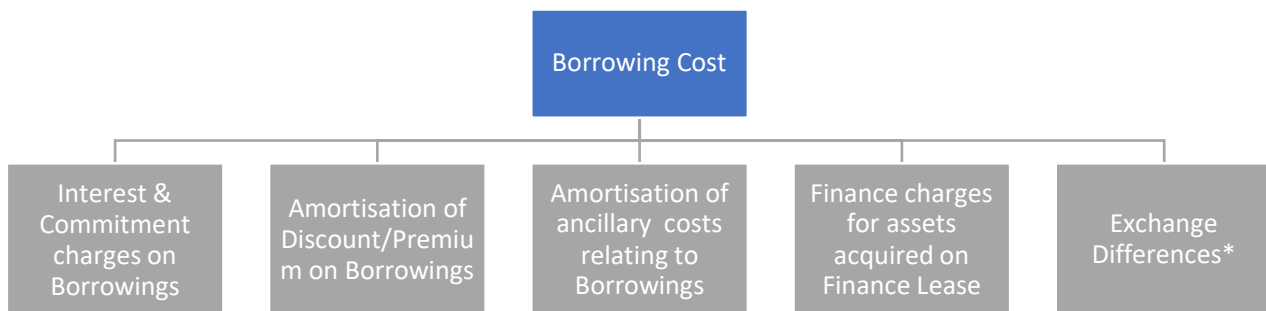
1. INTRODUCTION :

The objective of AS 16 is accounting for borrowing costs.

Borrowing cost → on qualifying Asset → should be capitalised

It does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.

2. BORROWING COST :



*To the extent they are regarded as an adjustment to interest cost

Exchange difference

Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

The adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.



Question 1 :

An entity can borrow funds in its functional currency (Rs) @ 12%. It borrows \$ 1,000 @ 4% on April 1, 2011 when \$ 1 = Rs.40. The equivalent amount in functional currency is Rs.40,000. Interest is payable on March 31, 2012. On March 31, 2012, exchange rate is \$ 1 = Rs.50. The loan is not due for repayment. Calculate the amount of total borrowing cost.



Question 2 :

An entity can borrow funds in its functional currency (Rs) @ 12%. It borrows \$ 1,000 @ 4% on April 1, 2011 when \$ 1 = Rs.40. The equivalent amount in functional currency is Rs.40,000. Interest is payable on March 31, 2012. On March 31, 2012, exchange rate is \$ 1 = Rs.41. The loan is not due for repayment. Calculate the amount of total borrowing cost.



Question 3 : Raj & Co.

Raj & Co. has taken a loan of US\$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was Rs. 48 per 1 US\$. The exchange rate at the closing of the financial year was Rs. 50 per 1 US\$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11% per annum. Determine the treatment of borrowing cost in the books of accounts.

3. QUALIFYING ASSETS :

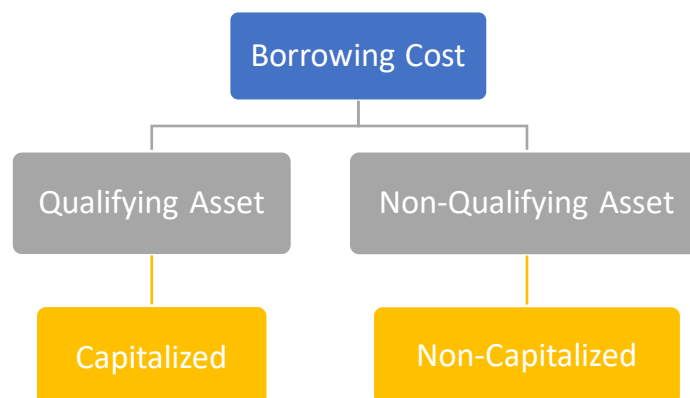
A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Examples of qualifying assets are manufacturing plants, power generation facilities.

Note:

1. Inventories that require a substantial period of time to bring them to a saleable condition, and investment properties.
2. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets.
3. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.
4. substantial period of time primarily depends on the facts and circumstances of each case. It further states that, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case

4. CAPITALIZATION OF BORROWING COST :



**Question 4 : RBM Ltd.**

On 15th April, 2019 RBM Ltd obtained a Term loan from the Bank for Rs.320 lakhs to be utilized as under.

	Rs in Lakhs
Construction of factory shed	240
Purchase of machinery	30
Working capital	24
Purchase of vehicles	12
Advance for tools / cranes	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was Rs 40 lakhs.

In the context of provisions of AS 16 – “Borrowing costs” show the treatment of interest and also explain the nature of Assets.

**Question 5 : PRM Ltd.**

PRM Ltd. obtained a loan from a bank for Rs. 50 lakhs on 30-04-2016. It was utilised as follows:

Particulars	Amount (Rs. in lakhs)
Construction of a shed	50
Purchase of a machinery	40
Working Capital	20
Advance for purchase of truck	10

Construction of shed was completed in March 2017. The machinery was installed on the date of acquisition. Delivery of truck was not received. Total interest charged by the bank for the year ending 31-03-2017 was Rs.18 lakhs. Show the treatment of interest.

**Question 6 : The Company**

The company has obtained Institutional Term Loan of Rs.580 lakhs for modernisation and renovation of its Plant & Machinery. Plant & Machinery acquired under the modernisation scheme and installation completed on 31st March, 2017 amounted to Rs.406 lakhs, Rs.58 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs.116 lakhs has been utilised for working capital purpose. The Accountant is on a dilemma as to how to account for the total interest of Rs.52.20 lakhs incurred during 2016-2017 on the entire Institutional Term Loan of Rs.580 lakhs.

5. TYPES OF LOANS :

1. Specific Loans :

When an enterprise borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.



Question 7 : Alpha Ltd.

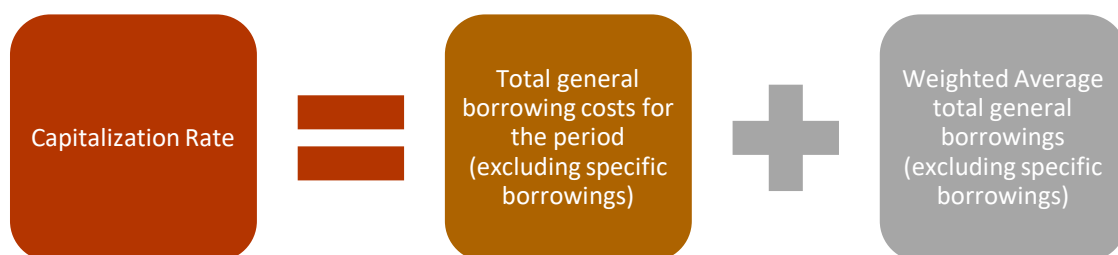
Alpha Ltd. on 1st April, 2011 borrowed 9% Rs.30,00,000 to finance the construction of two qualifying assets. Construction started on 1st April, 2011. The loan facility was availed on 1st April, 2011 and was utilized as follows with remaining funds invested temporarily at 7%.

	Factory Building	Office Building
1/4/2011	5,00,000	10,00,000
1/10/2011	5,00,000	10,00,000

Calculate the cost of the asset and the borrowing cost to be capitalized.

2. General Loans :

- When a qualifying asset is funded from a pool of general borrowings, the amount of the borrowing costs eligible for capitalisation is not so obvious. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided.
- To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset.
- The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.



**Question 8 : Beta Ltd.**

Beta Ltd. had the following loans in place at the end of 31st March, 2012:

Loan	01-04-2011	31-03-2012
18% Bank Loan	1000	1000
16% Term Loan	3000	3000
14% Debentures	-	2000

14% debenture was issued to fund the construction of Office building on 1st July, 2011 but the development activities has yet to be started.

On 1st April, 2011, Beta Ltd began the construction of a Plant being qualifying asset using the existing borrowings. Expenditure drawn down for the construction was: Rs.500,000 on 1st April, 20X1 and Rs.2,500,000 on 1st January, 2012.

Required : Calculate the borrowing cost that can be capitalized for the plant.

**Question 9 : X Limited**

X Limited has a treasury department that arranges funds for all the requirements of the Company including funds for working capital and expansion programs. During the year ended March 31, 2012, the Company commenced the construction of a qualifying asset and incurred the following expenses:

Date	Amount (Rs)
July 1, 2011	2,50,000
December 1, 2011	3,00,000

The details of borrowings and interest thereon are as under:

Particulars	Average Balance	Interest (Rs.)
Long term loan @ 10%	10,00,000	1,00,000
Working Capital	5,00,000	65,000
Total	15,00,000	1,65,000

Compute the borrowing costs that need to be capitalised.

**Question 10 : H Ltd.**

H Ltd. began the construction of a new building on 1st April 2022. It obtained a special loan of Rs. 6,00,000 on 1st April 2022 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2022 were as follows:

Amount in Rs.	Rate of Interest
30,00,000	14%
54,00,000	16%

The expenditure incurred on the building project was as per detail given below:

	Amount in Rs.
1st May, 2022	12,00,000
1st July, 2022	15,00,000
1st October, 2022	27,00,000
1st March, 2023	7,20,000

The building was completed by 31st March 2023.

Following the provisions of Accounting Standard 16, you are required to calculate the amount of interest to be capitalized and also give one Journal Entry for capitalizing the cost and borrowing cost in respect of the building



Question 11 : Green Limited

On 1st April, 2021, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of Rs.14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of Rs.15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2023 were as follows:

Amount of Loan	Rate of Interest per annum
Rs.20,00,000	15%
Rs.30,00,000	8%

The construction of building started on 1st April, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor :

Payment	Amount in Rs.
1 st April, 2023	4,00,000
1 st August, 2023	10,00,000
1 st December, 2023	25,00,000
31 st January, 2024	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to :

- (i) Calculate the amount of borrowing cost to be capitalized.
- (ii) Pass initial journey entry to recognise the cost of building.
- (iii) Depreciation on building for the year ending 31st March, 2024.
- (iv) Carrying value of building on 31st March, 2024.

6. PERIOD OF CAPITALIZATION :

6.1 Commencement of Capitalization :

The capitalization of borrowing cost on qualifying asset should commence from “Commencement Date”.

The commencement date is the date when entity first meets ALL the following conditions

1. It incurs expenditure on Asset
2. It incurs borrowing cost
3. It undertakes activities that are necessary to prepare the asset for its intended use or sale.



Question 12 : X Ltd

X Ltd is commencing a new construction project, which is to be financed by borrowing.

The key dates are as follows:

- (i) 15th May, 2011: Loan interest relating to the project starts to be incurred
- (ii) 2nd June, 2011 : Technical site planning commences
- (iii) 19th June, 2011 : Expenditure on the project started to be incurred
- (iv) 18th July, 2011 : Construction work commences

Identify commencement date.

6.2. Suspension of Capitalization :

An entity is required to suspend the capitalization of borrowing cost during which there is No Active Development of Qualifying Asset.

An entity should not suspend the capitalization due to temporary delays, which are considered as regular for the development of qualifying asset.

6.3. Cessation of Capitalization :

An entity should cease capitalizing the borrowing cost when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Note:

1. The activities are said to be completed when physical work related to asset is done, administration work might continue
2. Minor modification which are user specific should not be considered.
3. When construction of qualifying asset is undertaken in parts, we should cease the capitalization on the part which is completed only if that part is capable of independent use.

7. MCQs :

1. As per AS 16, all the following are qualifying assets except
 - (a) Manufacturing plants and Power generation facilities
 - (b) Inventories that require substantial period of time
 - (c) Assets those are ready for sale.
 - (d) None of the above
2. Which of the following statement is correct:
 - (a) Entire exchange gain is reduced from the cost of the Qualifying asset.
 - (b) Entire exchange loss is added to the cost of a Qualifying asset.
 - (c) No adjustment is done for the exchange loss while computing cost of Qualifying asset.
 - (d) None of the above
3. Capitalisation rate considers:
 - (a) Borrowing costs on general borrowings only.
 - (b) Borrowing costs on general and specific borrowings both.
 - (c) Borrowing costs on specific borrowings only
 - (d) None of the above
4. If the amount eligible for capitalisation in case of inventory as per AS 16 is Rs. 12,000 and cost of inventory is Rs. 40,000 and its net realizable value is Rs. 45,000; What amount can be capitalised as a part of inventory cost.
 - (a) Rs. 12,000.
 - (b) Rs. 5,000.
 - (c) Rs. 7,000.
 - (d) Rs. 10,000.
5. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:
 - (i) 15th May, 20X1: Loan interest relating to the project starts to be incurred
 - (ii) 2nd June, 20X1: Technical site planning commences
 - (iii) 19th June, 20X1: Expenditure on the project started to be incurred
 - (iv) 18th July, 20X1: Construction work commencesIdentify the commencement date for capitalisation under AS 16.
 - (a) 15th May, 20X1.
 - (b) 19th June, 20X1.
 - (c) 18th July, 20X1.
 - (d) 2nd June, 20X1

Thanks

15

AS 17 SEGMENT REPORTING



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. BUSINESS SEGMENT
2. GEOGRAPHICAL SEGMENT
3. REPORTABLE SEGMENT
4. DISCLOSURES
5. MCQ'S

“Be curious, not judgmental.”

1. BUSINESS SEGMENT :

A **business segment** is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

Factors that should be considered in determining whether products or services are related include:

- a. The nature of the products or services
- b. The nature of the production processes
- c. The type or class of customers for the products or services
- d. The methods used to distribute the products or provide the services
- e. If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities

2. GEOGRAPHICAL SEGMENT :

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Factors that should be considered in identifying geographical segments include:

- a. Similarity of economic and political conditions.
- b. Relationships between operations in different geographical areas.
- c. Proximity of operations.
- d. Special risks associated with operations in a particular area.
- e. Exchange control regulations and
- f. The underlying currency risks.

3. REPORTABLE SEGMENTS :

A business segment or geographical segment should be identified as a reportable segment if:

- A)
 - 1) its revenue (external + inter segment) is 10% or more of total revenue.
 - 2) Its segment result (profit or loss) is 10% or more of absolute profit or absolute loss whichever is greater.
 - 3) segment assets are 10% or more of total assets.
- B) Any segment can be reported at discretion of management.
- C) The total external revenue reportable should not be less than 75% of total external revenue.

**Question 1 : Sports Ltd.**

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments “M” and “N” alone should be reported. Is he justified in his view? Discuss.

**Question 2 : X Ltd.**

The Accountant of X. Ltd. provides the following data regarding its five segments:

Particulars	A	B	C	D	E	Total (Rs. in Crore)
Segment Assets	50	20	15	10	5	100
Segment Results	(85)	10	10	(15)	5	(75)
Segment Revenue	250	50	40	60	30	430

The accountant is of the opinion that segment 'A' alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS-17 Segment Reporting.

**Question 3 : Parag Ltd.**

The accountant of Parag Ltd has furnished you with the following data related to its Business Division

Division	A	B	C	D	Total (Rs. In lacs)
Segment Revenue	100	300	200	400	1000
Segment Result	45	-70	80	-10	45
Segment Assets	39	51	48	12	150

You requested to identify the reportable segments in accordance with the criteria laid down in AS 17.

**Question 4 : AMF Ltd.**

The senior Accountant of AMF Ltd. gives the following data regarding 5 segments

Particulars	P	Q	R	S	T	Total
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The senior accountant is of the opinion that segment 'P' alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS 17 – Segment reporting?



Question 5 : XYZ Ltd.

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 2022 has been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	Profit (Loss) Rs. in lakhs
A	225
B	25
C	(175)
D	(20)
E	(105)



Question 6 : Garnet Limited

Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	1,100	200	3,400
TOTAL	4,500	14,000	44,500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer.



Question 7 : M/s XYZ Ltd.

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

**Question 8 : ABC Limited**

ABC Limited has three segments viz. A, B and C. the total assets of the company is Rs.15 crores. The assets of Segment A is 1.85 cores, Segment B is 6.15 Crores and Segment C is Rs.7.00 Crores. Assets of each segment include deferred tax assets of Rs.0.50 Crores in A, Rs.0.40 Crores in B and Rs.0.30 Cores in C. the accountant of ABC Limited contends that all segments are reportable segments. Based on segment assets criteria. Determine the veracity of the contention of the accountant.

4. DISCLOSURES :

- 1) Segment revenue classified as internal and external.
- 2) Segment results (EBIT = Results)
- 3) Segment assets
- 4) Segment liabilities
- 5) Non cash expenditures like depreciation and amortization
- 6) Any new asset acquired during the period
- 7) Any other item considered relevant

MCQs :

1. As per AS 17, reportable segments are those whose total revenue from external sales and inter-segment sales is
 - (a) 10% or more of the total revenue of all segments
 - (b) 10% or more of the total revenue of all external segments
 - (c) 12% or more of the total revenue of all segments
 - (d) 12% or more of the total revenue of all external segments
2. Which of the following statements is correct?
 - (a) Management has a discretion to include a segment as a reportable segment even if it passes the 10% materiality test.
 - (b) Management has a discretion to include any segment as a reportable segment if it fails the 12% materiality test.
 - (c) It is mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
 - (d) It is not mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
3. Which of the following statements is correct?
 - (a) The overall test of 75% considers only external revenue to compute the threshold limit.

- (b) The overall test of 75% considers only internal revenue to compute the threshold limit.
 - (c) The overall test of 75% considers both internal and external revenue to compute the threshold limit.
 - (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.
4. Which of the following statements is correct?
- (a) The 10% test computed on the basis of revenue, considers both internal and external revenue to compute the threshold limit.
 - (b) The 10% test computed on the basis of revenue, considers only external revenue to compute the threshold limit.
 - (c) The 10% test computed on the basis of revenue, considers only internal revenue to compute the threshold limit.
 - (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.
5. Which of the following statements is correct?
- (a) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or net loss respectively of all segments taken together becomes reportable segment.
 - (b) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit (after netting the losses) of all segments taken together becomes reportable segment.
 - (c) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is higher in absolute figures) of all segments taken together becomes reportable segment.
 - (d) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is lower in absolute figures) of all segments taken together becomes reportable segment.

Thanks



16

AS 18 RELATED PARTY DISCLOSURES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. WHY DISCLOSURE IS NEEDED?
3. WHO ARE RELATED PARTIES?
4. WHO ARE NOT RELATED PARTIES?
5. EXEMPTIONS
6. MCQ'S

"Do not go gentle into that good night."

1. INTRODUCTION :

AS 18 prescribes the requirements for disclosure of related party relationship and transactions between the reporting enterprise and its related parties.

2. WHY DISCLOSURE IS NEEDED :

There is general Assumptions that Financial Statement reflects transactions that are done at Arm's Length.

I would have not entered into the transaction with you, if we were not related.



Transaction with related parties may not be effected at the same terms and conditions as between unrelated parties.

Also at time even if the transactions are priced at fair value, the existence of relation itself may have impacted the transaction.

Knowledge of the relationship and transactions with them should be disclosed properly so that it helps the stakeholders to take proper decisions.

3. WHO ARE RELATED PARTIES :

- A. Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries.)
- B. Associates and joint ventures of the reporting enterprise and the investing party or ventures in respect of which the reporting enterprise is an associates or a joint venture.
- C. Individual owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual.
- D. Key management personnel and relatives of such personnel
- E. Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

4. WHO ARE NOT RELATED PARTIES :

Two companies simply because they have director in common (unless the director is able to affect the policies of both companies in their mutual dealings.)

A single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence

(i) Providers of finance (ii) Trade unions (iii) Public utilities (iv) Government departments and government agencies including government sponsored bodies in the course of their normal dealings with an enterprise

5. EXEMPTIONS :

Conflict with the reporting enterprise's duties of confidentiality.

Consolidated Financial Statements : Intra group transactions

State controlled Enterprise



Question 1 :

Identify the related parties in the following case as per AS 18:

A Ltd. holds 51% of B Ltd.

B Ltd holds 51% of O Ltd.

Z Ltd holds 49% of O Ltd.

**Question 2 :**

Consider a scenario wherein:

A Ltd. has 60% voting right in B Ltd.

A Ltd. also has 22% voting right in C Ltd.; and

B Ltd. has 30% voting right in C Ltd.

Whether C Ltd. is to be treated under AS-18 as a party related to A Ltd.?

**Question 3 :**

Consider a scenario wherein:

X Ltd. holds 28% voting right in Y Ltd. (and hence Y Ltd. is an associate of X Ltd.)

Y Ltd. holds 32% voting right in Z Ltd. (and hence Z Ltd. is an associate of Y Ltd.)

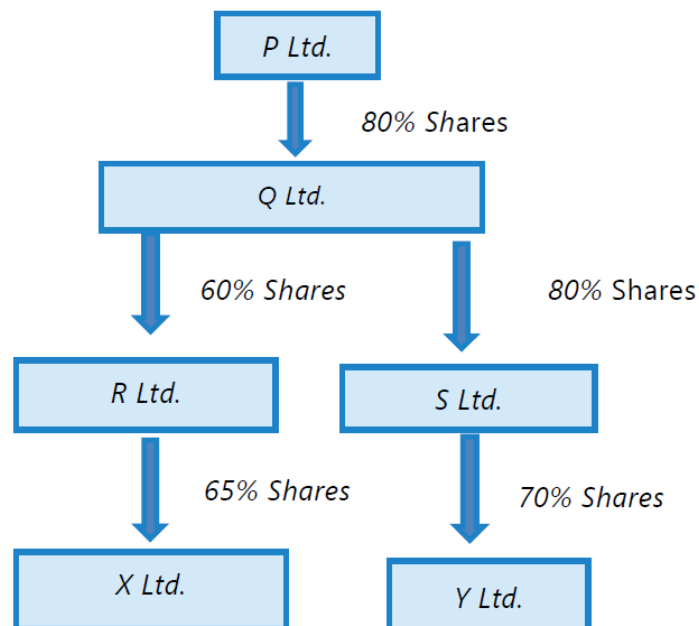
In the above case, since Y Ltd. is an associate of X Ltd. – Y Ltd. is a related party to X Ltd.

Likewise, since Z Ltd. is an associate of Y Ltd. - Z Ltd. is a related party to Y Ltd.

The question is: Whether Z Ltd. is to be treated under AS-18 as a party related to X Ltd.?

**Question 4 : P Ltd.**

Consider the following organization structure related to P Ltd.



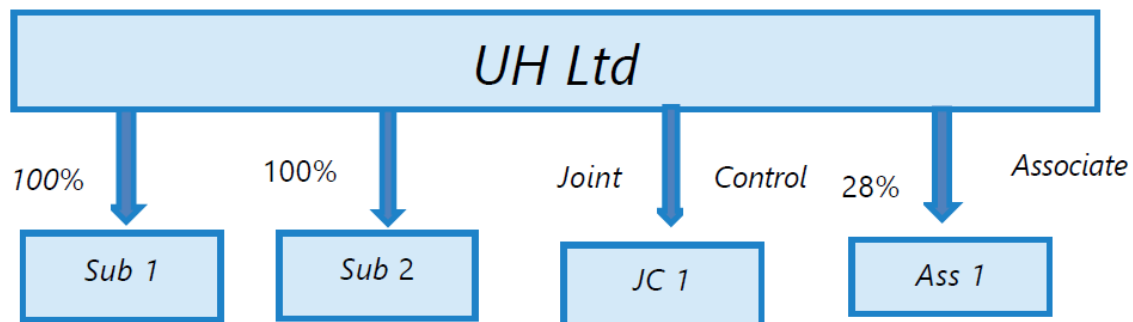
Given the above structure: Identify related party relationships, if R Ltd. is the reporting enterprise.

**Question 5 : UH Ltd.**

Consider the following organization structure related to UH Ltd. (the ultimate parent company of a Group), wherein UH Ltd. has made the following investments:

- Investment in two of the wholly owned subsidiaries, viz. Sub 1 and Sub 2

- Investment in JC 1, in which UH Ltd. has joint control
- 20% investment in Ass 1 (and hence, Ass 1 is an associate of UH Ltd.)



Given the above structure: Identify related party relationships for each of the above entities under AS-18.



Question 6 : Mr. Robert

Consider a scenario wherein:

- Mr. Robert holds 70% shares and voting rights in P Ltd

Determine: Whether Andy (spouse of Mr. Robert) is a related party to P Ltd. under AS-18?



Question 7 : Mr. John

Consider a scenario wherein:

- Mr. John is a Managing Director of P Ltd.
- Meera (spouse of John) received a remuneration of Rs 5 lacs from P Ltd. – for the services she rendered to P Ltd. for the period 1st April 20X1 through 30th June 20X1
- Meera left the services of P Ltd. on 1st July 20X1
- Consider 31st March 20X2 as the year-end date for P Ltd.

Whether Meera is to be identified as related party at the year-end date (31st March 20X2) for the purposes of AS-18?



Question 8 : UK Bank

Consider a scenario wherein:

- UK Bank holds 23% equity shares with voting rights in P Ltd.
- The bank has provided a loan of Rs. 20 million to P Ltd. at market interest rate
- As per the terms and conditions of the loan agreement, the bank has appointed one person as its nominee to the board of directors of P Ltd. and any major transaction to be entered into by P Ltd. will require the consent of the Bank

Determine: Whether under AS-18 - UK Bank is a related party to P Ltd. (the reporting enterprise)?

**Question 9 : X Ltd.**

Consider a scenario wherein:

- X Ltd. hold 22% shares and voting rights in Y Ltd. (and hence Y Ltd. is an associate of X Ltd.)
- On 1st April 20X1, X Ltd. sold certain goods to Y Ltd. amounting to Rs. 5 lacs
- On 30th June 20X1, X Ltd. sold its entire 22% stake in Y Ltd. (and hence the related party relationship ceased to exist after 30th June 20X1)
- However, X Ltd. continued supply goods to Y Ltd. subsequent to 30th June 20X1 (just like any other customer) and sold goods worth Rs. 15 lacs during 9-month period ended 31st March 20X2
- Consider 31st March 20X2 as the year-end date for X Ltd.

Determine whether the transaction for the entire year (ending on 31st March 20X2) is required to be disclosed under AS-18 as related party transaction.

**Question 10 : Mr.Sumit**

Following transactions are disclosed as on 31st March, 2018:

- (i) Mr. Sumit, a relative of Managing Director, received remuneration of Rs. 2,10,000 for his services in the company for the period from 1st April, 2017 to 30th June, 2017. He left the service on 1st July, 2017.
Should the relative be identified as a related party as on closing date i.e. on 31-3-2018 for the purpose of AS-18.
- (ii) Goods sold amounting to Rs. 50 lakhs to associate company during the 1st quarter ended on 30th June, 2017. After that related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer.
Decide whether transactions of the entire year have to be disclosed as related party transactions.

**Question 11 : Khushi Limited**

- (i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.
- (ii) Shri Bhanu a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18- Related Party Disclosures.



Question 12 : Maya Ltd.

Identify the related parties in the following cases as per AS-18

Maya Ltd. holds 61 % shares of Sheetal Ltd.

Sheetal Ltd. holds 51% shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

(Give your answer - Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)



Question 13 : Arohi Ltd.

Arohi Ltd. sold goods for Rs.90 lakhs to Anya Ltd. during financial year ended 31-3-2019. The Managing Director of Arohi Ltd. own 100% of Anya Ltd. The sales were made to Anya Ltd. at normal selling prices followed by Arohi Ltd. The Chief accountant of Arohi Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct? Comment in accordance with AS 18.



Question 14 : X Limited

On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for Rs.40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.



Question 15 : ABC Ltd.

Answer the following with respect to AS-18:

(i) ABC Ltd. sold goods of Rs. 2,00,000 to its associate company for the 1st quarter ending 30.06.2022. After that the related party relationship ceased to exist.

- However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.
- (ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?
 - (iii) Asha Ltd. sells all the manufactured furniture of Rs. 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement.



Question 16 : A Ltd.

- (i) A Ltd. enters into an agreement with Mr. Bhola for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Bhola, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Bhola does not have any voting power in A Limited.
- (ii) Shri Manoj a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2022 to 30th June, 2022. On 1st July, 2022, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2023 for the purposes of AS 18 'Related Party Disclosures'.

6. MCQs :

1. According to AS-18 Related Party Disclosures, which ONE of the following is not a related party of Skyline Limited?
 - (a) A shareholder of Skyline Limited owning 30% of the ordinary share capital
 - (b) An entity providing banking facilities to Skyline Limited in the normal course of business
 - (c) An associate of Skyline Limited
 - (d) Key management personnel of Skyline Limited
2. Are the following statements in relation to related parties true or false, according to AS-18 Related Party Disclosures?

	Statement (A)	Statement (B)
(A) A party is related to another entity that it is jointly controlled by.	False	False
(B) A party is related to another entity that it controls.	False	True

17

AS 19 LEASES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. DEFINITIONS
3. LEASE CLASSIFICATION
4. INDICATORS OF FINANCE LEASE
5. ACCOUNTING IN BOOKS OF LESSEE
 - (A) FINANCE LEASE
 - (B) OPERATING LEASE
6. ACCOUNTING IN BOOKS OF LESSOR
 - FINANCE LEASE
7. SALE AND LEASE BACK
8. MCQ'S

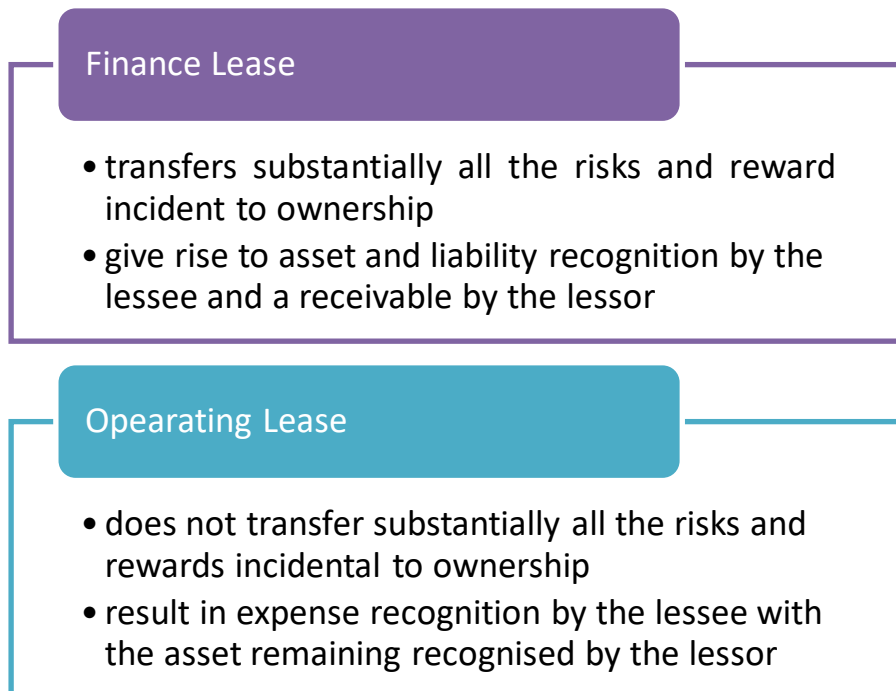
"The man who passes the sentence should swing the sword."

1. INTRODUCTION :

The objective of the standard is to prescribe for lessee and lessor

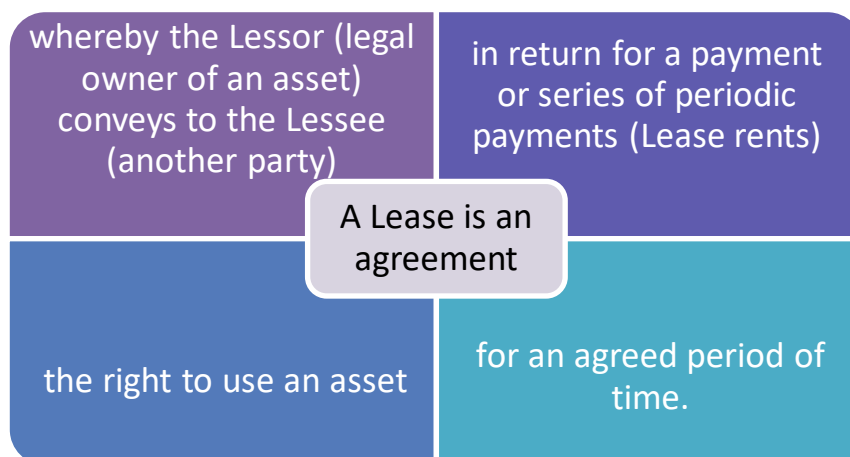


Leases are required to be classified as



3. DEFINITIONS :

1. LEASE :



2. LESSOR / 3. LESSEE :**Question 1 : Moon & Sun legal Consultants Limited**

Moon & Sun legal Consultants Limited has signed an agreement with a client for rendering consultancy services on monthly basis for 15 days per month for 2 years at a fees of Rs 1 million per annum. Is this agreement tantamount to a lease?

4. NON-CANCELLABLE LEASE :

A **non-cancellable lease** is a lease that is cancellable only:

- upon the occurrence of some remote contingency; or
- with the permission of the lessor; or
- if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

5. LEASE TERM :

The **lease term** is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Lease Term = Primary Lease term + Secondary Lease Term

6. INCEPTION OF LEASE :

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- a lease is classified as either an operating or a finance lease; and
- in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

7. COMMENCEMENT OF LEASE :

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate)

Example :

Inception of the Lease and Commencement of the lease A lessee may sign an agreement to lease a car on 31st March, 2018 but does not take delivery of the car until 30th June, 2018. Lease classification is made at the inception of the lease i.e. on 31st March, 2018. The recognition of the related assets, liabilities, income and expense in the financial statements will not take place until 30th June, 2018. Commencement of the lease will be on 30th June, 2018.

8. MINIMUM LEASE RENTALS :

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- a) for a lessee, any amounts guaranteed by
 - (i) the lessee or
 - (ii) by a party related to the lessee;
- b) for a lessor, any residual value guaranteed to the lessor by:
 - (i) the lessee;
 - (ii) a party related to the lessee; or
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee

3. LEASE CLASSIFICATION :**(a) Finance Lease :**

- transfers substantially all the risks and reward incident to ownership
- give rise to asset and liability recognition by the lessee and a receivable by the lessor

(b) Operating Lease :

- does not transfer substantially all the risks and rewards incidental to ownership
- result in expense recognition by the lessee with the asset remaining recognised by the lessor

4. INDICATORS OF FINANCE LEASE :**CHARACTERISTICS OF FINANCE LEASE :**

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

- (a) The lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- (c) The lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) At the inception of the lease, present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) The leased asset is of a specialized nature such that only the lessee can use it without major modifications being made.

Additional Indicators of situations which individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) If the lessee can cancel the lease and the lessor's losses associated with the cancellation are borne by the lessee;
- (b) If gains or losses from the fluctuations in the residual value accrue to the lessee (for example if the lessor agrees to allow rent rebate equaling most of the disposal value of leased asset at the end of the lease); and
- (c) If the lessee can continue the lease for a secondary period at a rent, which is substantially lower than market rent.

**Question 2 : A Ltd.**

Calculate minimum lease payments for A Ltd. who took an asset on a 5 years lease from B Ltd. using the following information:

Payments over the lease term	Rs 1,000 per month
Contingent rent	Rs 20,000
Cost for services given by B Ltd.	Rs 40,000
Taxes to be reimbursed to B Ltd.	Rs 15,000
Residual value guaranteed by A Ltd.	Rs 5,000
Fair value of asset after 5 years	Rs 6,000

5. ACCOUNTING IN THE BOOKS OF LESSEE :

5.1 FINANCE LEASE :

1. Recognise finance lease as Asset and liabilities
 - leased asset as an asset and
 - obligation to pay future rentals as a liability.
2. At amount equal to lower of
 - fair value of the leased asset
 - the present value of the MLP.
3. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.
4. Any initial direct costs of the lessee are added to the amount recognised as an asset. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.
5. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets. If for the presentation of liabilities in the balance sheet a distinction is made between current and noncurrent liabilities, the same distinction is made for lease liabilities.
6. Any contingent Rent should be charged to Profit and Loss A/c.
7. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.
8. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are recognised as expenses in the periods in which they are incurred.
9. Depreciation should be charged as per the Accounting Policy of the company
10. A lessee is also required to recognise any impairment of a leased asset. To determine whether a leased asset has become impaired, an entity applies Ind AS 36, Impairment of Assets.



Question 3 :

Annual lease rents	= RS 50,000 at the end of each year.
Lease period	= 5 years;
Guaranteed residual value	= Rs 25,000
Unguaranteed residual value (UGR)	= RS 15,000
Fair Value at the inception (beginning) of lease	= Rs 2,00,000
Interest rate implicit on lease is	=12.6%
Account the above lease in the books of the lessor.	

**Question 4 : S.K. Ltd.**

S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:

Lease term	= 4 years
Fair value at inception of lease	= Rs 20,00,000
Lease rent	= Rs 6,25,000 p.a. at the end of year
Guaranteed residual value	= Rs 1,25,000
Expected residual value	= Rs 3,75,000
Implicit interest rate	= 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS-19 and disclose impact of this on Balance sheet and Profit & loss account at the end of year 1

**Question 5 : X Ltd.**

X Ltd. Leased an Asset to RM Ltd from 1/1/2010 for the period of 3 years. The fair Value of the Machinery is Rs. 2,35,500. Calculate the interest rate implicit to the Lease. Lease Rentals are 100000 at the year end and GRV is 17000. Pass the journal entries in the books of RM Ltd. For year 1. Depreciation is charged @ 20% SLM.

**Question 6 : Sam Ltd.**

Sam Ltd. Leased an Asset to Curran Ltd on the following terms

Fair Value of Asset	20,00,000
Life 5 years Lease Rentals	5,00,000 P.A
Guaranteed Residual Value	1,00,000
Estimated Residual Value	2,00,000
IRR	15%
Depreciation	10% SLM

Pass the journal entries in the books of Curran Ltd. for year 1 and also ascertain unearned Finance Income.

**Question 7 :**

Consider the following information

1. Life	10 years
2. Lease Rentals	Rs 60,000 P.A
3. Other services	Rs 5,000 P.A
4. IRR	10%

5. PVIFA (10%, 10) 6.145

Find A. Lease liability at the inception of the lease by lessee assuming that fair value of lease is similar to PV of MLP B. Also give treatment of Rs. 5,000 payable.



Question 8 : RM Ltd.

RM Ltd took a machine on lease on the following terms

Annual Lease Rentals	Rs. 50,000
Lease period	13 years
IRR	15%

RM has an option of buying the Machinery at Rs. 75,000 at the end of the lease period which RM is reasonably certain to buy.

Find out the amount in which the finance lease be recognised in the books of RM Ltd.



Question 9 : Jaya Ltd.

Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being Rs.11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays Rs.3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of Rs.70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only Rs.25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively. Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS - 19.

5.2 OPERATING LEASE :

Lease payments (excluding costs for services such as insurance and maintenance) under an operating lease shall be recognised as an expense on a straight-line basis, even if the payments are not on that basis, over the lease term unless either:

- another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or
- the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.



Question 10 : X Ltd.

X Ltd gives a Machinery to Y Ltd. The Lease period is for 3 years. The life of the asset is 10 years. Lease Rental is 10,000 P.A. Pass the necessary journal entries.

**Question 11 : XY Ltd.**

XY Ltd gives a Machinery to YZ Ltd. The Lease period is for 3 years. The life of the asset is 10 years. Lease Rentals are 10,000, 20,000 and 30,000 respectively for 3 years. Pass the necessary journal entries.

**Question 12 : XYZ Ltd.**

XYZ Ltd gives a Machinery to ZYX Ltd. The Lease period is for 3 years. The life of the asset is 10 years. Lease Rent will be 10,000 for the first year. Lease rent shall increase by 10% every year to offset the inflation.

6. ACCOUNTING IN THE BOOKS OF LESSOR :**FINANCE LEASE :**

1. Lessors are present Lease as a receivable at an amount equal to the net investment in the lease. (PV of Gross Investment in Lease).
2. Net Investment in Lease is Gross Investment in lease Less Unearned Finance Income.
3. For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.
4. No Depreciation is charged / No impairment of Asset / The receivables are subject to review for impairment

**Question 13 : WIN Ltd.**

WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment's costing Rs. 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be Rs. 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

You are required to compute the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

**Question 14 : A Ltd.**

A Ltd. has initiated a Lease for 3 years for machine costing 1,50,000 useful life 4 years. At the end of Lease asset would be reverted back to A Ltd. UGRV = 20,000 IRR = 10%

Find :

- A. Annual Lease Rentals
- B. Gross Investment in the Lease
- C. Net Investment in the Lease
- D. Unearned Finance Income
- E. Journal entries from the point of view of A Ltd.



Question 15 : Money Limited

Money Limited leased a machine to Hello Limited on the following terms:

		(Rs. in lakh)
(i)	Fair value of the machine	24
(ii)	Lease term	5 years
(iii)	Lease rental per annum	4
(iv)	Guaranteed residual value	0.8
(v)	Expected residual value	1.5
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.



Question 16 : J Limited

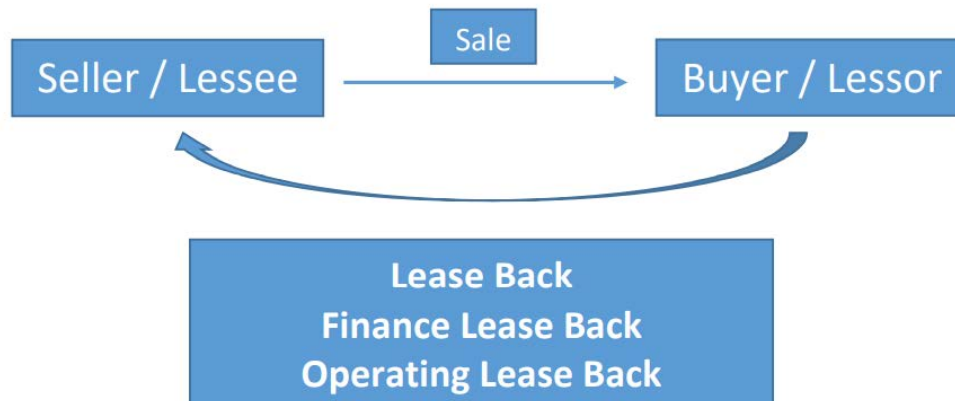
J. Limited availed an equipment on lease from K Limited. The conditions of the lease terms are as under :

- (i) Lease starts from 1st April, 2020 for a period of 4 years and useful life of the equipment is 6 years. Both the cost and fair value of equipment are Rs.12,50,000.
- (ii) The equipment reverts back to the lessor on termination of the lease.
- (iii) The unguaranteed residual value is estimated at Rs.1,20,000 at the end of the financial year 2023-2024.
- (iv) The amount will be paid in 4 equal instalments at the end of each year.
- (v) Consider IRR = 8%
- (vi) The present value of Rs.1 at the end of 4th year at 8% of interest is Rs.0.735.
- (vii) The present value of annuity of Rs.1 due at the end of 4th year at 8% IRR is Rs.3.312.

State whether this lease is Operating lease or Finance lease (by applying two deterministic parameters). Also calculate unearned finance Income.

7. SALE AND LEASE BACK :

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.



The point to be discussed is about the sale, i.e how should the profit be recognised. The lease should be accounted as per rules we have discussed above. Yes but the recognition of the profit depends of the nature of Lease back i.e if it is Finance Lease or Its an Operating Lease.

FINANCE LEASEBACK :

The excess or deficiency of sales proceeds over the carrying amount should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

**Question 17 : Santa**

On 1st Jan 2011, Santa sold equipment for Rs 614460. The carrying amount of the equipment on the date was Rs. 1,00,000. The sale was part of the package under which banta Ltd. leased the asset to santa ltd for 10 years term. The economic life of asset is estimated at 10 years. The minimum lease rents payable by the lessee has been fixed at Rs. 1,00,000 payable annually beginning 31st December, 2011. The incremental borrowing interest rate of santa ltd. is estimated at 10% P.A. Calculate the net effect on the profit and loss in the books of santa Ltd.

OPERATING LEASEBACK :

If a sale and leaseback transaction results in an operating lease, it is necessary to determine the fair value of the asset and compare this with the contract sale price. Because the sale and lease transactions are connected, the sale may have been arranged at other than fair value, with the impact of any difference being recognised in the rentals payable.

Case 1: Sale price = Fair Value

Profit or loss should be recognised immediately.

Case 2: Sale Price < Fair Value

Profit and loss should be recognised immediately. However if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

Case 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

**Question 18 : A Ltd.**

A Ltd. sold machinery having WDV of Rs 40 lakhs to B Ltd. for Rs 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease.

Comment if –

- Sale price of Rs 50 lakhs is equal to fair value.
- Fair value is Rs 60 lakhs.
- Fair value is Rs 45 lakhs and sale price is Rs 38 lakhs.
- Fair value is Rs 40 lakhs and sale price is Rs 50 lakhs.
- Fair value is Rs 46 lakhs and sale price is Rs 50 lakhs
- Fair value is Rs 35 lakhs and sale price is Rs 39 lakhs.

**Question 19 : X Ltd.**

X Ltd. sold JCB Machine having WDV of Rs 50 Lakhs to Y Ltd. for Rs 60 Lakhs and the same JCB was leased back by Y Ltd. to X Ltd. The lease is operating lease. Comment according to relevant Ind AS if:

- Sale price of Rs 60 Lakhs is equal to fair value.
- Fair value is Rs 50 Lakhs and sale price is Rs 45 Lakhs.
- Fair value is Rs 55 Lakhs and sale price Rs 62 Lakhs.
- Fair value is Rs 45 Lakhs and sale price is Rs 48 Lakhs.

**Question 20 : Viral Ltd.**

Viral Ltd. sold machinery having WDV of Rs. 40 lakhs to Saral Ltd. for Rs. 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

- Fair value is Rs. 45 lakhs and sale price is Rs. 39 lakhs.

- (ii) Fair value is Rs. 40 lakhs and sale price is Rs. 49 lakhs.
- (iii) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

8. MCQs :

1. A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs (Fair value Rs. 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be
 - (a) A Ltd. should amortise the profit of Rs. 10 lakhs over lease term.
 - (b) A Ltd. should recognise the profit of Rs. 10 lakhs immediately.
 - (c) A Ltd. should defer the profit of Rs. 10 lakhs.
 - (d) B Ltd. should recognise the profit of Rs. 10 lakhs immediately.
2. In case of an operating lease – identify which statement is correct:
 - (a) The lessor continues to show the leased asset in its books of accounts.
 - (b) The lessor de-recognises the asset from its Balance Sheet.
 - (c) The lessor discontinues to claim depreciation in its books.
 - (d) The lessee recognises the asset in its Balance Sheet.
3. In case of finance lease, if the asset is returned back to the lessor at the end of the lease term - the lessee always claims depreciation based on which of the following:
 - (a) Useful life.
 - (b) Lease term.
 - (c) Useful life or lease term whichever is less.
 - (d) Useful life or lease term whichever is higher.
4. AS 19 lays down 5 deterministic conditions to classify the lease as a finance lease. To classify the lease as an operating lease – which statement is correct?
 - (a) Any 1 condition fails.
 - (b) Majority of the 5 conditions fail.
 - (c) All 5 conditions fail.
 - (d) Any 2 conditions fails.
5. The basis of classification of a lease is:
 - (a) Control Test.
 - (b) Risk and reward Test.
 - (c) Both control test and risk and reward test.
 - (d) Only reward Test

Thanks

18

AS 20 EARNINGS PER SHARE



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. BASIC EARNING PER SHARE
 - (A) FRESH ISSUE / BUY BACK
 - (B) PARTLY PAID UP SHARES
 - (C) BONUS ISSUE / SHARE SPLIT / SHARE CONSOLIDATION
 - (D) RIGHT ISSUE
2. DILUTED EARNINGS PER SHARE
 - (A) CONVERTIBLE DEBT
 - (B) CONVERTIBLE PREFERENCE
 - (C) STOCK OPTIONS
3. MCQ'S

“There are no two words in the English language more harmful than ‘good job.’”

1. BASIC EARNINGS PER SHARE :

Basic earnings per share is calculated as = $\frac{\text{Net profit (loss) attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$

(WANOES)

- (A) Fresh Issue / Buy Back
- (B) Partly Paid Up Shares
- (C) Bonus Issue / Share Split / Share Consolidation
- (D) Right Issue

(A) Fresh Issue / Buy Back :**Question 1 :**

Calculate Weighted Number of shares

Date	Particulars	Issue	Buy Back	Balance
1 st Jan	Balance at the beginning of the year	-	-	1800
31 st May	Issue of shares for cash	600	-	2400
1 st Nov	Buy Back of shares	-	300	2100

**Question 2 : Viral Ltd.**

Calculate WANOES from the following information.

Date	Particulars	Issue	Buy Back	Balance
1 st April, 2020	Balance at the beginning of the year	-	-	3,60,000
31 st August, 2020	Issue of shares for cash	1,20,000	-	4,80,000
1 st Feb, 2021	Buy Back of shares	-	60,000	4,20,000

(B) Partly Paid Up Shares :

The impact should be taking numbers of portion of amount received.

**Question 3 :**

Date	Particulars	No. of shares	Face Value	Paid up Value
1 st Jan	Balance at the beginning of the year	1800	10	10
31 st Oct	Issue of shares	600	10	5

**Question 4 :**

As at 1st April, 2016 a company had 6,00,000 equity shares of Rs. 10 each (Rs. 5 paid up by all shareholders). On 1st September, 2016 the remaining Rs. 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2017 was Rs. 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to Rs. 3,40,000.

Compute Basic EPS for the year ended 31st March, 2017 as per Accounting Standard 20 "Earnings Per Share".

(C) Bonus Issue / Share Split / Share Consolidation :

The impact of bonus should be given from the beginning of previous comparative period.

**Question 5 :**

Net profit for the year 2020 Rs 18,00,000

Net profit for the year 2021 Rs 60,00,000

No. of equity shares outstanding until 30th September 2021 20,00,000

Bonus issue 1st October 2021 was 2 equity shares for each equity share outstanding at 30th September, 2021

Calculate Basic Earnings Per Share.

**Question 6 :**

Net profit for year 2019-20	Rs 3,60,000
Net profit for year 2020 -21	Rs 12,00,000
No of equity shares outstanding till 31 st Dec 20	4,00,000

Bonus was issued on 1st Jan, 2021. 2 equity shares were issued for each equity share outstanding on 31st Dec, 2010. Calculate Basic EPS from the following information as per AS 20.

**Question 7 :**

NAT, a listed entity, as on 1st April, 2021 had the following capital structure:

	Rs.
10,00,000 Equity Shares having face value of Rs.1 each	10,00,000
10,00,000 8% Preference Shares having face value of Rs.10 each	1,00,00,000

During the year 2021-2022, the company had profit after tax of Rs.90,00,000

On 1st January, 2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 2021.

On 1st January, 2022, NAT issued 2,00,000 equity shares of Rs.1 each at their full market price of Rs.7.60 per share.

NAT's shares were trading at Rs.8.05 per share on 31st March, 2022.

Further it has been provided that the basic earnings per share for the year ended 31st March, 2021 was previously reported at Rs.62.30.

You are required to :

- (i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March, 2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.
- (ii) Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share ?

(D) Right Issue :

Right issue refers to shares which are issued to the existing shareholders at discounted rate.

Right issue has element of both, fresh issues as well as bonus issue.



Question 8 : Nish Ltd.

The following information is given to us by Nish Ltd.

Number of shares outstanding	: 5,00,000
Right issue	: 2 for 5
Fair value before right	: Rs 34
Right issue price	: Rs 20

Calculate :

1. Theoretical ex-right fair value
2. Adjustment factor.



Question 9 : Q Ltd.

Following information is supplied by Q Ltd.

Number of shares outstanding prior to right issue – 2,50,000 shares

Right issue – two shares for every 5 shares outstanding

Right issue price – Rs 98 per share

Fair value of one equity share immediately prior to exercise of right on 30/6/2020 is Rs.102.

Net profit to equity shareholders

2019 – 2020 – Rs 50,00,000

2020 – 2021 – Rs 75,00,000

You are required to calculate the basic earnings per share as per AS – 20.

**Question 10 : MR Ltd.**

MR Ltd supplied the following information. You are required to compute the basic earnings per share.

Net profit	: Accounting year 2019	: Rs 20,00,000
	: Accounting year 2020	: Rs 30,00,000
No of shares prior to right issue	: 10,00,000 shares	
Right issue	: One share for every 4 shares outstanding	
Right issue price	: Rs 20	
Date for exercise of right issue	: 31/3/2020	
Fair value of share immediately prior to right issue		: Rs 25

**Question 11 :**

Net profit for the year 2020	Rs 11,00,000
Net profit for the year 2021	Rs 15,00,000
No. of shares outstanding prior to rights issue	5,00,000 shares
Rights issue price	Rs 15.00
Last date to exercise rights	1st March 2021
Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)	
Fair value of one equity share immediately prior to exercise of rights on 1st March 2021 was Rs 21.00. Compute Basic Earnings Per Share.	

**Question 12 : A-One Limited**

A-One Limited supplied the following information. You are required to compute the earnings per share as per AS 20:

Net profit attributable to equity shareholders	Year 2017-18: Rs.1,00,00,000
	Year 2018-19 : Rs.1,50,00,000
Number of shares outstanding prior to Right Issue 50,00,000 shares	
Right Issue:	One new share for each four outstanding shares i.e., 12,50,000 shares
	Right Issue Price – Rs.96
	Last date of exercising rights - 30-06-2018
Fair value of one equity share immediately prior to exercise of rights on 30-06-2018 was Rs. 101.	

**Question 13 : Viral Ltd.**

Net Profit for FY 2021-22	30,00,000
Net Profit for FY 2022-23	50,00,000

No. of shares outstanding prior to rights issue	20,00,000 shares
Rights Issue Price	Rs. 20
Last day to exercise rights	1st June, 2022
Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares)	
Fair value of one equity share immediately prior to exercise of rights on 1st June, 2022 was Rs.26.00.	
Compute Basic Earnings Per Share for FY 2016-17, FY 2022-23 and restated EPS for FY 2021-22.	

2. DILUTED EARNINGS PER SHARE :

While calculating Diluted EPS, effect will be given to all potential equity shares.

There are three possible potential equity shares :

- (A) Convertible Debentures
- (B) Convertible Preference Shares
- (C) Stock Options

Note :

- 1) We are required to disclose EPS even if it is negative.
- 2) We are required to disclose only diluted EPS and not anti-diluted EPS.

(A) Convertible Debentures :

$$\text{EPS} = \frac{\text{Profit for Equity Shareholders} + (\text{Interest} - \text{Tax})}{\text{WANOES} + \text{New No.}}$$



Question 14 :

Net profit for the current year	Rs 1,00,00,000
No. of equity shares outstanding	50,00,000
Basic earnings per share	Rs 2.00
No. of 12% convertible debentures of Rs 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs 12,00,000
Tax relating to interest expense (30%)	Rs 3,60,000



Question 15: RM Ltd.

RM Ltd. Issues Rs 2,00,000, 10% convertible debentures were issued which are convertible into 8000 equity shares. Net profit for the current year is Rs 1,00,000. WANOES

outstanding for the current year is 50,000 and tax rate is 40%. Calculate basic EPS and Diluted EPS.



Question 16 : Atmanirbhar Ltd.

From the following information given by Atmanirbhar Ltd. Calculate basic EPS and Diluted EPS as per AS 20.

	Rs
Net profit for the current year	2,50,00,000
No of equity shares outstanding	50,00,000
No of 12% convertible debentures of Rs 100 each	50,000
Each debenture is convertible into 8 equity shares	
Interest expenses for the current year	6,00,000
Tax savings relating to interest expenses (30%)	1,80,000



Question 17 : XYZ Limited

From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019:

Net Profit for the year after tax : Rs.75,00,000

Number of Equity Shares of Rs.10 each outstanding: 10,00,000

1,00,000, 8% Convertible Debentures of Rs. 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30%.



Question 18 : Viral Ltd.

“At the time of calculating diluted earnings per share, effect is given to all dilutive potential equity shares that are outstanding during the period.”

Comment and also calculate the basic and diluted earnings per share for the tear 2020-21 from the following information :

(i)	Net profit after tax for the year	Rs.64,12500
(ii)	No. of equity shares outstanding	15,00,000
(iii)	No. of 9% convertible debentures of Rs.100 issued on 1 st July, 2020	75,000
(iv)	Each debenture is convertible into 8 Equity Shares.	
(v)	Tax relating to interest expenses	35%

(B) Convertible Preference Shares :

$$\text{Diluted EPS} = \frac{\text{Net Profit for ESH} + \text{Preference Dividend}}{\text{WANOES} + \text{New Number}}$$

(C) Stock Options :

$$\text{Dilutive EPS} = \frac{\text{Net Profit for ESH}}{\text{WANOES} + \text{New Number}}$$

**Question 19 :**

Net profit for the year 2021	RS 12,00,000
Weighted average number of equity shares outstanding during the year 2021	5,00,000 shares
Average fair value of one equity share during the year 2021	Rs 20.00
Weighted average number of shares under option during the year 2021	1,00,000 shares
Exercise price for shares under option during the year 2021	RS 15.00

**Question 20 :**

The following information is provided to you :

Net profit for the year 2022 :	Rs.72,00,000
Weighted average number of equity shares outstanding during the year 2022 :	30,00,000 shares
Average Fair value of one equity share during the year 2022 :	Rs.25.00
Weighted average number of shares under option during the year 2022 :	6,00,000 shares
Exercise price for shares under option during the year 2022 :	Rs.20.00

You are required to compute Basic and Diluted Earnings Per Share as per AS-20.

**Question 21 : RS Ltd.**

In 2020, RS Ltd, reported net income of Rs 2,00,000 and had 20,000 equity shares during the entire year, RM Ltd. also had outstanding during all of 2010 the following convertible securities

- 6% convertible preference shares of Rs 100 face value, 1000 shares, each share is convertible into 15 equity shares.
- Convertible debentures, 15%, Rs 1,00,000, Rs 1000 debentures, convertible into 10 shares.

Assume tax rate of 40%.

Calculate Basic EPS and Diluted EPS.

**Question 22 : ABC LIMITED**

On 1 April 2023, ABC Limited has given the following information

	Rs.
50,000 equity shares of Rs. 100 each (Rs. 80 paid up shareholders)	40,00,000
2,00,000 8% Preference shares of Rs. 10 each	20,00,000
10,000, 12% Debentures of Rs. 100 each	10,00,000
(Each debenture is convertible into 3 equity shares of each)	

On 1st July 2023, the remaining Rs. 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of Rs. 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS.

3. MCQs :

- AB Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were reacquired on September 1. The weighted average number of shares outstanding during the year on Dec. 31 is
 - 1,40,000 shares
 - 1,25,000 shares
 - 1,16,667 shares
 - 1,20,000 shares
- As per AS 20, potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would
 - Decrease net profit per share from continuing ordinary operations.
 - Increase net profit per share from continuing ordinary operations.
 - Make no change in net profit per share from continuing ordinary operations.
 - Decrease net loss per share from continuing ordinary operations.
- As per AS 20, equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements are
 - Dilutive potential equity shares
 - Contingently issuable shares
 - Contractual issued shares
 - Potential equity shares
- In case potential equity shares have been cancelled during the year, they should be:
 - Ignored for computation of Diluted EPS.
 - Considered from the beginning of the year till the date they are cancelled.
 - The company needs to make an accounting policy and can follow the treatment in (a) or (b) as it decides.
 - Considered for computation of diluted EPS only if the impact of such potential equity shares would be material.

5. Partly paid up equity shares are:
- (a) Always considered as a part of Basic EPS.
 - (b) Always considered as a part of Diluted EPS.
 - (c) Depending upon the entitlement of dividend to the shareholder, it will be considered as a part of Basic or Diluted EPS as the case may be.
 - (d) Considered as part of Basic/ Diluted EPS depending on the accounting policy of the company.

Thanks



19

AS 21 CONSOLIDATED FINANCIAL STATEMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. PRACTICAL QUESTIONS
2. MCQ'S

“The syllabus is large for everyone. The rank belongs to the one who keeps going.”

1. PRACTICAL QUESTIONS :

**Question 1 : R and M Ltd.**

Following is the Balance Sheet of R and M Ltd as on 31st March 2017.

	R	M		R	M
Share Capital	50	30	Fixed Assets	50	40
Reserves	10	-	Share of M Ltd. (100%)	30	-
Liabilities	40	20	Current Assets	20	10
			Misc. Exp	-	
Total	100	50	Total	100	50

Prepare consolidated Balance Sheet.

**Question 2 : A and B Ltd.**

Following is the Balance Sheet of A and B Ltd. as on 31st March, 2017

	A	B		A	B
Share Capital	700	200	Fixed Assets	600	250
Reserves	300	100	Share of B Ltd. (80%)	210	-
Liabilities	200	50	Current Assets	390	100
			Misc. Exp	-	-
Total	1200	350	Total	1200	350

Prepare consolidated Balance Sheet. Reserves of B Ltd. stood at 60 on the date when A purchased shares of B Ltd.

**Question 3 : X and Y Ltd.**

Following is the Balance Sheet of X and Y Ltd as on 31st March 2017.

	X	Y		X	Y
Share Capital	700	200	Fixed Assets	600	250
Profit and Loss A/c	200	70	Share of Y Ltd.	210	-
General Reserve	100	30	Current Assets	380	95
Liabilities	200	50	Misc. Exp	10	5
Total	1200	350	Total	1200	350

When X Ltd. purchased the shares of Y Ltd, general reserve stood at Rs. 10 and Profit and loss A/c. at Rs. 40. Prepare consolidated Balance Sheet

**Question 4 : Jai Ltd.**

Jai Ltd. acquired 15,000 Shares in Hind Ltd., for Rs 1,55,000 on 1st April 2017. The balance sheet of the two companies as on 31 st March, 2018 were as follows:

Liabilities	Jai Ltd.	Hind Ltd.
	Rs	Rs

Equity shares of Rs 10 each, fully paid-up	9,00,000	2,50,000
General reserves	1,60,000	40,000
Profit and loss account	80,000	25,000
Bills payable	40,000	20,000
Creditors	50,000	30,000
	12,30,000	3,65,000
Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investments	1,55,000	-
Stock	1,00,000	50,000
Debtors	60,000	35,000
Cash at bank	90,000	40,000
Bills receivable	25,000	20,000
	12,30,000	3,65,000

Additional information:

- General reserve appearing in the balance sheet of Hind Ltd., has remained unchanged since 31st March, 2017.
- Profit earned by Hind Ltd. for the year ended 31st March, 2018 amounted to Rs 20,000,
- Jai Ltd. sold to Hind Ltd. goods costing Rs 8,000 for Rs 10,000, This is still in stock of Hind Ltd. on 31st March, 2018. Creditors of Hind Ltd. include Rs4,000 due to Jai Ltd. on account of these goods.
- Out of Hind Ltd.'s acceptance, RS 7,000 were those which were accepted in favour of Jai Ltd.

You are required to :

Draw a consolidated balance sheet as on 31st March, 2018.

**Question 5 : H Ltd. and S. Ltd.**

Balance sheets of H Ltd. and S Ltd. as at 31st March, 2018 are given below:

Liabilities	H Ltd		S Ltd	
		Rs.		Rs.
Share capital of Rs 10 each, fully paid		5,00,000		2,00,000
General reserves		1,00,000		50,000
Profit and loss account		60,000		35,000
Creditors		80,000		60,000
		7,40,000		3,45,000
Assets		H Ltd.		S Ltd.
		Rs.		Rs.

Fixed assets	3,00,000	1,00,000
60% shares in S Ltd., at cost	1,62,400	-
Current assets	2,77,600	2,39,000
Preliminary expenses	-	6,000
	7,40,000	3,45,000

- H Ltd. acquired the shares on 1st April, 2017 and on that date general reserve and profit and loss account of S Ltd. showed balances of Rs 40,000 and 8,000 respectively. Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2006
- S Ltd. sold goods worth Rs. 10,000 to H Ltd. for Rs. 12,000. Goods are still in stock of H Ltd.
- Debtors of H Ltd. includes Rs. 12,000 from S Ltd, however creditors of S Ltd, include Rs. 10,000 to H Ltd.



Question 6 : H Ltd.

Following are the balance sheets of H Ltd. and its subsidiary S. Ltd. as at 31st March, 2017:

Liabilities	H Ltd	S Ltd
	Rs	Rs
Equity share capital:		
Share of Rs 10 each fully paid	6,00,000	2,00,000
General reserves	3,40,000	80,000
Profit and loss account	1,00,000	60,000
creditors	70,000	35,000
	11,10,000	3,75,000
Assets	Rs.	Rs.
Plant and Machinery	3,90,000	1,35,000
Furniture's	80,000	40,000
80% shares in S Ltd. (at cost)	3,40,000	-
Stock	1,80,000	1,20,000
Debtors	50,000	30,000
Cash at bank	70,000	50,000
	11,10,000	3,75,000

Additional information :

- Profit and loss account of S Ltd stood at Rs 30,000 on 1st April, 2016 whereas general reserve stood at Rs 80,000 even on this date.
- H Ltd. acquired 80% shares in S. Ltd. on 1st April 2016.
- S Ltd's plant and machinery which stood at Rs 1,50,000 on 1st April 2016 was considered worth Rs 1,80,000, this figure is to be considered while consolidating the balance sheets.

You are required to:

Prepare the consolidated balance sheet as at 31st March, 2017.



Question 7 : M Ltd.

From the following balance sheet of M Ltd. and its subsidiary N Ltd. drawn up at 31st March, 2017, prepare a consolidated balance sheet as at that date, having regard to the following:

- Reserves and Profit and loss A/c of N Ltd. stood at Rs.25,000 and Rs.15,000 respectively on the date of acquisition of its 80% shares by M Ltd. on 1st April, 2016.
- Machinery (Book-value Rs.1,00,000) and Furniture (Book value Rs.20,000) of N Ltd. were revalued at Rs.1,50,000 and Rs.15,000 respectively on 1.4.2016 for the purpose of fixing the price of its shares. [Rates of depreciation : Machinery 10%, Furniture 15%]

Balance sheet of M Ltd. and N Ltd. as on 31st March, 2017

Liabilities	M Ltd.		N Ltd.		Assets	M Ltd.		N Ltd.	
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.		
Share capital					Machinery	3,00,000		90,000	
Shares of Rs.100	6,00,000	1,00,000			Furniture	1,50,000		17,000	
Reserves	2,00,000	75,000			Other assets	4,40,000		1,50,000	
Profit and Loss A/c	1,00,000	25,000			Shares in S Ltd. 800 shares at Rs. 200	1,60,000		–	
Creditors	1,50,000	57,000							
Total	10,50,000	2,57,000			Total	10,50,000		2,57,000	



Question 8 : H Ltd.

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	<u>3,25,000</u>	<u>1,25,000</u>
Total	22,40,000	5,45,000
	H Ltd. (Rs.)	S Ltd. (Rs.)
Assets		

Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs.20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	1,64,000	32,000
Total	22,40,000	5,45,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.

Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April, 2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs. 40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.



Question 9 : H Ltd.

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

Liabilities	H Ltd.	S Ltd.
	Rs.	Rs.
Shareholders' fund		
Issued and subscribed		
Equity shares of Rs.10 each	13,40,000	2,40,000
Reserve and Surplus	4,80,000	1,80,000
Profit and Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		

Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	25,20,000	6,16,800
Assets		
Non-Current Assets		
(a) Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd. (19,200 shares at Rs.20 each)	3,84,000	-
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at bank	56,000	40,000
Total	25,20,000	6,16,800

The following information is also provided to you :

- H Ltd. purchased 19,200 share of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss account of S Ltd. stood at Rs.60,000 and Rs.36,000 respectively.
- Machinery (Book value Rs.2,40,000) and Furniture (book value Rs.48,000) of S Ltd. were revalued at Rs.3,60,000 and Rs.36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives : Machinery 10%, Furniture 15%)
- On 31st March, 2020, Bills payable of Rs.12,000 in S Ltd.'s Balance Sheet were accepted in favour of H Ltd.

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



Problem 10 : H Ltd.

H Ltd acquires 64000 Equity Shares of Rs. 10 each in S Ltd as on 1st October 2019. The Balance Sheets of the two companies as on 31st March 2020 were as under

Particulars	H Ltd (Rs.)	S Ltd (Rs.)
Equities and liabilities		

Equity Share Capital of Rs. 10 each	20,00,000	8,00,000
General Reserve (1 st April 2019)	9,60,000	4,20,000
Profit and loss accounts	2,28,000	3,28,000
Preliminary Expenses (1 st April 2019)	-	-20,000
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payable	1,66,400	80,000
Total	36,55,200	16,60,000
Assets		
Land and building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investments in equity shares of S Ltd	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivables	59,200	-
Cash in hand	56,800	32,000
Total	36,55,200	16,60,000

Additional Information :

- The Profit & Loss Accounts of S Ltd showed a balance of Rs. 1,20,000 on 1st April 2019. S. Ltd paid a dividend of 10% out of the same on 1st November 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd
- 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 scheduled III of the companies Act, 2013.

**Question 11 : X Ltd.**

X Ltd. acquired 1,600 ordinary shares of Rs.100 each of Y Ltd. on 1st July, 2017. On December 31, 2017 the balance sheets of the two companies were as given below:

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	Rs.	Rs.		Rs.	Rs.
Capital (Shares of Rs.100 each fully)	5,00,000	2,00,000	Land and buildings	1,50,000	1,80,000
Reserves	2,40,000	1,00,000	Plant and machinery	2,40,000	1,35,000
Profit and loss A/c	57,200	82,000	Investment in Y Ltd. at cost	3,40,000	-

Bank overdraft	80,000	–	Stock	1,20,000	36,400
Bills payable	–	8,400	Sundry debtors	44,000	40,000
Creditors	47,100	9,000	Bills receivable	15,800	–
			Cash	14,500	8,000
	9,24,300	3,99,400		9,24,300	3,99,400

The Profit and loss A/c of Y Ltd. showed a credit balance of Rs.30,000 on 1st January, 2017 out of which a dividend of 10% was paid on 1st August. X Ltd. has credited the dividend received to its Profit and Loss A/c. The plant and machinery which stood at Rs.1,50,000 on 1st January, 2017 was considered as worth for Rs.1,80,000 on 1st July, 2017; this figure is to be considered while consolidating the Balance sheets. Prepare the consolidated balance sheet as on December 31, 2017. No transfers are done to Reserves in current year.



Question 12 : B Ltd.

Consider the following summarized balance sheets of subsidiary B Ltd.:

	2015	2016		2015	2016
	Rs.	Rs.		Rs.	Rs.
Share-Capital			Fixed Assets		
Issued & subscribed 5,000 equity shares of Rs. 100 each	5,00,000	5,00,000	Cost	3,20,000	3,20,000
			Less: Accumulated depreciation	<u>(48,000)</u>	<u>(96,000)</u>
				2,72,000	2,24,000
Reserves & Surplus	2,86,000	7,14,000	Investments at		
Current Liabilities &			Non-current	–	4,00,000
Trade Payables	4,90,000	4,94,000	Inventory	5,97,000	7,42,000
Bank overdraft	–	1,70,000	Trade	5,94,000	8,91,000
Provision for	3,10,000	4,30,000	Prepaid	72,000	48,000
			Cash at Bank	51,000	3,000
	15,86,000	23,08,000		15,86,000	23,08,000

Also consider the following information:

- B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.
- 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 Rs.12,000 at the end of 2015 and Rs. 34,000 at the end of 2016.
- 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 Rs. 60,000 in 2015 and Rs. 30,000 in 2016, being part of initial advertising expenditure of Rs. 90,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2015.

Restate the balance sheet of B Ltd. as on 31st December, 2016 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.



Question 13 : MNT Ltd.

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2017-18	2018-19
	Amount in Rs.	Amount in Rs.
Share Capital		
Issued and subscribed 7500 Equity Shares of Rs.100	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	<u>2,62,000</u>	<u>4,30,000</u>
	<u>15,88,000</u>	<u>23,08,000</u>
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	<u>(1,70,000)</u>	<u>2,82,500</u>
	<u>7,50,000</u>	<u>6,37,500</u>
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	<u>52,700</u>	<u>42,500</u>
	<u>15,88,000</u>	<u>23,08,000</u>

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.



Question 14 : H Ltd.

H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd.Rs.	S Ltd.Rs.
Equity and Liabilities:		
Equity Share Capital (Fully paid shares of Rs. 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 Rs. 20,000.
- (iii) H Ltd. sold goods to S Ltd. costing Rs. 8,000 for Rs. 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.
- (iv) Creditors of S Ltd. include Rs. 4000 due to H Ltd. on account of these goods.
- (v) Out of Bills payable issued by S Ltd. Rs. 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, Rs. 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.



Question 15 :

The following data is provided to you:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2018	31.12.2018	Share Capital	Profit & Loss Account
			Rs.	Rs.	Rs.	Rs.	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.



Question 16 : Minority Interest

From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition	Consolidation date
				1/1/2019	31-12-2019

				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				Rs.	Rs.	Rs.	Rs.
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000



Question 17 : H Ltd.

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows :

Liabilities	H Ltd.	S Ltd.
	Rs. in lakhs	Rs. in lakhs
Share Capital:		
Authorized	<u>15000</u>	<u>6000</u>
Issued and Subscribed:		
Equity Shares of Rs. 10 each, fully paid up	12000	4800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	<u>1,200</u>	
	21,387	9,208
Assets	H Ltd.	S Ltd.
	Rs. in lakhs	Rs. in lakhs
Land and Buildings	2,718	?
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	?
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	?
	<u>21,387</u>	<u>9,208</u>

The following information is also provided to you:

- (a) H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakh and Rs. 1,200 lakh respectively.
- (b) On 1st April, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- (c) On 1st January, 2017, 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, 2016.
- (d) On 31st March, 2017, 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 Rs. 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
- (e) On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for Rs. 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, 2017.



Question 18 : P Ltd.

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:

(a) Before issue of bonus shares.

(b) Immediately after issue of bonus shares.



Question 19 : A Ltd.

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below :

	Rs. in Lakhs	
	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
<u>Expenses</u>		
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	<u>1,800</u>	<u>300</u>
Profit after tax	<u>3,600</u>	<u>450</u>
Dividend paid	<u>1,800</u>	<u>225</u>
Balance of Profit	<u>1,800</u>	<u>225</u>

The following information is also given:

- (i) A Ltd sold goods of Rs.180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)
- (ii) Administrative expenses of B Ltd include Rs.8 Lakhs paid to A Ltd as consultancy fees.

- (iii) Selling and distribution expenses of A Ltd include Rs.15 Lakhs paid to B Ltd as commission.
- (iv) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is Rs.1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.



Question 20 : Moon Ltd.

Moon Ltd. and its subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021.

Particulars	Moon Ltd. (Rs.)	Star Ltd. (Rs.)
Equity Share Capital	20,00,000	6,000,000
Finished goods Inventory as on 01.04.2020	4,200,000	3,010,000
Finished Goods Inventory as on 31.03.2021	8,575,000	3,762,500
Dividend Income	1,680,000	437,500
Other non-operating Income	350,000	105,000
Raw material consumed	13,930,000	4,725,000
Selling and Distributed Expenses	3,325,000	1,575,000
Production Expenses	3,150,000	1,400,000
Loss on sale of investments	262,500	Nil
Sales and other operating income	33,250,000	19,075,000
Wages and Salaries	13,300,000	2,450,000
General and Administrative Expenses	2,800,000	1,225,000
Royalty paid	Nil	50,000
Depreciation	315,000	140,000
Interest expense	175,000	52,500

Other information :

- On 1st September, 2018 Moon Ltd. acquired 50,000 equity shares of Rs.100 each fully paid up in Star Ltd.
- Star Ltd. paid a dividend of 10% for the year ended 31st March, 2020. The dividend was correctly accounted for by Moon Ltd.
- Moon Ltd. sold goods of Rs.17,50,000 to Star Ltd. at a profit of 20% on selling price. Inventory of Star Ltd. includes goods of Rs.7,00,000 received from Moon Ltd.
- Selling and Distribution expenses of Star Ltd. include Rs.2,12,500 paid to Moon Ltd. as brokerage fees.
- General and Administrative expenses of Moon Ltd. include Rs.2,80,000 paid to Star Ltd. as consultancy fees.

- Star Ltd. used some resources of Moon Ltd. and Star Ltd. paid Rs.50,000 to Moon Ltd. as royalty.

Prepare consolidated statement of Profit and Loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended 31.03.2021 as per schedule II of the Companies Act, 2013.



Question 21 : White Ltd.

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.	Black Ltd.
	(Rs.)	(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 :

- 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.
- Cash in transit from Black Ltd. to White Ltd. was Rs.6,000 on 31st March, 2021.
- Profits during the year 2020-2021 were earned evenly.
- The balances of Reserves and Profit and Loss account as on 1st April, 2020 were as follows:

	Reserves Rs.	Profit and loss a/c Rs.
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

2. MCQs :

- Minority interest should be presented in the consolidated balance sheet
 - As a part of liabilities.
 - As a part of equity of the parent's shareholders.
 - Separately from liabilities and the equity of the parent's shareholders.
 - As a part of assets.
- Minority of the subsidiary is entitled to
 - Capital profits of the subsidiary company.
 - Revenue profits of the subsidiary company.
 - Both capital and revenue profits of the subsidiary company.
 - Neither capital nor revenue profits of the subsidiary..
- In consolidation of accounts of holding and subsidiary company _____ is eliminated in full.
 - Current liabilities of subsidiary company.
 - Reserves and surplus of both holding and subsidiary company.
 - Mutual indebtedness.
 - Nothing.
- In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as

(a) Minority interest.	(b) Capital reserve.
(c) Current liability.	(d) Current assets.
- Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of

(a) Current liability.	(b) Revenue profit.
(c) Capital profit.	(d) Current assets.

Thanks



20

AS 22 ACCOUNTING FOR TAXES ON INCOME



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. INTRODUCTION
2. IMPORTANT TERMS
3. MCQ'S

“Dreams inspire. Timetables qualify.”

1. INTRODUCTION :

This standard prescribes the accounting treatment of taxes on income and follows the concept of matching expenses against revenue for the period. The concept of matching is more peculiar in cases of income taxes since in a number of cases, the taxable income may be significantly different from the income reported in the financial statements due to the difference in treatment of certain items under taxation laws and the way it is reflected in accounts.

**Question 1 :**

Asset costing Rs. 1,00,000 was purchased on 1/1/2019. Depreciation @ 20% was charged as per SLM. However for Tax calculation 100 % is allowed for tax purpose. Assume PBDT of Rs. 2,00,000 for year 1 and year 2. Show how would AS 22 change the way taxes are accounted.

**Question 2 : RM Ltd.**

RM Ltd prepares its annual accounts on 31st March. On 1st April, 2018, it purchases a machine at a cost of Rs 1,50,000. The machine has useful life of 3 years will zero expected scrap value. It is allowed to charge 100% depreciation as per tax and for accounts it decides to depreciate the asset by using SLM for the period of 3 years. It earned profit before depreciation and tax for Rs 2,00,000 each year and tax rate is 30%. Calculate current tax and deferred tax.

2. IMPORTANT TERMS :

- 1) Accounting Profit = PBT as per Accounts
- 2) Taxable Profit = PBT as per Tax
- 3) Current Tax = Tax as per Tax
- 4) Tax Expenses = Tax as per Accounts
- 5) Difference = Difference between Accounts Profit and Taxable Profit
- 6) Permanent Difference = Difference created in current gear that cannot be reversed in future
- 7) Timing Difference / Temporary Difference = Difference created in current year that will be reversed in future
- 8) DTL = Deferred Tax Liability
"Pay less now, pay more in future" (Tax point of view)
- 9) DTA = Deferred Tax Asset
"Pay more now, pay less in future" (Tax point of view)
- 10) Tax Expense : Current Tax + DTL – DTA

**Question 3 : Rama Ltd.**

Rama Ltd Provided the following information

	Rs .
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortised preliminary expenses as per tax record	30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised as transition adjustment? Tax rate 50%.

**Question 4 : Ultra Ltd.**

Ultra Ltd. has provided the following information.

Depreciation as per accounting records	= Rs 4,00,000
Depreciation as per tax records	= Rs 10,00,000
Unamortised preliminary expenses as per tax record	= Rs 30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised as transition adjustment when the tax rate is 50%?

**Question 5 : RM Ltd.**

RM Ltd Provided the following information

	Rs .
Depreciation as per accounting records	2,50,000
Depreciation as per income tax records	5,50,000
Unamortised preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised as transition adjustment? Tax rate 50%.

**Question 6 : RAMA Ltd.**

Rama Ltd., has provided the following information:

	Rs.
Depreciation as per accounting records	6,00,000
Depreciation as per income tax records	10,00,000
Unamortized preliminary expenses as per tax record	60,000

There is adequate evidence of future profit sufficiency. You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 30%.

**Question 7 : Omega Limited**

Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017.

**Question 8 : Delta Ltd.**

Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for Rs.34 Lakhs, Rs.50 Lakhs and Rs.65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of Rs.30 Lakhs, Rs.52 Lakhs and Rs.67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset I Liability and Total Tax Expenses -for the years ending 31st March 2021, 2022 and 2023.

**Question 9 : MR Ltd.**

MR Ltd prepares its annual accounts on 31st March. It suffered a loss of Rs 1,00,000 in the year 2019 and made the profit of Rs 50,000 and Rs 60,000 in year 2020 and 2021. The loss can be carried for 8 years and tax rate is 40%. MR is virtually certain at the end of 2019 that company would generate sufficient taxable income in future years. Calculate the current tax and the deferred tax for the year 2019, 2020 and 2021.

**Question 10 : PQR Ltd.**

PQR Ltd.'s accounting year ends on 31st March. The company made a loss of Rs. 2,00,000 for the year ending 31.3.2015. For the years ending 31.3.2016 and 31.3.2017, it made profits of Rs. 1,00,000 and Rs. 1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2016

(iv) Donation to private trust during the year is Rs.15,000 (not allowed under Income tax laws.)

(v) Corporate tax is 40%.

Prepare relevant extract of statement of Profit & Loss for the year ending 31st March, 2022. Also show the effect of the above items on Deferred Tax Liability / Assets as per AS - 22.



Question 14 :

What are the disclosure requirements for deferred tax assets and deferred tax liabilities in the balance sheet as per AS 22?

MCQs :

1. As per AS 22 on 'Accounting for Taxes on Income', tax expense is:
 - (a) Current tax + deferred tax charged to profit and loss account
 - (b) Current tax-deferred tax credited to profit and loss account
 - (c) Either (a) or (b)
 - (d) Deferred tax charged to profit and loss account
2. G Ltd. has provided the following information:
 Depreciation as per accounting records = Rs. 2,00,000
 Depreciation as per tax records = Rs. 5,00,000
 There is adequate evidence of future profit sufficiency.
 How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%?
 - (a) Deferred Tax asset = Rs. 2,70,000.
 - (b) Deferred Tax asset = Rs. 1,35,000.
 - (c) Deferred Tax Liability = Rs. 2,70,000
 - (d) Deferred Tax Liability = Rs. 1,35,000.
3. State which of the followings statements are correct:
 - (1) There are no pre-conditions required to recognize deferred tax liability,
 - (2) Deferred tax asset under all circumstances can only be created if and only if there is reasonable certainty that future taxable income will arise.
 - (a) Both are correct.
 - (b) Only (1) is correct.
 - (c) Only (2) is correct.
 - (d) None of the statements are correct.
4. Which of the following statement are incorrect:
 - (a) Only timing differences result in creation of deferred tax.

- (b) Permanent differences do not result in recognition of deferred tax.
- (c) The tax rate used for measurement of deferred tax is substantively enacted tax rate.
- (d) The entity has to recognize deferred tax liability/asset arising out of timing difference. There are no conditions which are required to be evaluated for their recognition.

Thanks



21

AS 23 ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. INTRODUCTION
2. EQUITY METHOD
3. MCQ'S

“The world ain't all sunshine and rainbows. It's a very mean and nasty place...”

1. INTRODUCTION :

AS 23 describes the principles and procedures for recognizing investments in associates (in which the investor has significant influence, but not a subsidiary or joint venture of investor) in the consolidated financial statements of the investor. An investor which presents consolidated financial statements should account for investments in associates as per equity method in accordance with this standard but in its separate financial statements, AS 13 will be applicable.

2. EQUITY METHOD

- a. In CFS, investment is to be recorded at cost.
- b. Any surplus or deficit in cost and net asset to be recorded as goodwill or capital reserve.
- c. Distributions received from an investee reduce the carrying amount of the investment.
- d. Any subsequent change in share in net asset is adjusted in cost of investment and goodwill/capital reserve.
- e. Consolidated Profit & Loss shows the investor's share in the results of operations of the investee.

**Question 1 : A Ltd.**

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was Rs 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1:

Paid up Equity Share Capital	Rs 10,00,000
Securities Premium	Rs 1,00,000
Reserves and Surplus	Rs 5,00,000

B Ltd. has reported net profits of Rs 3,00,000 and paid dividends of Rs 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

**Question 2 : AB Ltd.**

AB Ltd. holds 22% share of BA Ltd. on 1st April of the year and following are the relevant information as available on the date are Cost of Investment Rs 33,000 and Total Equity on the date of acquisition Rs 2,00,000. How will the above case be presented in Balance sheet.

**Question 3 : AC Ltd.**

AC Ltd. holds 22% share of BC Ltd. on 1st April of the year and following are the relevant information as available on the date are Cost of Investment Rs 55,000 and Total Equity on the date of acquisition Rs 2,00,000. How will the above case be presented in Balance sheet.

**Question 4 : A Ltd.**

A Ltd. invested Rs. 1,00,000 to acquire 10% stake (Investment I) in B Ltd. and later invested Rs. 3,00,000 to acquire additional 20% (Investment II). The net asset value of the B Ltd. at the respective investment dates was Rs. 7,50,000 and Rs. 12,50,000 respectively. Determine whether B Ltd. is an associate of A Ltd. Also, calculate goodwill arising on the acquisition of the associate.

**Question 5 : A Ltd.**

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for Rs 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

	Rs.
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
Current Assets	3,00,000
	10,00,000

During the year ended 31.3.20X2 the following are the additional information available:

- (i) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
- (ii) B Ltd., made a profit after tax of Rs 7 lakhs for the year ended 31.3.20X2.
- (iii) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. Calculate:

- (i) Goodwill if any on acquisition of B Ltd.'s shares.
- (ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
- (iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

**Question 6 : P Ltd.**

P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Balance sheet of four companies as on 31.03.26 are:

Particulars	P Ltd.	S	J	A
	Rs.	Rs.	Rs.	Rs.
Assets				
Investment in S	800	–	–	–

Investment in J	600	–	–	–
Investment in A	600	–	–	–
Fixed assets	1000	800	1400	1000
Current assets	2200	3300	3250	3650
Total	5200	4100	4650	4650
Share capital Re.1				
Equity share	1000	400	800	800
Retained earnings	4000	3400	3600	3600
Creditors	200	300	250	250
Total	5200	4100	4650	4650

P Ltd. acquired shares in S many years ago when S retained earnings were Rs.520, P Ltd. acquired its shares in J at the beginning of the year when J retained earnings were Rs.400. P Ltd. acquired its shares in 'A' on 01.04.25 when 'A' retained earnings were Rs.400.

Prepare the consolidated Balance Sheet of P Ltd. as on 31.03.26. As per AS-21, 23 and 27.

3. MCQ'S

- Identity which of the statements are correct

An enterprise can influence the significant economic decision making by many ways like:

 - Representation on the board of directors or governing body of the investee.
 - Participation in policy-making processes.
 - Interchange of managerial personnel.
 - Provision of essential technical information.
 - Statement (i) and (ii) are correct.
 - Statement (i), (ii) and (iii) are correct.
 - Statement (i), (ii), (iii) and (iv) are correct.
 - Statement (ii) and (iii) are correct.
- A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11% shares in C Ltd.

Identity which of the statements are incorrect.

 - In this case, A Ltd. is parent of B Ltd.
 - As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 % in C Ltd.
 - C Ltd. is an associate of A Ltd.
 - Statement (ii) is incorrect.
 - Statement (iii) is incorrect.
 - Statement (ii) and (iii) both are incorrect.
 - All statements are incorrect.

3. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:
Cost of Investment for 10% Rs 1,00,000 and for 15% Rs 1,55,000 Net asset on April 01 Rs 8,50,000 and on October 01 Rs 10,00,000.
What is the amount of goodwill or capital reserve arising on significant influence?
(a) Goodwill = Rs 10,000. (b) Goodwill = Rs 20,000.
(c) Capital Reserve = Rs 10,000.
4. Capital Reserve = Rs 20,000. 4. A Ltd. acquired 10% stake of B Ltd. On April 01 and further 15% on October 01 during the same year. Other information is as follow:
Cost of Investment for 10% Rs 1,00,000 and for 15% Rs 1,45,000
Net asset on April 01 Rs 8,50,000 and on October 01 Rs 10,00,000.
What is the amount of goodwill or capital reserve arising on significant influence?
(a) Goodwill = Rs 10,000. (b) Goodwill = Rs 20,000.
(c) Capital Reserve = Rs 10,000. (d) Capital Reserve = Rs 20,000.
5. Identity which of the statements are correct.
- (i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.
- (ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.
- (iii) The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.
- (iv) The potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.
- (a) Statement (i) and (iii). (b) Statement (ii) and (iv).
(c) Statement (i) only. (d) Statement (iii) only.

Thanks



22

AS 24 DISCONTINUING OPERATIONS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/in/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. DISCONTINUING OPERATIONS
3. INITIAL DISCLOSURE EVENT
4. PRESENTATION AND DISCLOSURE
 - (A) INITIAL DISCLOSURE
 - (B) DISCLOSURE OTHER THAN INITIAL DISCLOSURE
 - (C) OTHER DISCLOSURES
5. MCQ'S

“Be curious, not judgmental.”

1. INTRODUCTION :

Imagine that a large company selling several products in the market decides to discontinue the sale of one of its key product as it plans to sell that portion of its business to another entity.

Ideally, this information should be disclosed to primary stakeholders as they would take economic decisions based on the performance of the

remaining portion of the business that is expected to be continued by the company in future.



The Objective of AS 24 is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings generating capacity and financial position by segregating information about discontinuing operations from information about continuing operations.

2. DISCONTINUING OPERATIONS :

A discontinuing operation is a component of an enterprise:

- (a) That the enterprise, pursuant to a single plan, is:
 - (i) Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
 - (ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
 - (iii) Terminating through abandonment; and
- (b) That represents a separate major line of business or geographical area of operations.
- (c) That can be distinguished operationally and for financial reporting purposes.

**Question 1 : Co. XY**

Co. XY runs a famous chain of restaurants. It decides to sell its stake in one of the restaurant. This restaurant contributes around 5% of total revenue to the entire business. XY does not intend to sell any other restaurant as part of its strategy. Does sale of above stake be defined as discontinuing operations.

**Question 2 : Group MN**

Group MN operates in various industries including Hotels, Airlines and Software through its subsidiaries. It has decided to sell its Airline business to be able to concentrate on other

verticals. As a result, it has started to sell its aircrafts and paying off the associated liabilities. During the year, it has sold off 5 aircrafts out of the fleet of 50 aircrafts so far as part of the sale. The Airline business constitutes 25% of total group revenue. Does the above plan qualify to be defined as discontinuing operations



Question 3 : GH

GH, a large car manufacturing company, decides to discontinue its manufacturing operations relating to the diesel cars production. It plans to restructure the business by revamping its existing operations, and starting new manufacturing process for manufacture and sale of electric vehicles. Does this qualify for discontinuing operations

3. INITIAL DISCLOSURE EVENT :

With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- a) The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- b) The enterprise's board of directors or similar governing body has both
 - a. approved a detailed, formal plan for the discontinuance and
 - b. made an announcement of the plan.



Question 4 : Rohini Limited

Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner.

You are required to comment:

1. If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.
2. If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?
3. Would your answer to (ii) above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

4. PRESENTATION AND DISCLOSURE :**(A) Initial Disclosure :**

- a) A description of the discontinuing operation(s);
- b) The business or geographical segment(s) in which it is reported as per AS 17
- c) The date and nature of the initial disclosure event;
- d) The date or period in which the discontinuance is expected to be completed
- e) if known or determinable;
- f) The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;
- g) The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
- h) The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto;
- i) The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period;

(B) Disclosures Other Than Initial Disclosures Note :

All the disclosures above should be presented in the notes to the financial statements except for amounts pertaining to pre-tax profit/loss of the discontinuing operation and the income tax expense thereon (second last bullet above) which should be shown on the face of the statement of profit and loss.

(C) Other disclosures :

When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:

- a) For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss and
- b) The net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

**Question 5 :**

- (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?
- (ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

**Question 6 : Arzoo Ltd.**

Arzoo Ltd. is in the business of manufacture of passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the passenger car segment to the commercial vehicles segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it has planned that it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner. These plans have not been approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

MCQs

1. AB decided to dispose of its Clothing division as part of its long-term strategy.
 - (A) Date of Board approval - 1st March 20X1;
 - (B) Date of formal announcement made to affected parties - 15th March 20X1.
 - (C) Date of Binding Sale agreement – 1st July 20X1;
 - (D) Reporting date – 31st March 20X1
 The date of initial disclosure event would be:

(a) 1st March 20X1	(b) 15th March 20X1
(c) 31st March 20X1	(d) 31st July 20X1
2. To qualify as a component that can be distinguished operationally and for financial reporting purposes, the condition(s) to be met is (are):
 - (a) The operating assets and liabilities of the component can be directly attributed to it.
 - (b) Its revenue can be directly attributed to it.
 - (c) At least a majority of its operating expenses can be directly attributed to it.
 - (d) All of the above
3. Identify which of the following statements is incorrect?

- (a) A discontinuing operation is a component of an enterprise that represents a separate major line of business or geographical area of operations.
 - (b) A discontinuing operation is a component of an enterprise that can be distinguished operationally and for financial reporting purposes.
 - (c) A discontinuing operation is a component of an enterprise that may or may not be distinguished operationally and for financial reporting purposes.
 - (d) A discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.
4. Identify the incorrect statement
- (a) Discontinuing operations are infrequent events, but this does not mean that all infrequent events are discontinuing operations.
 - (b) The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under AS 24 would always raise a question regarding the enterprise's ability to continue as a going concern.
 - (c) For recognising and measuring the effect of discontinuing operations, AS 24 does not provide any guidelines, but for the purpose the relevant Accounting Standards should be referred.
 - (d) An enterprise shall include a description of the discontinuing operation, in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs.

Thanks



23

AS 25 INTERIM FINANCIAL REPORTING



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. DEFINITIONS
2. CONTENTS OF AN INTERIM FINANCIAL REPORT
3. PERIODS FOR WHICH IFS ARE REQUIRED TO BE PREPARED
4. RECOGNITION AND MEASUREMENT
5. MCQ'S

“Why do we fall? So that we can learn to pick ourselves up.”

1. DEFINITIONS :

- Interim period** is a financial reporting period shorter than a full financial year.
- Interim financial report** means a financial report containing either a complete set of financial statements (as described in Ind AS 1, Presentation of Financial Statements), or a set of condensed financial statements (as described in this Standard) for an interim period.

2. CONTENTS OF INTERIM FINANCIAL :

- A condensed balance sheet
- A condensed statement of profit and loss
- A condensed statement of changes in equity
- A condensed statement of cash flows
- Notes, comprising significant accounting policies and other explanatory information


3. PERIODS FOR WHICH IFS ARE REQUIRED TO BE PREPARED :

Statement	Current Period	Comparative Period
Balance Sheet	End of current interim period	End of immediately preceding financial year
Statement of Profit and Loss Account	Current interim period and cumulatively for the year-to-date	Comparable interim period and year-to-date immediately Preceding Financial year
Cash Flow Statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

**Question 1 : A Company**

A company has to prepare interim financial statements for the period ended 31st Dec, 2016. As per IND AS 34 describes the periodicity of its interim financial statements along with comparatives.

4. RECOGNITION AND MEASUREMENT :

	What can be done while preparing Annual Financial Statement can be done for IFS	What cannot be done while preparing Annual Financial Statement cannot be done for IFS.
---	---	--

**Question 2 : Company A**

Company A has reported Rs.60,000 as pre tax profit in first quarter and expects a loss of Rs.15,000 each in the subsequent quarters. It has a corporate tax slab of 20 percent on the first Rs.20,000 of annual earnings and 40 per cent on all additional earnings. Calculate the amount of tax to be shown in each quarter.

**Question 3 : An enterprise**

An enterprise reports quarterly. At the end of Q-1 estimate of pre-tax annual profit was Rs.6 lakhs and aggregate of deductions from GTO under tax laws was estimated at Rs.1 lakh.

At the end of Q-2, estimate of Pre-tax annual profit was Rs.6.30 lakhs and aggregate of deductions from GTI under tax law was estimated at Rs. 84,000.

The pre-tax earnings of Q-1 and Q-2 was 1.2 lakh and 1.3 lakh. Tax rate is 30%. Compute PAT for the quarters.

**Question 4 : An enterprise**

An enterprise that reports quarterly earned Rs.1 lakhs before tax at the end of Q1 and Rs.1.5 lakhs at the end of Q2. The annual PBT estimated at the end of Q1 was Rs.4 lakhs and that the end of Q2 was Rs.5 lakhs. The company has a carry forward loss of Rs.1 lakh. The applicable tax rate is 40%. Compute PAT for the quarters.

**Question 5 : An enterprise**

An enterprise reports quarterly, estimates an annual income of Rs.10 lakhs. Assume tax rates on 1st 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are Rs.75,000, Rs.2,50,000, Rs.3,75,000 and Rs.3,00,000

Calculate the tax expense to be recognised in each quarter.

**Question 6 : Company A**

Company A expects to earn Rs. 15,000 pre-tax profit each quarter and has a corporate tax slab of 20 percent on the first Rs. 20,000 of annual earnings and 40 per cent on all additional earnings. Actual earnings match expectations. Calculate the amount of income tax to be shown in each quarter.

**Question 7 : Narayan Ltd.**

Narayan Ltd. provides you the following information and asks you to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Gross Annual Income 33,00,000

(inclusive of Estimated Capital Gains of Rs. 8,00,000)

Estimated Income of Quarter I is Rs. 7,00,000, Quarter II is Rs. 8,00,000, Quarter III (including Estimated Capital Gains of Rs. 8,00,000) is Rs. 12,00,000 and Quarter IV is Rs. 6,00,000.

Tax Rates:	On Capital Gains	12%
	On Other Income: First Rs. 5,00,000	30%
	Balance Income	40%



Question 8 : Innovative Corporation Private Limited

Innovative Corporation Private Limited (or “ICPL”) is dealing in seasonal product and the sales pattern of the product, quarter wise is as under during the financial year 20X1-20X2:

Qtr. I	Qtr. II	Qtr. III	Qtr. IV
ending 30 June	ending 30 September	ending 31 December	ending 31 March
10%	10%	60%	20%

For the first quarter ending on 30 June, 20X1, ICPL has provided the following information :

Particulars	Amounts (in crore)
Sales	70
Employees benefits expenses	25
Administrative and other expenses	12
Finance cost	4

ICPL while preparing interim financial report for first quarter wants to defer Rs.16 crores expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and that the expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per Ind AS 34 and comment on the company’s view.



Question 9 : RM Ltd.

RM Ltd. is dealing in seasonal products

For the first quarter ending 31st March, 2017. RM gives you the following information

Sales	50 crores
Salary and other expenses	30 crores
Advertisement Expenses	2 crores
Administrative and Selling expenses	8 crores

While preparing interim financial report for the first quarter RM wants to defer Rs.21 crores expenditure to third quarter on the argument that third quarter is having more

sales, therefore third quarter should be debited by higher expenditure, considering the seasonal nature of business

Calculate the result of first quarter.



Question 10 : ABC Ltd.

ABC Limited manufactures automobile parts. ABC Limited has shown a net profit of Rs 20,00,000 for the third quarter of 2011.

Following adjustments are made while computing the net profit:

- (i) Bad debts of Rs.1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- (ii) Additional depreciation of Rs.4,50,000 resulting from the change in the method of depreciation.
- (iii) Rs.5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Ascertain the correct net profit to be shown in the Interim Financial Report of third quarter to be presented to the Board of Directors.



Question 11 : A Ltd.

A Ltd has Rs.1,02,000 net income for the quarter ended 31st December, 2017 including the following items.

Rs.16,000 cumulative effect loss resulting from change in method of inventory valuation method was recognised on Nov 2, 2017. Out of this loss Rs.10,000 relates to the previous quarters.

Compute the profit as per IND AS – 34 for the quarter ended 31st Dec, 2017.



Question 12 – X Limited

On 30-6-2011, X Limited incurred Rs.3,00,000 net loss from disposal of a business segment. Also on 31-7-2011, the company paid Rs.80,000 for property taxes assessed for the calendar year 2011. How should the above transactions be included in determination of net income of X Limited for the six months interim period ended on 30-9-2011?



Question 13 – SM Ltd.

SM Ltd shows the net profit of Rs.5,40,000 for the quarter III after incorporating the following

- Extraordinary loss of Rs.28,000 incurred during the quarter has been fully recognised in this quarter
- Additional Depreciation of Rs.36,000 resulting from the change of method of depreciation.

Do you agree with the treatments adopted by the company? If not, find out the correct quarterly income.



Question 14 : XY Limited

XY Limited reported a Profit Before Tax (PBT) of Rs. 18 lakhs for the third quarter ending 31st December 2024. Following observations are noted;

- Dividend income of Rs. 8 lakhs received during the quarter has been recognized to the extent of Rs. 2 lakh only.
- Sales promotion expenses Rs. 15 lakhs incurred in the third quarter, 70% has been deferred to the fourth quarter as the sales in the last quarter is high.
- In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of Rs. 4 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only Rs. 1 lakhs.
- Rs. 3 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of Rs. 5 lakhs. Out of this loss Rs. 2 lakhs relates to previous quarters.
- Sale of investment in the first quarter resulted in a gain of Rs. 30 lakhs. The company had apportioned this equally to the four quarters.

Calculate the result of the third quarter as per AS 25 and also comment on the company's view on each observation.

MCQs :

- AS 25 mandates the following in relation to interim financial reports.
 - which entities should publish interim financial reports.
 - how frequently it should publish interim financial reports.
 - how soon it should publish after the end of interim period.
 - none of the above.
- The standard defines Interim financial Report as a financial report for an interim period that contains a set of financial statements.
 - Complete
 - Condensed

- (c) Financial statement similar to annual
(d) Either complete or condensed
3. ABC Limited has reported Rs. 85,000 as per tax profit in first quarter and expects a loss of Rs. 25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first Rs. 20,000 earnings and 40% on all additional earnings. Calculate tax expenses that should report in first quarter interim financial report.
- (a) Rs. 17,000
(b) Rs. 30,000
(c) Rs. 2,000
(d) AS 25 does not mandate to report tax expenses
4. An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was Rs.10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were Rs.15 million. What would be the provision charged in the second quarter's interim financial statements?
- (a) Rs.1 million
(b) Rs. 2 million
(c) Rs. 1.25 million
(d) Rs. 1.5 million

Thanks



24

AS 26 INTANGIBLE ASSETS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. DEFINITIONS
2. RECOGNITION
3. MEASUREMENT
 - (A) INITIAL MEASUREMENT
 - (B) SUBSEQUENT MEASUREMENT
4. AMORTIZATION
5. DE-RECOGNITION
6. MCQ'S

1. DEFINITIONS :**(A) Intangible Assets :**

An intangible asset is

- an identifiable
- non-monetary asset
- without physical substance
- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

(B) An asset :

An Asset is a resource:

- a. Controlled by an enterprise
- b. As a result of past events and
- b. From which future economic benefits are expected to flow to the enterprise.

(C) Monetary assets :

Monetary Assets are money held and assets to be received in fixed or determinable amounts of money.

(D) Non-monetary Assets :

Non – monetary assets are assets other than monetary assets.

Examples :

Indigo airline Market Share = 65% ↓ Market Share – Identifiable = No	2 GT Rs.5.79 lakh Gore Order Book ↓ Order Book – Identifiable = Yes	Myntra ↓ Data – Identifiable = Yes Sepeable
--	--	---

**Question 1 : Sun Ltd.**

Sun Ltd has an expertise in consulting business. In past years, company has gained a market share for its services of 30 percent and considers recognizing it as an intangible asset. Is the action by company is justified?

2. RECOGNITION (FEB + COST + DEFINATION) :

The recognition of an item as an intangible asset requires

- a. It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

- b. The cost of the asset can be measured reliably; and
- c. The item meets the definition of an intangible asset



Question 2 : Company XYZ Ltd.

Company XYZ Ltd. has provided training to its staff on various new topics like GST, Ind AS etc. to ensure the compliance as per the required law. Can the company recognise such cost of staff training as intangible asset?



Question 3 : A Company

A company with a turnover of Rs 250 crores and an annual advertising budget of Rs 2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs 2 crore incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the company correct?



Question 4 : RM Ltd.

On Jan 1, 2020, RM Ltd incurred preliminary expenses of Rs 24,000, What portion of this cost can be deferred to years subsequent to 2020.



Question 5 : A Company

A Company with a turnover of Rs. 375 crores and an annual advertising budget of Rs. 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 37.5 crores from the new product. The company had debited to its

Profit and Loss account the total expenditure of Rs. 3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct?

3. MEASUREMENT :

(A) Initial Measurement :

As per AS-26, an item of intangible asset should be initially measured “At Cost”.

An Intangible Assets can be acquired by any of the following ways

- (a) Separate Acquisition
- (b) Acquisition as the part of Amalgamation
- (c) Acquisition by the way of Govt. Grant
- (d) Exchange of Asset

- (e) Internally generated Goodwill
- (f) Internally generated intangible Assets

(a) **Separate Acquisition :**



Question 6 : Jupiter Ltd.

Jupiter Ltd. Acquires new energy efficient technology that will significantly reduce its energy costs for manufacturing

1. Costs of new solar technology – 10,00,000
2. Trade discount provided – (1,00,000)
3. Training course for staff in new technology – 50,000
4. Initial testing of new technology – 35,000
5. Losses incurred while other parts of plant shut down during testing and training – 25,000

Calculate the amount of Intangible Asset.



Question 7 :

A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as Rs.100 per £. The seller allowed trade discount @ 2.5%. The other expenditure were :

- (i) Import Duty 10%
- (ii) Additional Import Duty 5%
- (iii) Entry Tax 2% (Recoverable later from tax department).
- (iv) Installation expense Rs.1,50,000.
- (v) Professional fees for clearance from customs Rs.50,000.

Computer the cost of software to be Capitalised as per relevant AS.

(b) **Acquisition as the part of Amalgamation :**



Question 8 : RM Ltd.

RM Ltd purchased Nish Ltd on 1/1/2020. Net Assets of Nish Ltd amounted to Rs 1,80,000. The total consideration paid by RM Ltd amounted to Rs 2,00,000. Calculate the amount of goodwill to be recognised by RM Ltd. RM Ltd spent additional amount of Rs 20,000 on expenditures designed to maintain goodwill. On 31st December, RM estimated that the benefit period of goodwill was 20 years. Calculate the amount of goodwill to be amortise and also calculate the carrying amount of goodwill after amortization.

(c) Acquisition by the way of Govt. grant. :

As per AS-12, an intangible asset acquired free of charge by way of government grant should be recorded at nominal value (i.e. Re.1/-).

(d) Exchange of Assets :

As per AS-26, intangible asset, an item of intangible asset acquired through exchange should be recorded at :

- (i) fair value of asset acquired or fair value of asset given up whichever is more reliable and
- (ii) if fair value is not available then at carrying amount of asset given up.

**Question 9 : Sun Ltd.**

Sun Ltd. acquired a software from Earth Ltd. in exchange for a telecommunication license. The telecommunication license is carried at Rs.5,00,000 in the books of Sun Ltd. The Software is carried at Rs.10,000 in the books of the Earth Ltd which is not the fair value. Advise journal entries in the following situations in the books of Sun Ltd and Earth Ltd:-

- 1) Fair value of software is Rs.5,20,000 and fair value of telecommunication license is Rs.5,00,000.
- 2) Fair Value of Software is not measureable. However similar Telecommunication license is transacted by another company at Rs.4,90,000.
- 3) Neither Fair Value of Software nor Telecommunication license could be reliably measured.

(e) Internally generated goodwill :

Internally generated goodwill cannot be recognised as an intangible asset. It is neither identifiable and not its cost can be measured reliably.

(f) Internally generated Intangible Assets :

In this case, the expenses on generation of asset should be classified into :

- Research Phase &
- Development Phase

Research Phase :

All expenses on research phase should be transferred to P & L A/c. and

Development phase :

Expenses on development phase before establishment of technical feasibility should be transferred to profit and loss account and after the establishment of technical feasibility, the expense should be capitalized.

**Question 10 : The company**

The company had spent RS 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2015-2016, but proved to be a failure. State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2016.

**Question 11 : K Ltd.**

K Ltd. launched a project for producing product X in October, 2018. The Company incurred Rs.40 lakhs towards Research and Development expenses upto 31st March, 2019. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

**Question 12 : An enterprise**

An enterprise is developing a new production process. During the year 2021, expenditure incurred was Rs 10 lacs, of which RS 9 lacs was incurred before 1 December 2021 and 1 lac was incurred between 1 December 2021 and 31 December 2021. The enterprise is able to demonstrate that, at 1 December 2021, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs 5 lacs.

During the year 2022, expenditure incurred is Rs 20 lacs. At the end of 2022, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs 19 lacs.

**Question 13 : M/s. Pasa Ltd.**

M/s. Pasa Ltd is developing a new production process. During the financial year ended 31st March 2019, the total expenditure incurred on the process was Rs. 80 lakhs. The production process met the criteria for recognition as an intangible asset on 01st November 2018. Expenditure incurred till this date was Rs. 42 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March 2020 was Rs. 90 Lakhs. As on 31.03.2020, the recoverable amount of know how to embodied in the process is estimated to be Rs. 82 lakhs. This includes estimates of future cash outflows and inflows

You are required to work out:

1. What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March 2019?
2. What is the carrying amount of the intangible asset as on 31st March 2019?
3. What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March 2020?
4. What is the carrying amount of the intangible asset as on 31st March 2020?



Question 14 : Pluto Ltd.

Pluto Ltd. intends to open a new retail store in a new location in the next few weeks. Pluto Ltd has spent a substantial sum on a series of television advertisements to promote this new store. The Company has paid an amount of Rs.800,000 for advertisements before 31st March, 2011. Rs.700,000 of this sum relates to advertisements shown before 31st March, 2011 and Rs.100,000 to advertisements shown in April, 2011. Since 31st March, 2011. The Company has paid for further advertisements costing Rs.400,000. Pluto Ltd is of view that such costs can be carried forward as intangible assets. Since market research indicates that this new store is likely to be highly successful. Please explain and justify the treatment of the above costs in the financial statements for the year ended 31st March, 2011



Question 15 : Mercury Ltd.

Mercury Ltd. is preparing its accounts for the year ended 31st March, 2012 and is unsure about how to treat the following items.

- (a) The company completed a grand marketing and advertising campaign costing Rs.4.8 lakh. The finance director had authorised this campaign on the basis that it would create Rs.8 lakh of additional profits over the next three years.
- (b) A new product was developed during the year. The expenditure totaled Rs.3 lakh of which Rs.1.5 lakh was incurred prior to 30th September, 2011, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at Rs.1.4 lakh.
- (c) Staff participated in a training programme which cost the company Rs.5 lakh. The training organisation had made a presentation to the directors of the company outlining that incremental profits to the business over the next twelve months would be Rs.7 lakh.

What amounts should appear as intangible assets in accordance with Ind AS 38 and Ind AS 36 in Mercury's balance sheet as on 31st March, 2012?

**Question 16 :**

As per provisions of AS-26, how would you deal to the following situations:

- (1) Rs. 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.
- (2) During the year 2021-22, a company spent Rs. 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- (3) A company spent Rs. 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize Rs. 25,00,000 by disclosing it as a prior period item.
- (4) A company with a turnover of Rs. 200 crores and an annual advertising budget of Rs. 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of Rs. 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of Rs. 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

**Question 17 : Development Phase Expenditure**

Development Phase Expenditure on a new production process in 2011-2012:

	Rs.
1st April to 31st December	2,700
1st January to 31st March	900
	3,600

The production process met the intangible asset recognition criteria for development on 1st January, 2012. The amount estimated to be recoverable from the process is Rs.1,000. What is the carrying amount of the intangible asset at 31st March, 2012 and the charge to profit or loss for 2011-2012?

Expenditure incurred in FY 2012-2013 is Rs.6,000.

At 31st March, 2013, the amount estimated to be recoverable from the process (including future cash outflows to complete the process before it is available for use) is Rs.5,000.

What is the carrying amount of the intangible asset at 31st March, 2013 and the charge to profit or loss for 2012-2013?

**Question 18 : T Ltd.**

T Ltd. is engaged in developing computer software. The expenditures incurred by T Ltd. in pursuance of its development of software are given below:

- A. Paid Rs.2,00,000 towards salaries of the program designers.
- B. Incurred Rs.5,00,000 towards other cost of completion of program design.
- C. Incurred Rs.2,00,000 towards cost of coding and establishing technical feasibility.
- D. Paid Rs.7,00,000 for other direct cost after establishment of technical feasibility.
- E. Incurred Rs.2,00,000 towards other testing costs.
- F. A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to Rs.70,000.
- G. On March 15, 20X1, the development phase was completed and a cash flow budget was prepared.

Net profit for the year was estimated to be equal Rs.40,00,000. How T Ltd. should account for the above mentioned cost?

**Question 19 : A Ltd.**

A Ltd. has started developing a new production process in financial year 2011-2012. Total expenditure incurred till September 30, 2013, was Rs.1,00,00,000. The expenditure on the development of the production process meets the recognition criteria on July 1, 2011. The records of A Ltd. show that, out of total Rs.1,00,00,000, Rs.70,00,000 were incurred during July to September, 2011. A Ltd. publishes its financial results quarterly. How A Ltd. should account for the development expenditure?

(B) Subsequent Expenditure :

As per AS-26, an intangible asset should be subsequently be carried "At Cost".

4. AMORTIZATION :

As per AS-26, there are three methods of Amortization :

- (A) Straight Line Method (SLM)
- (B) Written Down Value Method (WDV)
- (C) Unit of Production Method

Note : AS-26 adopts a presumption that the useful life of intangible asset shall not exceed 10 years (to be used only if the question does not specify the life of asset).

**Question 20 : ABC Ltd.**

ABC Ltd. developed know-how by incurring expenditure of Rs 20 lakhs, the know-how was used by the company from 1.4.2009. The useful life of the asset is 10 years from the year

of commencement of its use. The company has not amortised the asset till 31.3.2016. Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2016.



Question 21 : RM Ltd.

RM Ltd acquired a patent at a cost of Rs 80,00,000 for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at Rs 10,00,000 per annum. After 2 years it was found that the product life cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be Rs 36,00,000, Rs 46,00,000, Rs 44,00,000, Rs 40,00,000 and Rs 34,00,000. Find out the amortization cost of the patent for each of the year.



Question 22 :

A company acquired a patent at the cost of Rs 320 lakhs. The company capitalised the cost and started amortization the asset at Rs 32 lakhs per year based on the economic benefits derived from the product manufactured under patent. After 2 years it was found that the that product life cycle may continue for another 5 years from the then (the patent is renewable and the company can get renewed after 5 years). The net cash flows from the product during these 5 years were expected to be Rs 50 lakhs, 30 lakhs, 60 lakhs, Rs 70 lakhs and Rs 40 lakhs. Find out the amortisation cost of the patent for each of years.



Question 23 : Swift Limited

Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of Rs. 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (Rs. in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be Rs. 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.



Question 24 : X Limited

X Limited engaged in the business of manufacturing fertilisers entered into a technical collaboration agreement with a foreign company Y Limited. As a result, Y Limited would provide the technical know-how enabling X Limited to manufacture fertiliser in a more

efficient way. X Limited paid Rs.10,00,00,000 for the use of know-how for a period of 5 years. X Limited estimates the production of fertiliser as follows:

Year	(In metric tons)
1	50,000
2	70,000
3	1,00,000
4	1,20,000
5	1,10,000

At the end of the 1st year, it achieved its targeted production. At the end of 2nd year, 65,000 metric tons of fertiliser was being manufactured, and X Limited considered to revise the estimates for the next 3 years. The revised figures are 85,000, 1,05,000 and 1,15,000 metric tons for year 3, 4 & 5 respectively.

How will X Limited amortise the technical know-how fees as per Ind AS 38?

5. DE-RECOGNITION :

An intangible asset should be derecognized if

- (a) the asset is disposed or
- (b) when no future economic benefit is expected from its use

Note : On de-recognition, any gain or loss should be transferred 'to Profit and Loss A/c.'

6. MCQs :

1. Which of the following is not covered within the scope of AS 26?
 - (a) Intangible assets held-for-sale in the ordinary course of business
 - (b) Assets arising from employee benefits
 - (c) (a) & (b) both
 - (d) Research and development activities
2. Intangible asset is recognised if it:
 - (a) meets the definition of an intangible asset
 - (b) is probable that future economic benefits will flow
 - (c) the cost can be measured reliably
 - (d) meets all of the above parameters
3. Sun Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of AS 26:
 - (a) Recognise Computer and software as tangible asset
 - (b) Recognise tangible and intangible separately
 - (c) Recognise computer and software as intangible asset
 - (d) Does not recognize the software as an asset.

25

AS 27 FINANCIAL REPORTING OF INTEREST IN JOINT VENTURES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. FORMS OF JOINT VENTURE
3. JOINTLY CONTROLLED OPERATIONS (JCO)
4. JOINTLY CONTROLLED ASSETS (JCA)
5. JOINTLY CONTROLLED ENTITIES (JCE)
6. CONSOLIDATED FINANCIAL STATEMENTS OF A VENTURER
7. MCQ'S

“Pressure is a privilege.”

1. INTRODUCTION :

You would have come across many examples where 2 or more entities would have worked together to achieve a certain purpose. Hindustan Unilever Ltd (HUL), Tata Starbucks Ltd, Tata SIA Airlines Ltd. (Vistara), etc. are a few popular examples of Joint Ventures. Entities enter into such arrangements considering sharing of risk and expense, collaboration of know-how and skill-set, while also impacted by different work-cultures and management style. Depending on the contractual arrangement, the accounting and reporting for Joint Ventures is done.

The standard deals with three broad types of joint ventures –

1. Jointly controlled operations,
2. Jointly controlled assets and
3. Jointly controlled entities.

2. FORMS OF JOINT VENTURE :

Joint ventures may take many forms and structures, this Statement identifies them in three broad types –

- ✚ Jointly Controlled Operations (JCO),
- ✚ Jointly Controlled Assets (JCA) and
- ✚ Jointly Controlled Entities (JCE).

Any structure which satisfies the following characteristics can be classified as joint ventures:

- a) Two or more venturers are bound by a contractual arrangement and
- b) The contractual arrangement establishes joint control.

3. JOINTLY CONTROLLED OPERATIONS (JCO) :

Under this set up, venturers do not create a separate entity for their joint venture business but they use their own resources for the purpose. They raise any funds required for joint venture on their own, they incur any expenses and sales are also realised individually. They use same set of assets and employees for joint venture business and their own business. The joint venture agreement usually provides means by which the revenue from the jointly controlled operations and any expenses incurred in common are shared among the venturers.

Since there is no separate legal entity and venturers don't recognize the transactions separately, they do not maintain a separate set of books for joint venture. All the transactions of joint venture are recorded in their books only.

In respect of its interests in jointly controlled operations, a venturer should recognise in its separate financial statements and consequently in its consolidated financial statements:

- (a) the assets that it controls and the liabilities that it incurs; and
- (b) the expenses that it incurs and its share of the income that it earns from the joint venture.

**Question 1 : Mr. A, Mr. B and Mr. C**

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for Rs 60,00,000 on 01.01.20X1 and for the purpose he took loan from a bank for Rs 50,00,000 @ 8% interest p.a. He also paid registering fees Rs 60,000 on the same day. Mr. B supplied the materials for Rs 4,50,000 from his godown and further he purchased the materials for Rs 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be Rs 9,00,000. On 30.06.20X1 each of the venturer agreed to take away one flat each to be valued at Rs 10,00,000 each flat and rest were sold by them as follow: Mr. A for ` 40,00,000; Mr. B for Rs 20,00,000 and Mr. C for Rs 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally. You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer.

4. JOINTLY CONTROLLED ASSETS (JCA) :

Separate legal entity is not created in this form of joint venture but venturer owns the assets jointly, which are used by them for the purpose of generating economic benefit to each of them. They take up any expenses and liabilities related to the joint assets as per the contract.

**Question 2 : A Ltd., B Ltd. and C Ltd.**

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings Rs 12,00,000 to be depreciated @ 5% p.a., Pipeline for Rs 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for Rs 3,00,000 to be depreciated @ 40% p.a. and various vehicles of Rs 9,00,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to Rs 6,00,000 each year.

You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

5. JOINTLY CONTROLLED ENTITIES (JCE) :

This is the format where venturer creates a new entity for their joint venture business. A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements applicable to that jointly controlled entity

**Question 3 : A Ltd.**

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr (Rs)	Cr (Rs)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at Rs 1,00,000.

You are required to prepare the Consolidated Financial Statement.

6. CONSOLIDATED FINANCIAL STATEMENTS OF A VENTURER :

Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

Proportionate consolidation method of accounting is to be followed except in the following cases:

- A) Investment is intended to be temporary because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. And
- B) joint venture operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the venturers.

In both the above cases, investment of venturer in the share of the investee is treated as investment according to AS 13.

**Question 4 : A Ltd.**

A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd	B Ltd	C Ltd
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	16,00,000	12,00,000

Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	-
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.

7. MCQs :

- State which of the following statements are incorrect.
 - The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.
 - The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.
 - An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23 as the case may be.
 - Point (i) is incorrect.
 - Point (ii) is incorrect.
 - Point (iii) is incorrect.
 - None of the above
- Identify which of the following is not a feature of a Jointly controlled operations (JCO):
 - Each venturer has his own separate business.
 - There is a separate entity for joint venture business.
 - Each venturer record only his own transactions without any separately set of books maintained for the joint venture business.
 - There is a common agreement between all of them.
- Identify which of the following is/are not a feature of a Jointly controlled assets (JCA):
 - There is a separate legal identity.
 - There is a common control over the joint assets.
 - Expenses on jointly held assets are shared by the venturers as per the contract.
 - In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.
 - Point no. (i) only.
 - Point no. (i) and (iii).
 - Point no. (iii) and (iv).
 - Point (i) and (ii).
- Identify which is/ are features of a Jointly controlled entity (JCE):
 - Venturer creates a new entity for their joint venture business.

26

AS 28 IMPAIRMENT OF ASSETS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. IMPAIRMENT LOSS
3. INDICATORS OF IMPAIRMENT
4. CASH GENERATING UNIT
5. GOODWILL
6. CORPORATE ASSETS
7. REVERSAL OF IMPAIRMENT
8. MCQ'S

"Stay hungry. Stay foolish."

1. INTRODUCTION :

An asset is defined as any resource controlled by the enterprise arising out of past events from which future economic benefit will flow to the enterprise.

From the above definitions it is clear that asset represents future economic benefits and therefore should be measured according to the benefit that is expected from the asset.

However, if there is any decline in the amount of benefit that is expected from the asset, then it should be revalued downward to reflect the amount of benefit that is expected from the asset.

Note : Impairment is over and above the depreciation and downward revaluation.

2. IMPAIRMENT LOSS :

If the carrying amount of the asset is more than its recoverable amount, the excess of the carrying amount over its recoverable amount is known as impairment loss.

“Impairment Loss = Carrying Amount – Recoverable Amount”

Recoverable amount is higher of

- 1) Fair value – Cost to sales or
- 2) Value in use

Value in use = “PV of all future cashflow”

**Question 1 : Rainbow Limited**

Jupiter Ltd, a leading manufacturer of steel is having a furnace, which is carried in the balance sheet on 31.03.2011 at Rs.250 lakh. As at that date the value in use and Fair value is Rs.200 lakh. The cost of disposal is Rs.13 lakh.

Calculate the Impairment Loss to be recognised in the books of the Company?

**Question 2 : Venus Ltd.**

Venus Ltd. has an asset, which is carried in the Balance Sheet on March 31, 2011 at Rs.500 lakh. As at that date the value in use is Rs.400 lakh and the fair value less costs to sells is Rs.375 lakh.

From the above data:

- (a) Calculate impairment loss.
- (b) Prepare journal entries for adjustment of impairment loss.

(c) Show, how impairment loss will be shown in the Balance Sheet.



Question 3 : X Ltd.

X Ltd. is having a plant (asset) carrying amount of which is Rs.100 lacs on 31.03.2015. Its balance useful life in 5 years and residual value at the end of five years is Rs.5 lacs. Estimated future cash flows from using the plant in next five years are :

For the year ended on	Estimated Cash flows (Rupees in lacs)
31.03.2016	50
31.03.2017	30
31.03.2018	30
31.03.2019	20
31.03.2020	20

Calculate “value in use” for plant if the applicable discounts rate is 10% and also calculate the recoverable amount if the net selling price of plant on 31.03.2015 is Rs.60.00 lacs.



Question 4 : X Ltd.

NDA Ltd. acquired a machine for Rs.32,00,000 on 30.11.2015. The machine has five years life with Rs.5 lacs salvage value and was depreciated using straight – line method.

Present value of future cash flow	Rs.1,35,000
Net Selling price	Rs.15,50,000
Salvage value estimated	NIL

Assuming loss for impairment is recognized for the year 31.03.2016. What should be the depreciation expense for the year ended 31.03.2017?



Question 5 : Uttaranchal Industries Ltd.

Uttaranchal Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31.12.2015. The discount rate is 15%

Year	Cash Flows (Rs. In lacs)
2016	2000
2017	3000
2018	3000
2019	4000
2020	2000

Residual value at the end of 2020 is Rs.500 lacs

Fixed asset purchased on 01.01.2013 for Rs.20000 lacs

Useful life is 8 years

Residual value estimated Rs.500 lakhs at the end of 8 years

Net Selling price Rs.10,000 lacs

Calculate on 31.12.2015

- a. Carrying amount at the end of 2015
- b. Value in use on 31.12.2015
- c. Recoverable amount on 31.12.2015
- d. Impairment loss to be recognized for the year ended 31.12.2015
- e. Revised carrying amount
- f. Depreciation charges for 2016.

3. INDICATORS OF IMPAIRMENT :

An entity should check for impairment “only if conditions exists”.

Conditions can be classified into :

- A) External sources
- B) Internal sources

A) External Sources :

- i) Decline in market value of Asset.
- ii) Changes in technological, economic market or legal environment.
- iii) Increase in market rate of interest (this increase id discounting rate).
- iv) The carrying amount.

B) Internal Sources :

- i) Physical damage or obsolesce of asset.
- ii) Significant damages within the enterprise.
- iii) Evidence of asset not performing to its capacity.



Question 6 :

From the following details of an asset, find out:

- (a) Impairment loss and its treatment.
- (b) Current year depreciation for the year end.

Particulars of assets:

Cost of Asset	Rs 56 lakhs
Usefull Life	10 years
Salvage Value	Nil
Carrying Value at the beginning of the year	Rs 27.30 lakhs
Remaining useful life	3 years
Recoverable amount at the beginning of the year	12 lakhs

Upward revaluation done in last year	14 lakhs
--------------------------------------	----------

**Question 7 : NDA Ltd.**

NDA Ltd. acquired plant on 01.04.2008 for Rs.50.00 lakhs having 10 years useful life and provides depreciation on SLM with nil residual value. On 01.04.2013, NDA Ltd revalued the plant at Rs.29 lakhs against its book value of Rs.25 lakhs and credited Rs.4 lakhs to revaluation reserve.

On 31.03.2015 the plant was impaired and its recoverable amount on this date was Rs.14 lakhs. Calculate the Impairment loss and how this loss should be treated in the accounts.

**Question 8 : G Ltd.**

G Ltd., acquired a machine on 1st April, 2010 for Rs.7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at Rs.5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2016, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only Rs.79 lakhs. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of G Ltd. G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

**Question 9 : X Ltd.**

X Ltd. purchased a Property, Plant and Equipment four years ago for Rs.150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at Rs.75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is Rs.67.50 lakhs and expected disposal costs are Rs.3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at Rs.60 lakhs?

**Question 10 :**

An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at Rs.6,00,000. The estimated cost of destroying the asset is Rs.70,000. How is the asset to be accounted for?

**Question 11 : A plant**

A plant was acquired 15 years ago at a cost of Rs.5 crores. Its accumulated depreciation as at 31st March 2014 was Rs.4.15 crores. Depreciation estimated for the financial year 2014-15 is Rs.25 lakhs. Estimated Net Selling Price as on 31st March 2014 was Rs.30 lakhs, which is expected to decline by 20% by the end of the next financial year.

Its value in use has been computed at Rs.35 lakhs as on 01st April 2014, which is expected to decrease by 30% by the end of the financial year.

- i. Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31.03.2015?
- ii. How much will be the amount of write off for the financial year ended 31.03.2015?
- iii. If the plant has been revalued ten years ago and the current revaluation reserves against this plant were to be Rs.12 Lakhs, how would your answer change?

If the value in use was zero and the enterprises were required to incur a cost of Rs. 2 lakhs to dispose of the plant (i.e. NSP = - Rs.2 lacs), what should be your response to questions (i) and (ii) above?

4. CASH GENERATION UNIT (CGU) :

A cash generating unit is the smallest identifiable group of asset that generates cashflows that are independent of cashflows from other assets on group of assets.

**Question 12 :**

A cash generating unit has these net assets

	Rs in million
Goodwill	10
Property	20
Plant and Equipment	30
Total	60

The recoverable Amount has been determined at Rs.45 million.

Required :

Allocate the impairment loss to net assets of the entity.

**Question 13 : A publisher**

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable

for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

**Question 14 : A mining entity**

A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine. Should the entity determine the recoverable amount for the private railway or for the mining business as a whole?

**Question 15 : In north campus**

In north campus there are ten college under Delhi University having their own canteens, which provides food and beverage to be students and staff. Under a policy of the University the contract of running all the ten college canteens will be given to only one contractor. Out of these 7 canteens are profitable but 3 are loss making. Identify cash generating units.

**Question 16 : Reliance Ltd.**

Reliance Ltd. is a multi-product manufacturing company, its corporate office is housed in a building, as the area if building is large, the Reliance Ltd. has let out 1/3 area of building at a monthly rent of Rs.50 lakhs, the lease agreement with tenant is for next 5 years. Is the building cash-generating unit? If not what is the cash generating unit out of building?

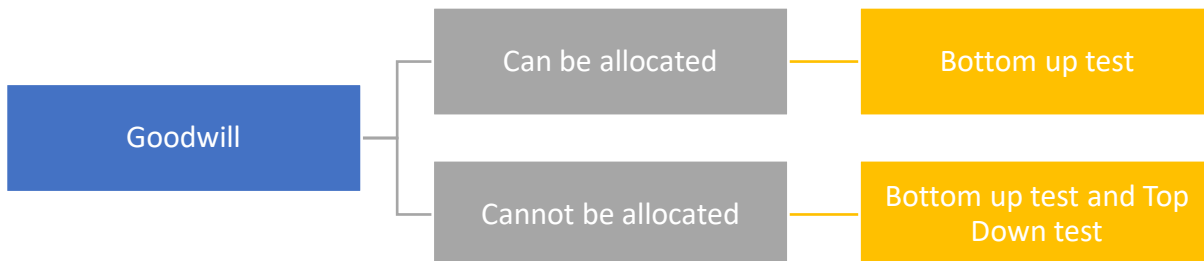
**Question 17 : Kay Ltd.**

Kay Ltd. purchased a Fixed Asset four year back at a cost of Rs.100 lakhs and depreciates it on SLM basis at 10% per annum. At the end of this year, it has revalued the asset at Rs.50 lakhs and has written off the loss on revaluation to the Profit and Loss Account. However on the date revaluation, the Market Price is Rs.45 lakhs and the expected disposal costs are Rs.2 lakhs. What will be the treatment in respect of Impairment Losses in the following situation on the basis that fair value for revaluation purpose is determined by market value?

- a. Value in Use in not estimated
- b. Value in use is estimated at Rs.40 lakhs
- c. Value in use is estimated at Rs.48 lakhs

5. GOODWILL :

Goodwill on its own does not generate independent cashflows and therefore calculating recoverable amount of goodwill alone is not possible. The goodwill should be allocated to a specific CGU if possible and if not then to group of CGU's.

**Question 18 : A Ltd.**

On 1/1/2003 A Ltd. acquired net assets of B Ltd. for Rs.70,00,000. The fair value of net assets was estimated at Rs.60,00,000. The goodwill, if any, was to be amortised over a period of 8 years, whereas the net assets were to be depreciated over 10 years (with no salvage value). During the year 2006, there was an indication of the impairment loss in respect of these assets. So, the cash inflows for the remaining life of the assets were estimated to be Rs.12,00,000, Rs.9,50,000, Rs.8,00,000, Rs.8,30,000, Rs.8,00,000, Rs.8,50,000 and Rs.6,00,000 respectively. The discount rate applicable to the company is 12%.

Find out impairment loss to be recognised by the company. How should it be treated?

**Question 19 : X Ltd.**

On 1/1/2000 X Ltd acquired Assets of Y Ltd. at a price of Rs.90,00,000. The fair value of Assets was established to be Rs.75,00,000. Assets is to be depreciated @10% and goodwill over 5 years. At the beginning of 2003 new govt. was voted to power and has some policy changes that affected the entity badly. Recoverable Amount was Rs.49,00,000. Calculate Impairment Loss and show the treatment.

**Question 20 : A Ltd.**

A Ltd. has 3 CGU with the fair value of Assets of these units in the ratio of 3 : 2 : 1 for unit A, B and C respectively.

B Ltd. acquired all the three cash generating units of A Ltd. at a price of Rs.2,500 lacs and recognised a goodwill of Rs.600 lacs at the time of acquisition. After a few years, it is found that unit A is incurring losses and the recoverable amount of unit A is 750 lacs. Presently the carrying amount of these units are Rs.725 lacs, Rs.500 lacs and Rs.220 lacs. The

goodwill is appearing at Rs.420 lacs in the financial statements. Find the impairment loss to be recognised for CGU A, if

- A. Goodwill can be allocated to cash generating units on a reasonable basis, and
- B. Goodwill cannot be allocated to cash generating units and the recoverable amount of the three units taken together is
 - (i) Rs. 1700 or
 - (ii) Rs. 1400

6. CORPORATE ASSETS :

Similar to goodwill even corporate assets do not create their independent cashflows. The treatment of corporate assets should be very similar to goodwill except any impairment loss should be changed to corporate assets and CGU in the ratio of their carrying amounts.



Question 21 : An Enterprise

An enterprise has 3 CGU I, II, and III which have carrying amount of Rs.20,00,000, Rs.30,00,000 and Rs.40,00,000 respectively. There are some indications for the impairment of assets of the enterprise. Besides the CGU there is a Head office (H.O) building and Research centre appearing at the value of Rs.40,00,000 and Rs.15,00,000 respectively.

The remaining life of unit 1 is 8 years while units II and III have life of 10 years. The carrying amount of H.O can be allocated on a reasonable basis to CGU I, II and III but the carrying amount of Research centre cannot be so allocated.

In order to identify the impairment loss, the net selling price of these unit were estimated at Rs.20,00,000, Rs.28,00,000 and Rs.50,00,000 respectively. However, the annual cash flows expected from these units over the remaining life are Rs.3,20,000 (unit 1), Rs.3,10,000 (unit II) and Rs.5,70,000 (unit III). The discount rate applicable to the enterprise is 12%. The recoverable amount of the total enterprise is Rs.1,15,00,000. Find out the impairment loss to be recognised and show the allocation of impairment loss to be recognised and show the allocation of impairment loss.

7. REVERSAL OF IMPAIRMENT :

An Entity should assess for any conditions that indicates reversal of impairment. Further the impairment of goodwill cannot be reversed.

The revised carrying amount after the reversal should be that lower of :

- a) carrying amount as if there was no impairment; and
- b) the recoverable amount.

**Question 22 : P Ltd.**

At the end of year 2000 P Ltd acquired Assets of Q Ltd. at a price of Rs.90,00,000. The fair value of Assets was established to be Rs.75,00,000. Assets is to be depreciated @10% and goodwill over 5 years. At the beginning of 2003 new govt. was voted to power and has some policy changes that affected the entity badly. Recoverable Amount was Rs.49,00,000.

During the year 2005, the government adopted liberal policies which are expected to improve the working position and profitability of P Ltd. the recoverable amount at the end of year 2005, is estimated at Rs.40,00,000.

Find out the impairment loss in year 2003 and the reversal of impairment loss and its treatment in the year 2005.

**Question 23 : RM Ltd.**

RM Ltd. is in the business of manufacturing and export. In 2005, the government put a restriction on export of goods leading to impairment of its Assets. RM Ltd acquired at the end of 2001, identifiable assets worth Rs.400 lakhs for Rs.600 lakhs, the balance being treated as goodwill. The usefull life of the identifiable assets is 15 years and depreciated on SLM. When government put the restriction at the end of 2005, the company recognised the impairment loss by determining the recoverable amount of assets at Rs.272 lakhs. In 2007, the restriction was withdrawn by the government and due to this favourable change RM Ltd. estimates its recoverable amount at Rs.342 lakhs.

You are required to

- a. calculate and allocate impairment loss in 2005
- b. compute amount of Reversal of impairment loss and its allocation in 2007.

8. MCQs :

1. If there is indication that an asset may be impaired but the recoverable amount of the asset is more than the carrying amount of the asset, the following are true:
 - (a) No further action is required and the company can continue the asset in the books at the book value itself.
 - (b) The entity should review the remaining useful life, scrap value and method of depreciation and amortization for the purposes of AS 10.
 - (c) The entity can follow either (a) or (b).
 - (d) The entity should review the scrap value and method of depreciation and amortization for the purposes of AS 10.
2. In case Goodwill appears in the Balance Sheet of an entity, the following is true:

- (a) Apply Bottom up test if goodwill cannot be allocated to CGU (cash generating unit) under review.
 - (b) Apply Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
 - (c) Apply both Bottom up test and Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
 - (d) Apply either Bottom up test or Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
3. In case of Corporate assets in the Balance Sheet of an entity, the following is true:
- (a) Apply Bottom up test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
 - (b) Apply Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
 - (c) Apply both Bottom up test and Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
 - (d) Apply either Bottom up test or Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
4. In case of reversal of impairment loss, which statement is true:
- (a) Goodwill written off can never be reversed.
 - (b) Goodwill written off can be reversed without any conditions to be met.
 - (c) Goodwill written off can be reversed only if certain conditions are met.
 - (d) Goodwill written off can be reversed.

Thanks



27

AS 29 PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. PROVISIONS
2. CONTINGENT LIABILITIES
3. CONTINGENT ASSETS
4. MCQ'S

“Greatness is earned, never given.”

1. PROVISIONS :**1.1 Definitions :****1. Provisions :**

A **Provision** is a liability which can be measured only by using a substantial degree of estimation.

2. Liability :

A **Liability** is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

3. Obligating Event :

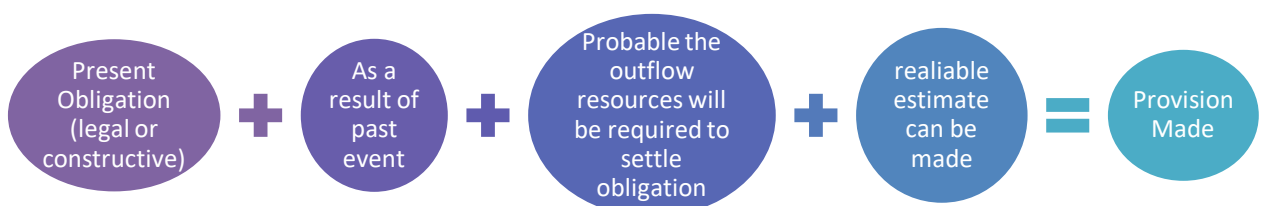
An **Obligating event** is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

4. A legal obligation is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

5. A constructive obligation is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

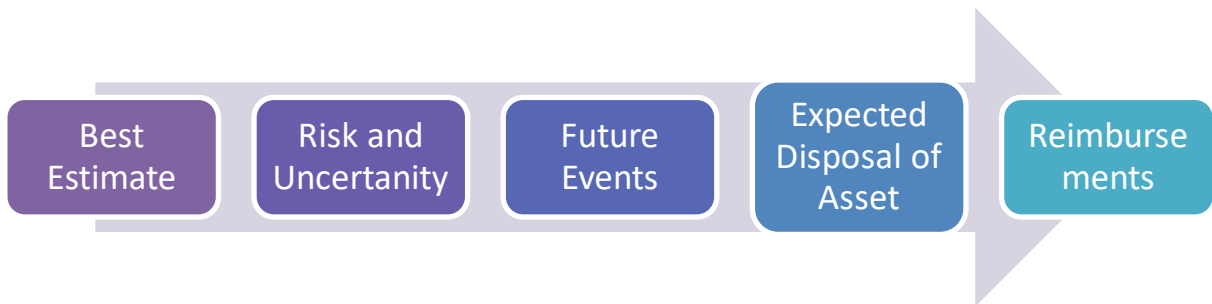
6. Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.**7. Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.****1.2. Recognition :**

A provision should be recognised when:

- (a) An enterprise has a present obligation as a result of a past event;
- (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

1.3 Measurement :



1. Best Estimate :

The amount should be the best estimate of the expenditure determined by the judgment of the management, supplemented by experience of similar transactions and reports from independent experts.

2. Risk and Uncertainties :

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

3. Future Events :

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision

The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted.

4. Expected Disposal of Assets :

Gains on the expected disposal of assets are not taken into account in measuring a provision.

5. Reimbursements :

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when,

and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation.

**Question 1 : X Shipping Ltd.**

X Shipping Ltd. is required by law to overhaul its shipping fleet once in every 3 years. The company's finance team was of the view that recognising the costs only when paid would prevent matching of revenue earned all the time with certain costs of large amounts which are incurred occasional. Thereby, it has formulated an accounting policy of providing in its books of account for the future cost of maintenance (overhauls, annual inspection etc.) by calculating a rate per hours sailed on sea and accumulating a provision over time. The provision is adjusted when the expenditure is actually incurred. Is the accounting policy of X Shipping Ltd. correct?

**Question 2 : X Chemical Ltd.**

X Chemical Ltd. is operating in the vicinity of a river since 20 years. A community living near X Chemical Ltd. claims that its operations has caused contamination of drinking water. X Chemical Ltd. has received notice from the governmental environmental agency that official investigations will be made into claims of pollution caused by the entity. If it is found that X Chemical Ltd. has caused contamination, then penalties and fine would be levied on it.

X Chemical Ltd. believes that it has implemented all environmental safety measures to an extent that it is unlikely to cause pollution. Management is not sure whether it has all the information about the entire 20 years. Therefore, neither management nor external experts are able to assess X Chemical Ltd.'s responsibility until the investigation has completed.

In such situation, how should management of X Chemical Ltd. account for a liability?

**Question 3 : RM Solar Power Ltd.**

RM Solar Power Ltd., a power company, has a present obligation to dismantle its plant after 35 years of useful life. RM Solar Power Ltd. cannot cancel this obligation or transfer to third party. RM Solar Power Ltd. has estimated the total cost of dismantling at Rs.50,00,000, the present value of which is Rs.30,00,000. Based on the facts and circumstances, RM Solar Power Ltd. considers the risk factor of 5% i.e., the risk that the actual outflows would be more from the expected present value. How should RM Solar Power Ltd. account for the obligation?

**Question 4 : RM Chemicals Ltd.**

RM Chemicals Ltd. engaged in the chemical industry causes environmental damage by dumping waste in the river near its factory. It does not clean up because there is no environmental legislation requiring cleaning up and RM Chemicals Ltd. is causing damage for last 40 years. As at March 31, 2012, the State Legislature has passed a path breaking legislation requiring all polluting factories to clean-up the river water already contaminated. The formal Gazette notification of the law is pending. How should RM Chemicals Ltd. deal with this situation?

**Question 5 : X Beauty Solutions Ltd.**

X Beauty Solutions Ltd. is selling cosmetic products under its brand name 'B', but it is getting its product manufactured from Y Ltd. It has an understanding (enforceable agreement) with Y Ltd. that if the company becomes liable for any damage claims, due to any injury or harm to the customer of the cosmetic products, 30% will be reimbursed to it by Y Ltd. During the financial year 2011-2012, a claim of Rs.30,00,000 becomes payable to customers by X Beauty Solutions Ltd. How should X Beauty Solutions Ltd. account for the claim that becomes payable?

1.4 Changes in Provisions :

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

1.5 Use of Provisions :

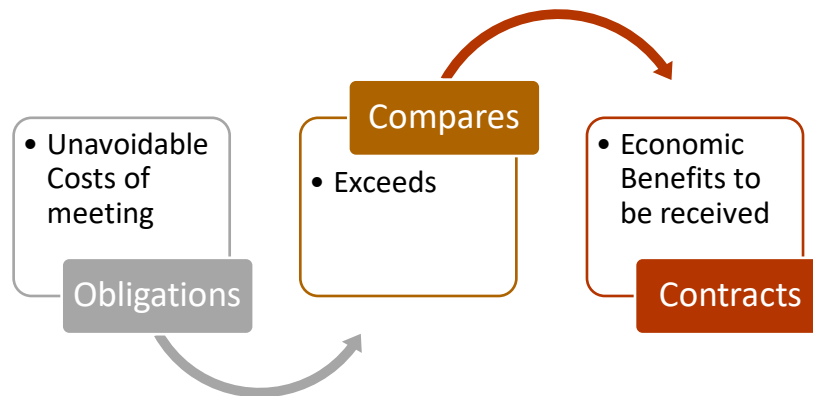
A provision should be used only for expenditures for which the provision was originally recognised. Only expenditures that relate to the original provision are adjusted against it. Adjusting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

1.6 Application of Recognition and Measurement Rules :**1. Future Operating Losses :**

Future operating losses do not meet the definition of a liability and the general recognition criteria, therefore provisions should not be recognised for future operating losses.

2. Onerous Contracts :

If an entity has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision



3. Restructuring :

A provision for restructuring costs is recognised only when the recognition criteria for provisions are met. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e., there is a binding sale agreement.

Question 6 : X Packaging Ltd.

X Packaging Ltd. has two segments, packaging division and paper division. In March 2011, the board of directors approved and announced a formal plan to sell the paper division in June 2011. Operating losses of the paper division are estimated to be approximately R. 50,00,000 during the period from April 1, 2011 to the expected date of disposal. Management of X Packaging Ltd. wants to include the future operating loss of Rs.50,00,000 in a provision for restructuring in the financial statements for the period ended March 31, 2011. Can X Packaging Ltd. include these operating losses in a provision for restructuring?

Question 7 : X Metals Ltd.

X Metals Ltd. had entered into a non-cancellable contract with Y Ltd. to purchase 10,000 units of raw material at Rs.50 per unit at a contract price of Rs.5,00,000. As per the terms of contract, X Metals Ltd. would have to pay Rs.60,000 to exit the said contract. X Metals Ltd. has discontinued manufacturing the product that would use the said raw material. For that X Metals Ltd. has identified a third party to whom it can sell the said raw material at Rs 45 per unit.

How should X Metals Ltd. account for this transaction in its books of account in respect of the above contract?

Question 8 : X Cements Ltd.

X Cements Ltd. has three manufacturing units situated in three different states of India. The board of directors of X Cements Ltd., in their meeting held on January 10, 2011, decided to close down its operations in one particular state on account of environmental

reasons. A detailed formal plan for shutting down the above unit was also formalised and agreed by the board of directors in that meeting, which specifies the approximate number of employees who will be compensated and expenditure expected to be incurred. Date of implementation of plan has also been mentioned. Meetings were also held with customers, suppliers, and workers to communicate the features of the formal plan to close down the operations in the said state, and representatives of all interested parties were present in those meetings. Do the actions of the board of directors create a constructive obligation that needs a provision for restructuring?



Question 9 : A Ltd.

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	Amount (Rs.)
11th Feb, 2020	60,000
25th Dec, 2020	40,000
04th Oct, 2021	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2021 and 31st March, 2022. Also compute amount to be debited to P & L account for the year ended 31st March, 2022

2. CONTINGENT LIABILITIES :

2.1 Definitions :

A Contingent liability is:

- (a) A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- (b) A present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) A reliable estimate of the amount of the obligation cannot be made.

Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

2.2 Recognition :

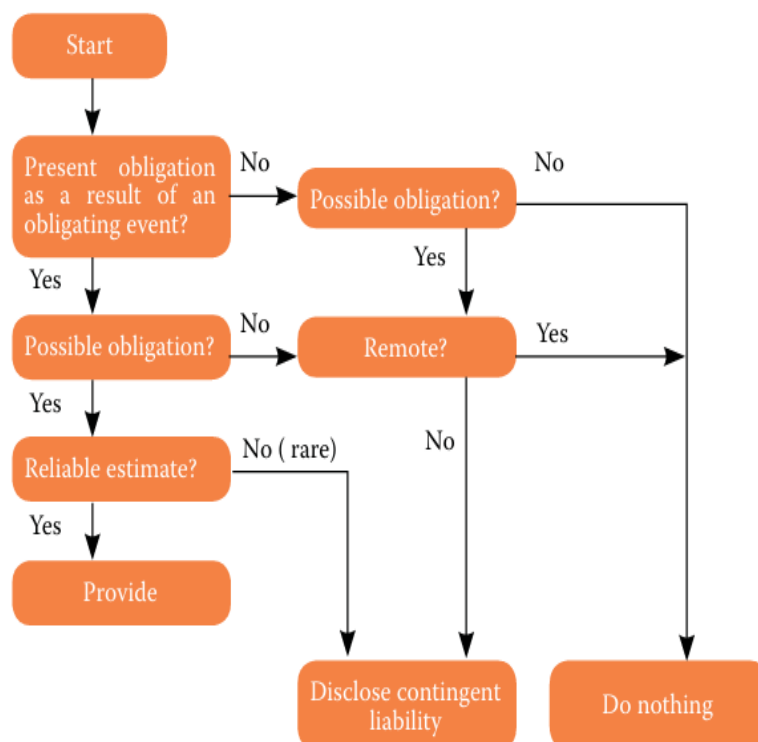
An enterprise should not recognise a contingent liability but should be disclosed. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.3 Provisions v/s Contingent Liabilities :

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation the one whose existence at the balance sheet date is considered probable; or (b) a possible obligation the existence of which at the balance sheet date is considered not probable.

There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation.	There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.
A provision is recognised.	No provision is recognised.	No provision is recognised.
Disclosures are required for the provision.	Disclosures are required for the contingent liability.	No disclosure is required.

2.4 Decision Tree :



**Question 10 : M/s. XYZ Ltd.**

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of Rs.200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company. How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

**Question 11 :**

Explain whether provision is required in the following situations in line with AS 29:

- (i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation;
- (ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.
- (iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.

**Question 12 : Alloy Fabrication Limited**

Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31st March, 2022 and needs your advice on the following issues in line with the provisions of AS-29 .

- (i) On 1st April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31st March, 2022, the company does not provide any provision for replacement of lining of the furnace.
- (ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of 50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of Rs.5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalisation of the case. There are 70% chances that the penalty may not be levied.

3. CONTINGENT ASSETS :**3.1 Definition :**

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise.

3.2. Recognition :

An enterprise should not recognise a contingent asset, since this may result in the recognition of income that may never be realised.

3.3. Disclosure :

A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving authority where an inflow of economic benefits is probable.

Note :

Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity		
The inflow of economic benefits is virtually certain	The inflow of economic benefits is probable, but not virtually certain	The inflow is not probable
The asset is not contingent and its recognition is appropriate	No asset is recognised	No asset is recognised
	Disclosures are required	No disclosure is required

**Question 13 : Board of Directors**

At the end of the financial year ending on 31st March, 2022, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows :

Particulars	Probability	Loss (Rs.)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	50%	-
Lose (Low damages)	40%	12,00,000
Lose (High damages)	10%	20,00,000
Remaining five cases		
Win	50%	-
Lose (Low damages)	30%	10,00,000
Lose (High damages)	20%	21,00,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS - 29.



Question 14 : An Engineering

An Engineering goods company provides 'after sales warranty' for 2 years to its customers. Based on the past experience, the company has been following policy for making provision for warranties on the Invoice amount on the remaining balance warranty period :

Invoice less than 1 year : 2.5% provision

Invoice more than 1 year : 4.5% provision

The Company has raised Invoices as under :

Invoice Date	Rs.
20 th February, 2021	42,000
17 th July, 2021	25,000
27 th January, 2022	47,000
1 st March, 2023	1,10,000
24 th August, 2023	34,000
20 th March, 2024	75,000

You are required to:

- Calculate the provision to be made for warranty under AS 29 as at 31st March, 2023 and 31st March, 2024 :
- Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2024.

4. MCQs :

- Which of the following best describes a provision?
 - A provision is a liability of uncertain timing or amount.
 - A provision is a possible obligation of uncertain timing.
 - A provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.
 - A provision is a possible obligation of uncertain amount.
- X Co is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, X Co will repair it free of charge. At 1st March 20X1, X Co had made a provision for repairs of Rs. 25,000. At 31st March 20X1, X Co calculated that the provision should be Rs. 20,000. What entry should be made for the provision in X Co's income statement for the month 31st March 20X1?

(a) A charge of Rs. 5,000	(b) A credit of Rs. 5,000
(c) A charge of Rs. 20,000	(d) A credit of Rs. 25,000
- Which of the following item does the statement below describe?

“A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control”

- (a) A provision (b) A current liability
(c) A contingent liability (d) Deferred tax liability

4. Z Ltd has commenced a legal action against Y Ltd claiming substantial damages for supply of a faulty product. The lawyers of Y Ltd have advised that the company is likely to lose the case, although the chances of paying the claim is not remote. The estimated potential liability estimated by the lawyers are:

Legal cost (to be incurred irrespective of the outcome of the case) Rs. 50,000

Settlement if the claim is required to be paid Rs. 5,00,000

What is the appropriate accounting treatment in the books of Z Ltd.?

- (a) Create a Provision of Rs. 5,50,000
(b) Make a Disclosure of a contingent liability of Rs. 5,50,000
(c) Create a Provision of Rs. 50,000 and make a disclosure of contingent liability of Rs. 5,00,000
(d) Create a Provision of Rs. 5,00,000

Thanks



28

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. COMPONENTS OF FINANCIAL STATEMENTS
2. OBJECTIVES AND USERS OF FINANCIAL STATEMENTS
3. ASSUMPTIONS UNDERLYING FINANCIAL STATEMENTS
4. QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS
5. ELEMENTS OF FINANCIAL STATEMENTS
6. MEASUREMENTS OF ELEMENTS OF FINANCIAL STATEMENTS
7. CONCEPT OF CAPITAL AND CAPITAL MAINTENANCE
8. MCQ'S

1. COMPONENTS OF FINANCIAL STATEMENTS :

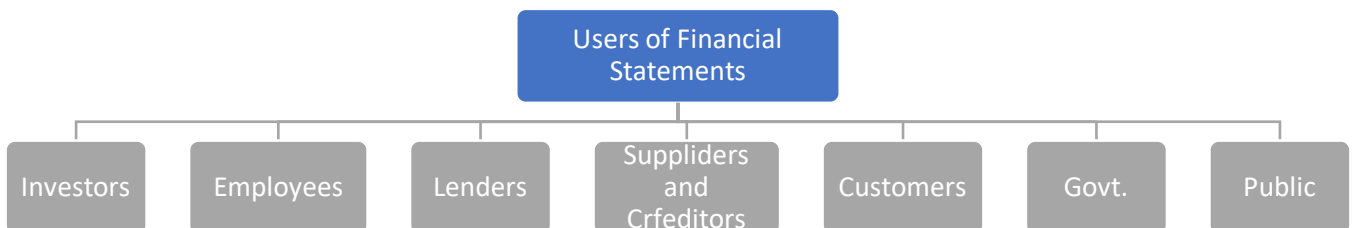
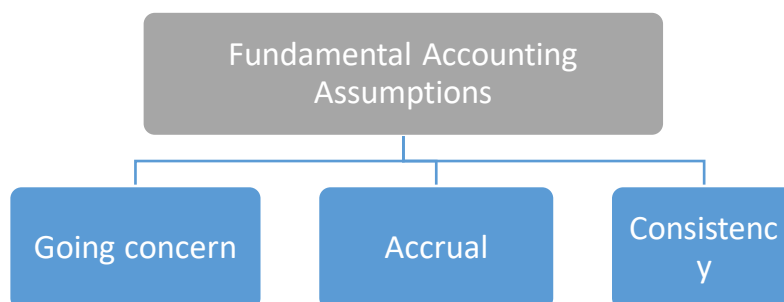
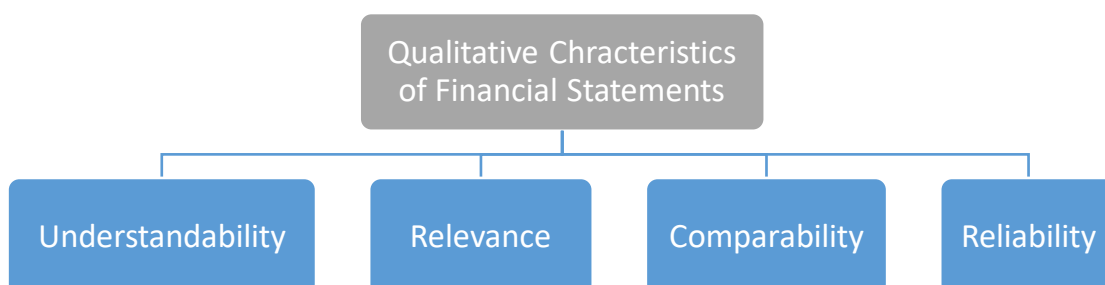
The major information contents of different components of financial statements are explained as below:

1. Balance sheet
2. Profit and Loss Account
3. Cash flow statement
4. Notes to Accounts

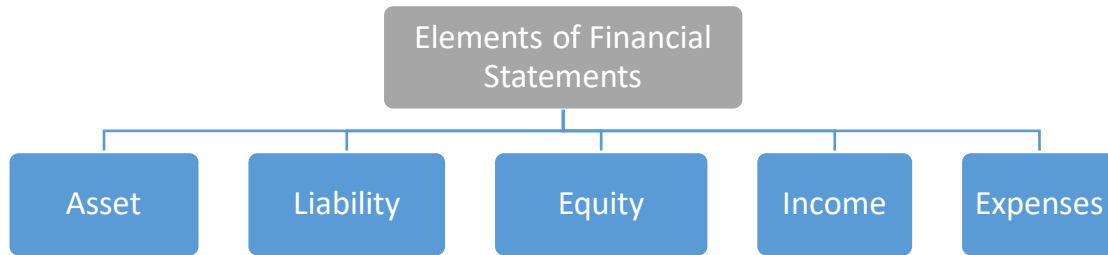
2. OBJECTIVES AND USERS OF FINANCIAL STATEMENTS :

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users.

The framework identifies seven broad groups of users of financial statements.

**3. FUNDAMENTAL ACCOUNTING ASSUMPTIONS :****4. QUALITATIVE CHARACTERISTICS :**

5. ELEMENTS OF FINANCIAL STATEMENTS :

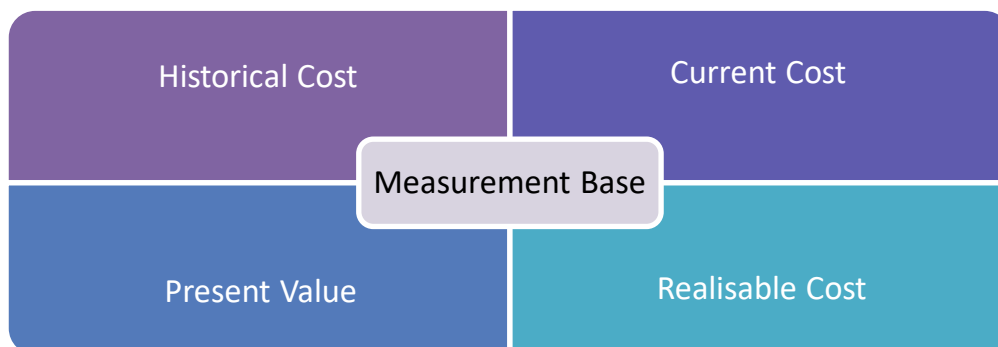


1. **Assets:** An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
2. **Liability:** A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
3. **Equity:** Equity is defined as residual interest in the assets of an enterprise after deducting all its liabilities.

Balance sheet of an enterprise can be written in form of: $A - L = E$.

4. **Income:** Income is 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.
5. **Expense:** An expense is 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.

6. MEASUREMENT OF ELEMENTS OF FINANCIAL STATEMENTS :



1. **Historical Cost:** Historical cost means acquisition price. For example, the businessman paid Rs.7,00,000 to purchase the machine, its acquisition price including installation charges is Rs. 8,00,000. The historical cost of machine would be Rs.8,00,000.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realisable (Settlement) Value:** For assets, this is the amount of cash or cash equivalents currently realisable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount of cash or cash equivalents expected to be paid on settlement of liability in the normal course of business.
4. **Present Value:** Assets are carried at the present value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

7. CONCEPT OF CAPITAL AND CAPITAL MAINTENANCE :

1. **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.
2. **Financial capital maintenance at current purchasing power:** Under this convention, opening and closing equity at historical costs are restated at closing prices using average price indices. (For example, suppose opening equity at historical cost is Rs.3,00,000 and opening price index is 100. The opening equity at closing prices is Rs. 3,60,000 if closing price index is 120). A positive retained profit by this method means the business has enough funds to replace its assets at average closing price.
3. **Physical capital maintenance at current costs:** Under this convention, the historical costs of opening and closing assets are restated at closing prices using specific price indices applicable to each asset. The liabilities are also restated at a value of economic resources to be sacrificed to settle the obligation at current date, i.e. closing date. The opening and closing equity at closing current costs are obtained as an excess of aggregate of current cost values of assets over aggregate of current cost values of liabilities. A positive retained profit by this method ensures retention of funds for replacement of each asset at respective closing prices.

**Questions 1 :**

Balance sheet of a trader on 31st March, 20X1 is given below:

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

Additional information:

- The remaining life of Property, Plant and Equipment is 5 years. The pattern of use of the asset is even. The net realisable value of Property, Plant and Equipment on 31.03.X2 was Rs. 60,000.
- The trader's purchases and sales in 20X1-X2 amounted to Rs. 4 lakh and Rs. 4.5 lakh respectively.
- The cost and net realisable value of stock on 31.03.X2 were Rs. 32,000 and Rs. 40,000 respectively.
- Expenses (including interest on 10% Loan of Rs. 3,500 for the year) amounted to Rs. 14,900.
- Deferred expenditure is amortised equally over 4 years.
- Trade receivables on 31.03.X2 is Rs. 25,000, of which Rs. 2,000 is doubtful. Collection of another Rs. 4,000 depends on successful re-installation of certain product supplied to the customer.
- Closing trade payable is Rs. 12,000, which is likely to be settled at 5% discount.
- Cash balance on 31.03.X2 is Rs. 37,100.
- There is an early repayment penalty for the loan Rs. 2,500.

You are required to prepare Profit and Loss Accounts and Balance Sheets of the trader in both cases (i) assuming going concern (ii) not assuming going concern.

**Questions 2 :**

A trader commenced business on 01/01/20X1 with Rs. 12,000 represented by 6,000 units of a certain product at Rs. 2 per unit. During the year 20X1 he sold these units at Rs. 3 per unit and had withdrawn Rs. 6,000. Let us assume that the price of the product at the end of year is Rs. 2.50 per unit. In other words, the specific price index applicable to the product is 125.

Current cost of opening stock = $(Rs. 12,000 / 100) \times 125 = 6,000 \times Rs. 2.50 = Rs. 15,000$

Current cost of closing cash = Rs. 12,000 (Rs. 18,000 – Rs. 6,000)

Opening equity at closing current costs = Rs. 15,000

Closing equity at closing current costs = Rs. 12,000

Retained Profit = Rs. 12,000 – Rs. 15,000 = (-) Rs. 3,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of Rs. 12,000 is not sufficient to buy 6,000 units again at increased price of Rs. 2.50 per unit. The drawings should have been restricted to Rs. 3,000 (Rs. 6,000 – Rs. 3,000). Had the trader withdrawn Rs. 3,000 instead of Rs. 6,000, he would have left with Rs.15,000, the fund required to buy 6,000 units at Rs. 2.50 per unit.

You are required to compute the Capital maintenance under all three bases ie. (i) Historical costs, (ii) Current purchasing power and (iii) Physical capital maintenance.

8. MCQ's :

1. The 'going concern' concept assumes that
 - (a) The business can continue in operational existence for the foreseeable future.
 - (b) The business cannot continue in operational existence for the foreseeable future.
 - (c) The business is continuing to be profitable.
 - (d) The business cannot continue if it is not able to earn profits.
2. Two principal qualitative characteristics of financial statements are
 - (a) Understandability and materiality
 - (b) Relevance and reliability
 - (c) Relevance and materiality
 - (d) Comparability and materiality.
3. All of the following are components of financial statements except
 - (a) Balance sheet
 - (b) Statement of Profit and loss
 - (c) Human responsibility report
 - (d) Social responsibility report.
4. An accounting policy can be changed if the change is required
 - (a) By statute or accounting standard
 - (b) For more appropriate presentation of financial statements
 - (c) Both (a) and (b)
 - (d) By statute as well as accounting standards.
5. Value of equity may change due to
 - (a) Contribution from or Distribution to equity participants
 - (b) Income earned
 - (c) expenses incurred
 - (d) All the three.

Thanks



29

PREPARATION OF FINANCIAL STATEMENTS



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. MAINTENANCE OF BOOKS OF ACCOUNT
2. FINAL ACCOUNTS
3. DIVISIBLE PROFITS
4. FINANCIAL STATEMENTS AS PER SCHEDULE III OF COMPANIES ACT 2013
5. MCQ'S

“Fall seven times, stand up eight.”

1. MAINTENANCE OF BOOKS OF ACCOUNTS :

As per Section 128 of the Companies Act, 2013, Every company should prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company

2. FINAL ACCOUNTS :

Under Section 129 of the Companies Act, 2013, at the annual general meeting of a company, the Board of Directors of the company should lay financial statements before the company:

Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include –

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in (i) to (iv) above

As per section 133 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time

As per section 129 of the Companies Act, 2013, Financial statements should give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under section 133 and should be in the form or forms as may be provided for different class or classes of companies in Schedule III under the Act.

3. DIVISIBLE PROFITS :

One of the important functions of company accounting is to determine the amount of profits which is available for distribution to the shareholders as dividend. This is necessary since the amount of profits disclosed by the Profit & Loss Account, in every case, is not available for distribution. The availability of profits for distribution depends on a number of factors, e.g., their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.

Dividends cannot be declared except out of profits. Capital cannot be returned to the shareholders by way of dividend

**Question 1 : XYZ Ltd.**

Due to inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	(Rs. In lakhs)
17,500 9% Preference shares of Rs.100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs.10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net profit for the year ended 31st March, 20X2	3,00,000
Average rate of dividend during the last three years has been 12%.	

4. FINANCIAL STATEMENTS AS PER SCHEDULE III OF COMPANIES ACT 2013 :**Part 1 – Balance sheet**

Name of the company

Balance sheet as at.....

Particulars	Note No	Current year	Previous year
I. Equity and Liabilities			
1. Shareholders Funds			
(a) Share capital			
(b) Reserves and Surplus			
(c) Money received against share warrant			
2. Share application money pending allotment			
3. Non-Current Liabilities			
(a) Long-term borrowings			
(b) Deferred Tax Liability			
(c) Other long term liability			
(d) Short – term provisions			

4.	Current Liabilities			
(a)	Short-term borrowings			
(b)	Trade payables			
(c)	Other current liabilities			
(d)	Short-term provisions			
Total				
II.	Assets			
1.	Non-current Assets			
(a)	Fixed assets			
	(i) Tangible assets			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
(b)	Non-current investments			
(c)	Deferred tax assets (net)			
(d)	Long term loans and advances			
(e)	Other non-current assets			
2.	Current Assets			
(a)	Current investments			
(b)	Inventories			
(c)	Trade receivables			
(d)	Cash and cash equivalents			
(e)	Short-term loans and advances			
(f)	Other current assets			
Total				

Part II – Profit and Loss Account

Name of the company

Profit and loss Account for the year ended

	Particulars	Note No	Current Year	Previous Year
	Continuing Operations (1)			
I	Revenue from operations			
II	Other Income			

III	Total Revenue (I + II)			
IV	Expenses			
	a. Cost of Material Consumed			
	b. Purchase of Stock in trade			
	c. Changes in inventory of finished goods, work-in-progress and stock in trade			
	d. Employee benefits			
	e. Finance Costs			
	f. Depreciation and Amortization			
	g. Other expenses			
	Total Expenses			
V	Profit before exceptional and extra-ordinary items and tax (III – IV)			
VI	Exceptional items			
VII	Profit / Loss before extra-ordinary items			
VIII	Extra-ordinary Items			
IX	Profit before Tax			
X	Tax expenses (Current tax and deferred tax)			
XI	Profit after tax from continuing operations			
XII	Profit from discontinuing operations			
XIII	Tax expense from discontinuing operations			
XIV	Profit from discontinuing operations			
XV	Profit / Loss for the period			
XVI	Earnings per share			



Question 2 : Pioneer Ltd.

From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 20X1 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

	Dr. (Rs.)	Cr. (Rs.)
Equity Capital (Face value of Rs.100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3,50,000	

Plant and Machinery		5,25,000	
Furniture		50,000	
General Reserve			2,10,000
Loan from State Financial Corporation			1,50,000
Inventory :			
Finished Goods	2,00,000		
Raw Materials	<u>50,000</u>	2,50,000	
Provision for Taxation			68,000
Trade receivables		2,00,000	
Advances		42,700	
Dividend Payable			60,000
Profit and Loss Account			86,700
Cash Balance		30,000	
Cash at Bank		2,47,000	
Loans (Unsecured)			1,21,000
Trade payables (For Goods and Expenses)			2,00,000
		18,95,700	18,95,700

The following additional information is also provided :

- (1) 2,000 equity shares were issued for consideration other than cash.
- (2) Trade receivables of Rs.52,000 are due for more than six months.
- (3) The cost of assets:

Building	Rs.4,00,000
Plant and Machinery	Rs.7,00,000
Furniture	Rs.62,500
- (4) The balance of Rs.1,50,000 in the loan account with State Finance Corporation is inclusive of Rs.7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- (5) Balance at Bank includes Rs.2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (6) The company had contract for the erection of machinery at Rs.1,50,000 which is still incomplete.



Question 3 : Bose and Sen Ltd.

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

Credit Balances :

Rs.

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

Debit Balances :

	Rs.
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Inventories: Finished goods	14,00,000
Raw Materials	3,50,000
Trade Receivables	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trademarks	4,00,000
	1,33,63,000

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

- (i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.
- (ii) Cost of Building Rs.28,00,000
- (iii) Cost of Plant & Machinery Rs.49,00,000
Cost of Furniture & Fixture Rs.4,37,500
- (iv) Trade receivables for Rs.3,80,000 are due for more than 6 months.
- (v) 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.

(vi) 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 figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III of the Companies Act, 2013.



Question 4 : Alpha Ltd.

From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Dr.(Rs.)	Cr.(Rs.)
Equity Share Capital (Face value of Rs.100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
- (ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.
- (iii) The cost of the Assets were:
Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500
- (iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

- (v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
- (vi) Transfer Rs. 20,000 to general reserve is proposed by Board of directors.
- (vii) Board of directors has declared dividend of 5% on the paid up capital.



Question 5 : Prashant Ltd.

From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013 :

Particulars	Debit (Rs.)	Credit (Rs.)
Equity share capital (face value of Rs.10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided :

- (1) 10,000 equity shares were issued for consideration other than cash.
- (2) Trade receivables of Rs.55,000 are due for more than six months.
- (3) The cost of building and plant & machinery is Rs.5,50,000 and Rs.6,25,000 respectively.
- (4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of Rs.2,10,000 in this account is inclusive of Rs.10,000 for interest accrued but not due.
- (5) Balance at Bank included Rs.15,000 with Aakash Bank Ltd., which is not a scheduled bank.

**Question 6 : Omega Limited**

The following is the Trial Balance of Omega Limited as on 31.3.20X2:

(Figures in Rs.'000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of Rs.10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.X2)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1,670		1,670

Additional Information:

- (i) The authorised share capital of the company is 40,000 shares of Rs. 10 each.
- (ii) The company on the advice of independent valuer wish to revalue the land at Rs. 3,60,000.
- (iii) Declared final dividend @ 10%.
- (iv) Suspense account of Rs. 4,000 represents cash received for the sale of some of the machinery on 1.4.20X1. The cost of the machinery was Rs. 10,000 and the accumulated depreciation thereon being Rs. 8,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Omega 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. Ignore previous years' figures & taxation.

**Question 7 : Haria Chemicals Ltd.**

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.



Question 8 : H Ltd.

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

	Dr.	Cr.
Equity Capital (Shares of 100 each)		8,05,000
5,000, 6% preference shares of Rs.100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000

Profit & Loss A/c. (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at Cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31.03.2020)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debentures Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

Additional Information :

- (i) The authorised share capital of the company is :
- | | |
|--|-----------|
| 5,000, 6% preference shares of Rs.100 each | 5,00,000 |
| 10,000, equity shares of Rs.100 each | 10,00,000 |
- Issued equity capital as on 1st April 2020 stood at Rs.7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs.60 paid. The directors made a call of Rs.40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs.90 per share as fully paid.
- (ii) On 31st March 2021, the Erectors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.
- (iii) The company on the advice of independent vainer wishes to revalue the land at Rs.36,00,000.
- (iv) Suspense account of Rs.40,000 represents amount received for the sale of some of the machines on 1-4-2020, the cost of the machinery was Rs.1,00,000 and the accumulated depreciation thereon being Rs.30,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Amortize 1/5th of Goodwill.

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



Question 9 : H Ltd.

Following is the trial balance of ABC Limited as on 31.3.2025.

(Figures in Rs. '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of Rs. 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (F.Y. 2023-24)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-25)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

- The authorized share capital of the company is 80,000 shares of Rs. 10 each.
- The company revalued the land at Rs. 9,60,000.
- Equity capital includes shares of Rs. 50,000 issued for consideration other than cash.
- Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2024. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000.
- Depreciation is to be provided on plant and machinery at 10% on cost.
- Balance at bank includes Rs. 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2025 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2025 as per Schedule III. Ignore previous year's figures & taxation.

**Question 10 : International Hotels Ltd.**

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. (Rs.)	Cr. (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		2,73,300	
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.



Question 11 : Kapil Ltd.

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

Particulars	Rs.	Particulars	Rs.
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ Rs.2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000
Furniture & Fixtures	1,50,000	Bank Overdraft	12,67,000
Purchases	12,32,500	Trade Payables (for goods)	2,40,500
Wages	13,68,000	Sales	36,17,000
Freehold Land	16,25,000	Rent (Cr.)	30,000

Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement	15,000	Bad debts	25,500
Commission & Brokerage	67,500		
Business Expenses	56,000		

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

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off Rs.16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

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



Question 12 : Kapil Ltd.

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

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Sundry Debtors and Sundry Creditors	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000

5% mortgage debentures secured on freehold properties		4,50,000
Dividends received		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

Other Information:

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

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

**Question 13 : Anmol Limited**

The following is the Trial Balance of Anmol Limited as on 31st March, 2022 :

Debit Balances	Amount (Rs.)	Credit Balances	Amount (Rs.)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000		
Selling & Distribution Expenses	4,36,000		

Directors Fees	32,000		
Bad Debts	38,500		
Interest on Term Loan	8,05,000		
Land	24,00,000		
Factory Building	36,80,000		
Plant & Machinery	62,50,000		
Furniture & Fittings	8,25,000		
Trade Receivables	64,75,000		
Advance Income Tax Paid	37,500		
Stock (1 st April, 2021)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875		3,28,47,875

Following information is provided :

- (1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of Rs.10 each. The Company has issued 1,00,000 Equity Shares of Rs.10 each.
- (2) Rent of Rs.20,000 and Wages of Rs.1,56,500 are outstanding as on 31st March, 2022.
- (3) Provide Depreciation @10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.
- (4) Closing Stock as on 31st March, 2022 is Rs.11,37,500.
- (5) Make a provision for Doubtful Debts @5% on Debtors.
- (6) Make a provision 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 Plant and machinery. Installment of Term Loan falling due within one year is Rs.17,00,000.
- (9) Trade Receivables of Rs.85,600 are outstanding for more than six months.
- (10) The Board declared a 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 the Companies Act, 2013. Ignore previous years' figures.

5. MCQs :

1. Trade payables as per Schedule III will include:
 - (a) Dues payable in respect to statutory obligation
 - (b) Interest accrued on trade payables
 - (c) Bills payables.
 - (d) Bills receivables

2. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:
- (a) Reserves and Surplus.
 - (b) Current Liabilities.
 - (c) Share Capital.
 - (d) Share application money pending allotment
3. "Fixed assets held for sale" will be classified in the company's balance sheet as
- (a) Current asset
 - (b) Non-current asset
 - (c) Capital work- in- progress
 - (d) Deferred tax assets
4. Current maturities of long- term debt will come under
- (a) Current Liabilities.
 - (b) Short term borrowings.
 - (c) Long term borrowings.
 - (d) Short term provisions
5. Declaration of dividends for current year is made after providing for
- (a) Depreciation of past years only.
 - (b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
 - (c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
 - (d) Excluding current year depreciation

Thanks



30

AMALGAMATION OF COMPANIES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

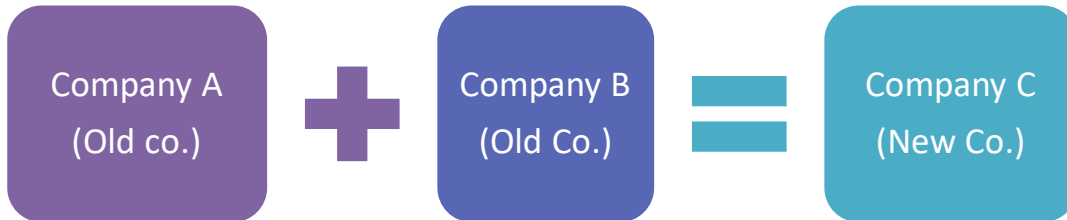
CHAPTER DESIGN

1. INTRODUCTION
2. PURCHASE CONSIDERATION
3. ACCOUNTING IN THE BOOKS OF OLD COMPANY
4. ACCOUNTING IN THE BOOKS OF NEW COMPANY
5. MCQ'S

“The comeback is always stronger than the setback.”

1. INTRODUCTION :**A) Amalgamation :**

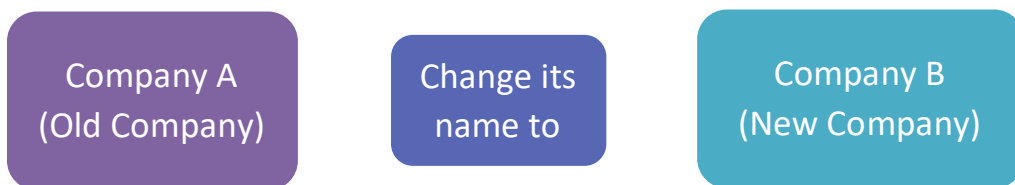
When two or more companies combine to form a new company.

**B) Absorption :**

When one company is taken over by another company.

**C) Internal Reconstruction :**

When one company changes its name / function into new.

**2. PURCHASE CONSIDERATION :**

The consideration payable by acquiring company (New Company) to acquired company (Old Company) is known as purchase consideration.

There are three methods to calculate purchase consideration.

A) Net Payment Method (Includes Lumpsum Method) :

PC here is sum total of all modes of payment i.e.

- a) Equity = Number × Price
- b) Preference = Number × Price
- c) Debenture = Number × Price
- d) Cash

Note :

PC should includes any payment to equity shareholders and preference shareholders of old company and should not include any payment debenture holder of old company.

You are required to calculate the purchase consideration.



Question 2 : Y Ltd.

Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	Rs.		Rs.
3,000 Equity shares of Rs.100 each (fully paid)	3,00,000	Net assets	2,90,000
Preference shares	60,000	Profit and Loss Account	70,000
	3,60,000		3,60,000

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ Rs.70. Y Ltd. agrees to pay Rs.60,000 in cash for payment to preference shareholders equity shares will be issued at value of Rs.120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?



Question 3 : Som Ltd.

Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2020. The terms and conditions of takeover were as follows:

- (i) Som Ltd. issued 56,000 equity shares of Rs.100 each at a premium of Rs.10 per share to the equity shareholders of Dove Ltd.
- (ii) Cash payment of Rs.1,00,000 was made to equity shareholders of Dove Ltd.
- (iii) 20,000 fully paid preference shares of Rs.70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate the amount of purchase consideration as per the provisions of AS 14.



Question 4 : Tina Ltd.

On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

- (i) Issued 50,000 fully paid Equity shares of Rs. 10 each at a premium of Rs. 5 per share to the equity shareholders of Rina Ltd.
- (ii) Cash payment of Rs. 50,000 was made to equity shareholders of Rina Ltd.
- (iii) Issued 2,000 fully paid 12% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Rina Ltd.
- (iv) Debentures of Rina Ltd. (Rs. 1,20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

3. ACCOUNTING IN THE BOOKS OF OLD COMPANY :**A) Accounts to be opened :**

- 1) Realisation A/c (Nominal A/c)
- 2) Equity Shareholders A/c (Personal A/c)
- 3) Preference Shareholders A/c (Personal A/c)
- 4) Cash and Bank A/c (Real A/c)
- 5) New company (Personal A/c)
- 6) Equity shares of New company (Real A/c)
- 7) Preference Shares of New company (Real A/c)
- 8) Debentures of New company (Real A/c)

B) Steps and Journal Entries :**Step 1 : Transfer Liabilities**

(i)	Equity Share Capital and Reserve to Equity Shareholders -	
	Equity Share Capital A/c	Dr.
	Reserves A/c	Dr.
	To Equity Shareholders A/c	
(ii)	Preference Share Capital ⇒ Preference Shareholders	
	__ % Preference Share Capital A/c	Dr.
	To Preference Share Holders A/c	
(iii)	Other Liabilities ⇒ Realisation A/c	
	Other Liabilities A/c	Dr.
	To Realisation A/c	

Step 2 : Transfer Assets

(i)	Losses ⇒ Equity Shareholders A/c	
	Equity Shareholders A/c	Dr.
	To Losses A/c	
(ii)	Cash and Bank	
	(a) Taken over ⇒ Realisation A/c	
	Realisation A/c	Dr.
	To Cash / Bank A/c	

	(b) Not Takenover ⇒ Cash / Bank A/c	
	No Entry	
(iii)	Other Assets ⇒ Realisation A/c	
	Realisation A/c	Dr.
	To Other Assets A/c	

Step 3 : Record Purchase Consideration

New Company A/c	Dr.
To Realisation A/c	

Step 4 : Realize Purchase Consideration

Equity Shares of New Company A/c	Dr.
Preference Shares of New Company A/c	Dr.
Cash / Bank A/c	Dr.
Debentures of New Company A/c	Dr.
To New Company A/c	

Note :

The New Company A/c must tally

Step 5 : For Assets not taken over

If the asset is sold

Bank A/c	Dr.
To Realisation A/c	

Note :

If the question does not specify anything regarding sale of asset we should ignore the asset.

Step 6 : For Liabilities not takeover

If the liability is paid

Realisation A/c	Dr.
To Bank A/c	

Note :

If the question does not specify anything regarding liability not taken over then the liability should be paid off at book value.

Step 7 : Expenses on Amalgamation :

(a)	If paid by Old company	
-----	------------------------	--

	Realisation A/c	Dr.
	To Cash/Bank A/c	
(b)	If paid by New Company	
	No entry	
(c)	If paid by Old company and reimbursed by New Company	
	Entry 1 :	
	New Company A/c	Dr.
	To Cash/Bank A/c	
	Entry 2 :	
	Cash / Bank A/c	Dr.
	To New Company A/c	

Step 8 : Settle Preference Shareholders :

Preference shareholders A/c	Dr.
To Cash/Bank A/c	
To Preference shares of New company	

Note :

At this step the preference shareholders A/c must tally. If it does not then transfer the balance to Realisation A/c.

Step 9: Close Realisation A/c :

(a)	Profit	
	Realisation A/c	Dr.
	To Equity Shareholders A/c	
(b)	Loss	
	Equity Shareholders A/c	Dr.
	To Realisation a/c	

Step 10 : Settle Equity Shareholders A/c :

Equity Shareholders A/c	Dr.
To Equity Shares of New Company	
To Debentures of New Company	

To Cash / Bank	
----------------	--

“Equity Shareholders A/c must tally.”



Question 5 : Hari Ltd. and Vayu Ltd.

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 20X1 was as under:

Assets	Hari Ltd. (Rs.)	Vayu Ltd. (Rs.)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
	13,50,000	5,70,000
Liabilities	Hari Ltd. (Rs.)	Vayu Ltd. (Rs.)
Share Capital:		
Equity Shares of Rs.10 each	10,00,000	3,00,000
9% Preference Shares of Rs.100 each	1,00,000	–
10% Preference Shares of Rs.100 each	–	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
	13,50,000	5,70,000

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 Rs.50,000, Buildings are valued at Rs.1,50,000 and the Machinery at Rs.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 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.

4. ACCOUNTING IN THE BOOK OF NEW COMPANY :**Journal Entries****1) For Business Acquisition :**

Business Purchase A/c	Dr.		PC
To Liquidators of Old Company A/c		PC	

2) For Assets taken over and Liabilities assumed :

Assets A/c	Dr.	(Revised Value)	
Goodwill A/c	Dr.	(Balancing Figure)	
To Capital Reserve A/c			(Balancing Figure)
To Liabilities A/c			(Revised Value)
To Business Purchase A/c			

3) For Discharge of Purchase Consideration :

Liquidators of Old company A/c	Dr.	PC
Discount on Issue A/c	Dr.	
To Equity Share Capital A/c		
To Preference Share Capital A/c		
To Securities Premium A/c		
To Cash/Bank A/c		

4) For Settlement of Old Debentures :

___% Debenture A/c	Dr.	(Old)
To ___% Debentures A/c		(New)

5) For Common Debtors and Creditors :

Creditors A/c	Dr.
To Debtor A/c	

6) For unrealized Profit in Stock :

Goodwill Capital Reserve A/c	Dr.
To Stock A/c	

7) Dissolution Expenses :

(a)	Paid by Old company	
	No Entry	

(b)	Paid / Reimbursed by New Company	
	Goodwill / Capital Reserve A/c	Dr.
	To Bank	

8) Preliminary Expenses

Preliminary Expenses A/c	Dr.
To Bank	

9) For Fresh Issue

Bank A/c	Dr.
To Share Capital A/c	

10) For Carrying forward by statutory reserve

Amalgamation Adjustment A/c	Dr.
To Statutory Reserve A/c	



Question 6 : Hari Ltd. and Vayu Ltd.

Solve Question No.4 Again



Question 7 : Wye Ltd.

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

	Particulars	Notes	Rs.
	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		12,000
	(Interest payable on debentures)		
	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

Note to Accounts :

		Rs.
1	Share Capital	
	Equity Share capital (Rs.100 each)	8,00,000
	6% Preference Share capital (Rs.100 each)	<u>4,00,000</u>
		<u>12,00,000</u>
2	Reserves and Surplus	
	Capital reserve	1,00,000
	Profit and loss A/c	50,000
	Workmen compensation reserve	
	(Expected liability Rs.5,000)	<u>8,000</u>
		<u>1,58,000</u>
3	Long-term borrowings	
	6% Debentures	<u>2,00,000</u>
		<u>2,00,000</u>
4	Property, Plant and Equipment	
	Land and Building	4,00,000
	Plant and machinery	<u>6,00,000</u>
		<u>10,00,000</u>
5	Intangible assets	
	Goodwill	2,40,000
	Patents	<u>50,000</u>
		<u>2,90,000</u>

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

- (i) Rs. 2,00,000 7% Debentures (Rs. 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 Rs. 105.

- (ii) For each preference share in Zed Ltd. Rs. 10 in cash and one 9% preference share of Rs. 100 each in Wye Ltd.
- (iii) For each equity share in Zed Ltd. Rs. 20 in cash and one equity share in Wye Ltd. of Rs. 100 each having the market value of Rs. 140.
- (iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of Rs. 10,000. Actual expenses amounted to Rs. 12,500.

Wye Ltd. valued Land and building at Rs. 5,50,000 Plant and Machinery at Rs. 6,50,000 and patents at Rs. 20,000 of Zed Ltd for the purpose of amalgamation.



Question 8 : X Ltd. and Y Ltd.

X Ltd. and Y Ltd. give the following information of assets, equity and liabilities as on 31st March, 2018:

Particulars	X Ltd. (Rs.)	Y Ltd. (Rs.)
Equity and Liabilities		
Equity Shares of Rs.10 each	30,00,000	9,00,000
9% Preference Shares of Rs.100 each	3,00,000	-
10% Preference Shares of Rs.100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	40,50,000	17,10,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	40,50,000	17,10,000

X Ltd. absorbs Y Ltd. on the following terms:

- (i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- (ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17 : Rs. 90,000; 2015-16 : Rs. 78,000 and 2014-15: Rs. 72,000). The profits of 2014 -15 included credit of an insurance claim of Rs. 25,000 (fire occurred in 2013-14 and loss by fire Rs. 30,000 was booked

- in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs. 10,000.
- (iii) Land & Buildings are valued at Rs. 5,00,000 and the Plant & Machinery at Rs.4,00,000.
 - (iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
 - (v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs. 15,000 and such asset was also taken over by X Ltd.
 - (vi) The trade payables of Y Ltd. included Rs. 20,000 payable to X Ltd.
 - (vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to:

- (i) Prepare Realisation A/c in the books of Y Ltd.
- (ii) Show journal entries in the books of X Ltd.
- (iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2018.



Question 9 : Yes Ltd. and No Ltd.

The following are the summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 20X1:

	Yes Ltd.		No Ltd.	
		Rs. (in crores)		Rs. (in crores)
Sources of funds:				
Share capital:				
Authorised	-	25		5
Issued and Subscribed :				
Equity Shares of Rs.10 each fully paid		12		5
Reserves and surplus		88		10
Shareholders funds		100		15
Unsecured loan from Yes Ltd.	-	—		10
	-	100		25
Funds employed in :				
Fixed assets: Cost		70		30
Less: Depreciation	-	(50)		(24)
Written down value		20		6
Investments at cost:				
30 lakhs equity shares of Rs.10 each		3		
Long-term loan to No. Ltd.		10		
Current assets	100		34	
Less : Current liabilities	(33)	67	(15)	19
		100		25

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs.2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above.



Question 10 : Sun and Neptune

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of Rs. 4,00,000 divided into 80,000 equity shares of Rs. 5 each. On 31st March, 20X3 the respective information of Sun and Neptune were as follows:

	Sun (Rs.)	Neptune (Rs.)
Share capital	3,65,000	3,52,500
Current liabilities	5,97,000	1,80,250
Property, Plant and Equipment	6,35,000	3,65,000
Current assets	3,27,000	1,67,750

Additional Information:

- (a) Revalued figures of non-current and Current assets were as follows:

	Sun (Rs.)	Neptune (Rs.)
Property, Plant and Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

- (b) The debtors and creditors include Rs.43,350 owed by Sun to Neptune. The purchase consideration is satisfied by issue of the following shares and debentures.

- (i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (Rs.)	Neptune (Rs.)
20X1 Profit	4,49,576	2,73,900
20X2 (Loss)/Profit	(2,500)	3,42,100
20X3 Profit	3,77,924	3,59,000

- (ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 20X3 after revaluation of assets.

You are required to:

- Compute the amount of debentures and shares to be issued to Sun and Neptune.
- A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

**Question 11 : Neel Ltd. and Gagan Ltd.**

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

- The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.
- Liabilities of Neel Ltd. includes Rs.50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.
- Neel Ltd. had purchased goods costing Rs.10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 20X1.
- The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- The purchase consideration is to be discharged as under:

- Issue 24,000 equity shares of Rs.25 each fully paid up in the proportion of their profitability in the preceding 2 years.
- Profits for the preceding 2 years are given below:

	Neel	Gagan
	Rs.	Rs.
1st year	2,62,800	2,75,125
2nd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

- Issue 12% preference shares of Rs.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.



Question 12 : P Ltd. and Q Ltd.

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

Liabilities	P Ltd.	Q Ltd.	Assets	P Ltd.	Q Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of Rs.10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of Rs.100 each	2,00,000	1,00,000	Current Assets:		
Reserves and Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
Secured Loans:			Trade receivables	4,20,000	2,10,000
12% Debentures	2,00,000	1,50,000	Cash at Bank	1,10,000	40,000
Current Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Details of Trade receivables and trade payables are as under:

	P Ltd. (Rs.)	Q Ltd. (Rs.)
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

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

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

- (i) 8 Equity Shares of Rs.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 Rs.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) Rs.30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include Rs.10,000 due to P Ltd.

Prepare:

- (a) Journal entries in the books of P Ltd.
- (b) Statement of consideration payable by P Ltd.



Question 13 : VT Ltd.

The following information is being provided by VT Ltd. and MG Ltd. as on 31st March, 2022:

Particulars	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Equity Shares of Rs. 10 each	12,00,000	6,00,000
10% Pref. Shares of Rs. 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	<u>1,20,000</u>	<u>40,000</u>
	<u>8,40,000</u>	<u>4,20,000</u>
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	<u>60,000</u>	<u>50,000</u>
	<u>5,00,000</u>	<u>3,00,000</u>

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

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

- (i) VT Ltd. will issue 16 Equity Shares of Rs. 10 each at par against 12 Shares of MG Ltd.
- (ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of Rs. 100 each, at par, in VT. Ltd.
- (iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.
- (iv) Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes Rs. 20,000 due from VT Ltd.

You are required to prepare :

- (1) Journal entries in the books of VT Ltd.
- (2) Statement of consideration payable by VT Ltd.



Question 14 : P Ltd. and Q Ltd.

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below :

Liabilities	P Ltd.	Q Ltd.	Assets	P Ltd.	Q Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Shares (Rs.100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (Rs.100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include Rs. 25,000 due from Q Ltd.

PQ Ltd. will issue:

- (i) 5 Preference shares of Rs. 20 each @ Rs. 18 paid up at a premium of Rs. 4 per share for each pref. share held in both the companies.
- (ii) 6 Equity shares of Rs. 20 each @ Rs. 18 paid up a premium of Rs. 4 per share for each equity share held in both the companies.
- (iii) 6% Debentures to discharge the 8% debentures of both the companies.
- (iv) 20,000 new equity shares of Rs. 20 each for cash @ Rs. 18 paid up at a premium of Rs. 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.



Question 15 : K Ltd. and L Ltd.

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

Liabilities	K Ltd.	L Ltd.	Assets	K Ltd.	L Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital			Goodwill	80,000	
Equity Shares of Rs.100 each	8,00,000	3,00,000	Land & Building	4,50,000	3,00,000
7% Preference Share of Rs.100 each	4,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
5% Debentures	2,00,000	-	Furniture and Fittings	60,000	20,000
General Reserve	-	1,00,000	Trade receivables	2,75,000	1,75,000
Profit and Loss Account	3,71,375	97,175	Stores & inventory	2,25,000	1,40,000
Trade payables	1,00,000	2,10,000	Cash at Bank	1,20,000	55,000
Secured Loan	-	2,00,000	Cash in hand	41,375	17,175
	18,71,375	12,07,175		18,71,375	12,07,175

The terms of amalgamation are as under:

- (A) (1) The assumption of liabilities of both the Companies.
- (2) Issue of 5 Preference shares of Rs.20 each in LK Ltd. @ Rs.18 paid up at premium of Rs.4 per share for each preference share held in both the Companies.

- (3) Issue of 6 Equity shares of Rs.20 each in LK Ltd. @ Rs.18 paid up at a premium of Rs.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 Rs.20,000 due from L Ltd.
- (C) The LK Ltd. is to issue 15,000 new equity shares of Rs.20 each, Rs.18 paid up at premium of Rs.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.



Question 16 : Dark Ltd. and Fair Ltd.

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below :

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
I	Equity and Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserves and Surplus	2	630	495
	(2) Non-current Liabilities			
	Long Term Borrowings			
	10% Debentures of Rs.100 each		90	45
	(3) Current Liabilities			
	Trade Payables		630	285
	Total		3,000	2,250
II	Assets			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		1,350	975
	(b) Non current Investments		225	75
	(2) Current Assets			

	(a)	Inventories	525	375
	(b)	Trade Receivables	450	525
	(c)	Cash and Cash Equivalents	450	300
	Total		3,000	2,250

Notes to Accounts :

Particulars		Dark Ltd.	Fair Ltd.
1	Share Capital		
	Equity Shares of Rs.100 each	1,200	1,125
	14% Preference Shares of Rs.100 each	<u>450</u>	<u>300</u>
		<u>1,650</u>	<u>1,425</u>
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account	<u>75</u>	<u>45</u>
		<u>630</u>	<u>495</u>

Additional Information :

- (i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ Rs.35 each having a face value of Rs.10 per share.
- (ii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of Rs.100 each so as to maintain the same amount of interest.
- (iv) Investment allowance reserve is to be maintained for 4 more years.
- (v) Liquidation expenses are for Dark Limited Rs.6,00,000 and for Fair Limited Rs.3,00,000. It is decided that these expenses would be borne by Bright Limited.
- (vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.
- (vii) Authorised equity share capital of Bright Limited is Rs.15,00,00,000 divided into equity shares of Rs.10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was full subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.


Question 17 : A Ltd. and B Ltd.

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
Share Premium Account	4,00,000	—
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	—
10% Debentures	20,00,000	—
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	43,80,000
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	—
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	43,80,000

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

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

- The authorized share capital of Z Ltd. is Rs.60 lakhs divided into 6 lakhs equity shares of Rs.10 each.
- As per Registered Valuer the value of equity shares of A Ltd. is Rs.18 per share and of B Ltd. is 12 per share respectively and agreed by respective shareholders of the companies.
- 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
- A contingent liability of A Ltd. of Rs.2,00,000 is to be treated as actual liability
- 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.
- 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.

**Question 18 : A Ltd.**

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	Rs.	Assets	Rs.
8,000 Equity shares of Rs.100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- (2) B Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of Rs.6,00,000 and the balance in fully paid equity shares of Rs.100 each at Rs.125 per share.

The average profit is Rs. 1,24,400. The liquidation expenses amounted to Rs. 16,000. B Ltd. sold prior to 31st March, 2018 goods costing Rs. 1,20,000 to A Ltd. for Rs. 1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018. Trade payables of A Ltd. include Rs. 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

5. MCQs :

1. In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made
 - (a) By the vendor company
 - (b) By the purchasing company
 - (c) By the third party
 - (d) By the court
2. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is
 - (a) Goodwill account.
 - (b) Liquidation expense account.
 - (c) Vendor company account.

- (d) General reserve.
3. Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate
- (a) Assets of the amalgamating company.
 - (b) Non- Statutory reserves of the amalgamating company.
 - (c) Statutory reserves of the amalgamating company.
 - (d) General reserve of the amalgamating company.
4. Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as
- (a) Other current asset.
 - (b) Separate line item with a negative sign under the head 'Reserves and Surplus'.
 - (c) Other non-current assets.
 - (d) Investment of the company
5. A company into which the vendor company is merged is called
- (a) Transferee company.
 - (b) Transferor company.
 - (c) Selling company.
 - (d) Acquiree company.
6. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as _____ in the books of the transferee company.
- (a) Goodwill.
 - (b) Capital Reserve.
 - (c) Profit.
 - (d) Loss.

Thanks



31

BUY-BACK OF SECURITIES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. PROVISION OF BUY BACK
2. MCQ'S

“Success is never owned. It is rented. And the rent is due every day.”

1. PROVISIONS OF BUY BACK :

1. all the shares or other specified securities for buy-back are fully paid-up
2. The Companies Act, 2013 under Section 68 (1) permits companies to buy-back their own shares and other specified securities out of:
 - (i) its free reserves; or
 - (ii) the securities premium account; or
 - (iii) the proceeds of the issue of any shares or other specified securities.
3. Section 69 (1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.
4. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account. Revaluation reserve represents unrealized profit and hence it cannot be used for buy-back of securities.
5. Share Outstanding Test : The buy-back of shares in any financial year must not exceed 25% of its existing number.
6. Resource Test : The buy-back must be equal or less than twenty-five per cent of the total paid-up capital and free reserves of the company.
7. Debt-Equity Ratio Test : The ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves.

**Question 1 : M Ltd.**

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

Particulars	Notes	Rs (000's)
Equity and Liabilities :		
1. Shareholders' funds		
A. Share capital	1	5,000
B. Reserves and Surplus	2	6,310
2. Non Current Liabilities		
A. Long Term Borrowings	3	400
3. Current Liabilities		
A. Trade Payables		40
Total		11,750
Assets :		
1. Non Current Asset		
A. Property Plant and Equipment	4	2,750

B. Non Current Investments		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 :

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

The company passed a resolution to buy-back 20% of its equity capital @ Rs 15 per share. For this purpose, it sold its investments of Rs 30 lakhs for Rs 25 lakhs. You are required to pass necessary Journal entries.

**Question 2 : Alpha Limited**

Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(Rs. In lakhs)	Assets	(Rs. In lakhs)
Equity share capital (fully paid up shares of Rs.10 each)	2,400	Machinery	3,600

Securities premium	350	Furniture	450
General reserve	530	Investment	148
Capital redemption reserve	400	Inventory	1,200
Profit & loss A/c	340	Trade receivables	500
12% Debentures	1,500	Cash at bank	1,500
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ Rs.15 per share. For this purpose, it sold all of its investments for Rs.150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

- (1) Pass necessary journal entries for the buy-back.
- (2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.



Question 3 : Anu Ltd.

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

Particulars	Notes	Rs (Crores's)
Equity and Liabilities		
1. Shareholders' funds		
A. Share capital	1	100
B. Reserves and Surplus	2	200
2. Current Liabilities		
A. Trade Payables		40
Total		440
Assets		
1. Non Current Asset		
A. Property Plant and Equipment	3	-
B. Non Current Investments		100
2. Current Assets		
A. Trade Receivables		140
B. Cash and Cash Equivalent		200
Total		440

Notes to Accounts :

Sr No.	Particulars	Rs in (000's)
1	Share Capital :	
	Authorized, Issued and Subscribed Capital:	
	Equity shares of Rs 10 each fully paid up	75
	12% Preference Shares of 100 each	<u>25</u>
	Total	100
2	Reserves and Surplus :	
	Capital Reserve	15
	Revenue reserve	260
	Securities premium	<u>25</u>
	Total	300
3	Property, Plant and Equipment (PPE) PPE:	
	Cost	100
	Less: Provision for depreciation	<u>100</u>
	Net carrying value	Nil
4	Non current Investments :	
	Non-current investments at cost (Market value Rs 400 Cr.)	100

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of Rs 10 each at Rs 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:

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



Question 4 : KG Limited

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

Particulars	Notes	Rs (000's)
Equity and Liabilities		
1. Shareholders' funds		
A. Share capital	1	1200
B. Reserves and Surplus	2	810
2. Non Current Liabilities		
A. Long Term Borrowings	3	750
3. Current Liabilities		
A. Trade Payables		745
B. Other Current Liability		195

Total		3700
Assets		
1. Non Current Asset		
A. Property Plant and Equipment	4	2026
B. Non Current Investments		74
2. Current Assets		
A. Inventories		600
B. Trade Receivables		260
C. Cash and Cash Equivalents		740
Total		3700

Notes to Accounts :

Sr No.	Particulars	Rs in (000's)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	
	3,00,000 Equity shares of Rs 10 each fully paid up	1200
2	Reserves and Surplus	
	General Reserve	175
	Securities premium	265
	Capital Redemption Reserve	200
	Profit and Loss account	170
	Total	810
3	Long term borrowings	
	12% Debentures	750
4	Property, Plant and Equipment (PPE) PPE:	
	Land and Building	1800
	Plant and Machinery	226
		2,026

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

**Question 5 : Super Ltd.**

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

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

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

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

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

**Question 6 : Extra Ltd.**

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

Particulars	Notes	Rs (lakhs's)
Equity and Liabilities		
1. Shareholders' funds		

A. Share capital	1	120
B. Reserves and Surplus	2	118
2. Non Current Liabilities		
A. Long Term Borrowings	3	4
3. Current Liabilities		
A. Trade Payables		70
Total		312
Assets		
1. Non Current Asset		
A. Property Plant and Equipment	4	50
B. Non Current Investments		120
2. Current Assets		
A. Cash and Cash Equivalents		142
Total		312

Notes to Accounts :

Sr.No.	Particulars	Rs in (000's)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	
	Equity shares of Rs 10 each fully paid up	100
	9% Preference Shares of 100 each	<u>20</u>
	Total	120
2	Reserves and Surplus	
	Capital Reserve	8
	Revenue reserve	50
	Securities premium	<u>60</u>
	Total	118
3	Long term borrowings	
	10% Debentures	4

- The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.
- It also bought back 3 lakhs equity shares of Rs 10 each at Rs 30 per share. The payment for the above was made out of huge bank balances.
- Included in its investment were "investments in own debentures" costing Rs 2 lakhs (face value Rs 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.

4. The company had 1,00,000 equity stock options outstanding on the above-mentioned date, to the employees at Rs 20 when the market price was Rs 30 (This was included under current liabilities) On 1.04.20X1 employees exercised their options for 50,000 shares.

Pass the journal entries to record the above.

Prepare Balance Sheet as at 01.04.20X1.



Question 7 : Rohan Ltd.

Rohan Ltd. furnishes the following information as at 31-03-2021.

	(in Rs.)	(in Rs.)
Share Capital:		
Equity Share Capital of Rs. 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of Rs. 100 each fully paid up	<u>10,00,000</u>	60,00,000
Reserves & Surplus:		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	<u>25,50,000</u>	43,50,000
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
Property, Plant and Equipment		1,00,75,000
Current Assets:		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	<u>15,75,000</u>	20,75,000

The shareholders adopted the following resolution on 31st March, 2021:

- (1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs. 30 per share.
- (2) To finance the buy-back of shares, company:
 - (a) Issues 3,000, 14% debentures of Rs. 100 each at a premium of 20%.
 - (b) Issues 2,500, 10% preference shares of Rs. 100 each.
- (3) Sell investment worth Rs. 1,00,000 for Rs. 1,50,000.
- (4) Maintain a balance of Rs. 2,00,000 in Revenue Reserve.
- (5) Later, the company issue three fully paid up equity shares of Rs. 20 each by way of bonus for every 15 equity shares held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions.



Question 8 : Umang Ltd.

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

For this purpose, the company.

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

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



Question 9 : Pratham Ltd.

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 20X1:

Particulars	Rs .	Rs .
Equity Share Capital (shares of Rs 10 each fully paid)		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	<u>49,00,000</u>
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy-back is Rs 30 per share.



Question 10 : Perrotte Ltd.

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

Particulars	Rs in crores	Rs in crores
1. Equity Share Capital (shares of Rs 10 each fully paid)		330
2. Reserves & Surplus		

General Reserve	240	
Security Premium Account	90	
Profit & Loss Account	90	
Infrastructure Development Reserve	<u>180</u>	600
3. Loan Funds		1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.20X1 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 Development 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 09.12.20X1, show the accounting entries in the company's books in each situation.



Question 11 : SMM Ltd.

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

Particulars	Situation 1	Situation 2
1. Equity Share Capital (shares of Rs 10 each fully paid)	<u>1200</u>	<u>1200</u>
2. Reserves & Surplus		
General Reserve	1080	1080
Security Premium Account	400	400
Profit & Loss Account	200	200
Infrastructure Development Reserve	320	320
3. Loan Funds	3200	6000

The company has offered buy-back 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 situations and also required to pass necessary Journal Entries.



Question 12 : Aerodots Ltd.

Aerodots Ltd. has the following capital structure as on 31.03.2024 :

Particulars	Amount (Rs.in thousands)
• Equity Share Capital (shares of Rs.10 each)	600
Reserves :	
• General Reserve	540
• Securities Premium	200
• Profit & Loss	100
• Revaluation Reserve	30
• Investment Allowance Reserve (Statutory Reserve)	75
• Infrastructure Development Reserve	25
• Loan Funds	2000

On 1st April, 2024 the company wants to buy back 14,000 equity shares of Rs.10 each at Rs.30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company.

2. MCQs :

- As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed
 - 25% of the total paid-up capital and free reserves of the company.
 - 20% of the total paid-up capital and free reserves of the company.
 - 15% of the total paid-up capital and free reserves of the company.
 - 10% of the total paid-up capital and free reserves of the company.
- The companies are permitted to buy-back their own shares out of
 - Free reserves and Securities premium
 - Proceeds of the issue of any shares.
 - Both (a) and (b)
 - Neither (a) nor (b).
- When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
 - Revenue redemption reserve.
 - Capital redemption reserve.
 - Buy-back reserve
 - Special reserve

4. State which of the following statements is true?
- (a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.
 - (b) Partly paid shares cannot be bought back by a company.
 - (c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.
 - (d) Partly paid shares can be bought back by a company.
5. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against
- (a) Free reserves.
 - (b) Securities premium.
 - (c) Both (a) and (b).
 - (d) Neither (a) nor (b).
6. Advantages of Buy-back of shares include to
- (a) Encourage others to make hostile bid to take over the company.
 - (b) Decrease promoters holding as the shares which are bought back are cancelled.
 - (c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
 - (d) All of the above.

Thanks



32

INTERNAL RECONSTRUCTION



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](#)



[Rahulmalkan](#)



[prof.rahulmalkanRM](#)



[Rahulmalkan](#)

CHAPTER DESIGN

1. PRACTICAL QUESTIONS
2. MCQ'S

"It ain't about how hard you hit. It's about how hard you can get hit and keep moving forward."

1. PRACTICAL QUESTIONS :**Question 1 : Parth Ltd.**

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 Rs. 1,50,000 to be written down to Rs. 95,000. The freehold premises which was valued at Rs. 7,00,000 showed an appreciation of Rs. 55,000.
2. Plant and machinery showed fall in value of Rs. 89,000, to be recorded in the books. Investment at Rs. 2,00,000 was brought down to the existing market value at Rs. 1,05,000.
3. Debenture holders accepted to receive the following in lieu of their present 9% debentures of Rs.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 Rs. 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 Rs. 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of Rs. 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

**Questions 2 : Win Limited**

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 Rs.10 each, the following:
 - (a) New fully paid Rs. 10 Equity shares equal to 3/5th of their holding.
 - (b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
 - (c) Rs. 40,000, 8% Debentures.
- (ii) An issue of Rs. 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
- (iii) Goodwill which stood at Rs. 1,40,000 was completely written off.
- (iv) Plant and machinery which stood at Rs. 2,00,000 was written down to Rs. 1,50,000
- (v) Freehold property which stood at Rs. 1,50,000 was written down by Rs. 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.

**Question 3 : Vaibhav Ltd.**

Vaibhav Ltd. gives the following ledger balances as at 31st March 20X1:

	Rs.
Property, Plant and Equipment	2,50,00,000
Investments (Market-value Rs. 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 Rs. 100 each	2,00,00,000
6%, Cumulative Preference Shares of Rs. 100 each	1,00,00,000
5% Debentures of Rs. 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 Rs. 40 each.
- (ii) All preference shares are reduced to Rs. 60 each.
- (iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
- (iv) Property, Plant and Equipment is to be written down by 20%.
- (v) Current assets are to be revalued at Rs. 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 Rs. 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.

**Question 4 : ABC Ltd.**

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

	Particulars	Notes	Rs.
	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		<u>10,000</u>
		Total		<u>41,37,000</u>

Notes to accounts :

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

Investments (market value of Rs. 55,000)	<u>68,000</u>
	<u>68,000</u>

The following scheme of reconstruction was finalized:

- (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.



Question 5 : SK Ltd.

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

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

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

- (i) Investments are to be brought to their market value.
- (ii) The Taxation Liability is settled at Rs. 5,25,000 out of current Assets.
- (iii) The balance of Profit and Loss Account to be written off.

- (iv) All the existing equity shares are reduced to Rs. 4 each.
- (v) All preference shares are reduced to Rs. 60 each.
- (vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange them for fresh debentures of Rs. 80 each. Each old debenture is exchanged for one new debenture.
- (vii) Balance of Current Assets left after settlement of taxation liability are revalued at Rs.1,57,50,000.
- (viii) Fixed Assets are written down to 80%.
- (ix) One of the creditors of the Company for Rs. 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs. 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.



Question 6 : A & Co. Ltd.

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

	Particulars	Notes	Rs.
	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	<u>1,22,500</u>
	Total		<u>16,07,500</u>
	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		<u>4,85,000</u>
	Total		<u>16,07,500</u>

Notes to accounts :

		Rs.
1	Share Capital	
	Equity share capital:	
	75,000 Equity Shares of Rs. 10 each	7,50,000
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of Rs. 100 each	<u>4,00,000</u>
		<u>11,50,000</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	<u>(5,35,000)</u>
		<u>(5,35,000)</u>
3	Long-term borrowings	
	Secured	
	6% Debentures (secured on the freehold property)	<u>3,75,000</u>
		<u>3,75,000</u>
4	Other current liabilities	
	Loan from directors	1,00,000
	Interest payable on 6% debentures	<u>22,500</u>
		<u>1,22,500</u>
5	Property plant and Equipment	
	Freehold property	4,25,000
	Plant	<u>50,000</u>
		<u>4,75,000</u>
6	Intangible assets	
	Goodwill	1,30,000
	Patents	<u>37,500</u>
		<u>1,67,500</u>
7	Non-current investments	
	Investments at cost	<u>55,000</u>
		<u>55,000</u>

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 Rs. 75 each and Equity Shares to Rs. 2 each.
- (ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of Rs. 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 Rs. 1,00,000 at a valuation of Rs. 1,20,000 in part repayment of their holdings and to provide additional cash of Rs. 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 Rs. 65,000.
- (vii) Amount of Rs. 68,500 to be provided for bad debts.
- (viii) Remaining freehold property after giving to debenture holders, to be revalued at Rs. 3,87,500.
- (ix) Investments be sold for Rs. 1,40,000.
- (x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of Rs. 2 each and as to 5% in cash, and balance 5% being waived.
- (xi) There were capital commitments totalling Rs. 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.



Question 7 : Rebuilt Ltd.

Given below is the Balance sheet of Rebuilt Ltd. as at 31.3.20X1:

Particulars		Notes	Rs.
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	13,50,000
B	Reserves and Surplus	2	(4,51,000)
2	Non-current liabilities		
A	Long-term borrowings (Loan)	3	5,73,000
3	Current liabilities		
A	Trade Payables		2,07,000
B	Other current liabilities		<u>35,000</u>
	Total		<u>17,14,000</u>
Assets			
1	Non-current assets		
A	Property, plant and equipment	4	6,68,000
B	Intangible assets	5	3,18,000

2		Current assets		
	A	Inventories		4,00,000
	B	Trade receivables		<u>3,28,000</u>
			Total	<u>17,14,000</u>

Notes to account :

			Rs.
1	Share Capital		
	<u>Equity share capital</u>		7,50,000
	15,000 Equity Shares of Rs. 50 each		
	<u>Preference share capital</u>		
	12,000, 7% Cumulative Preference Shares of Rs. 50 each (Preference dividend is in arrears for five years)		<u>6,00,000</u>
	Total		<u>13,50,000</u>
2	Reserves and Surplus		
	Debit balance of Profit and loss Account		<u>(4,51,000)</u>
			<u>(4,51,000)</u>
3	Long-term borrowings		
	Loan		<u>5,73,000</u>
			<u>5,73,000</u>
4	Property, plant and Equipment		
	Building at cost less depreciation		4,00,000
	Plant at cost less depreciation		<u>2,68,000</u>
			<u>6,68,000</u>
5	Intangible Assets		
	Trademarks and Goodwill at cost		<u>3,18,000</u>
			<u>3,18,000</u>

The Company is not earning profits, short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- (a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.
- (b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.

- (c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.
- (d) The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.
- (e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.
- (f) The equity share capital cancelled is to be applied:
- i. to write off the debit balance in the profit and loss A/c; and
 - ii. to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.



Question 8 : Recover Ltd.

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	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		
	Long-term borrowings	3	50,000
3	Current liabilities		
	A Trade Payables		80,000
	B Short term Borrowings – Bank overdraft		90,000
	C Other Current Liabilities (Interest payable on Debentures)		<u>5,000</u>
			<u>5,05,000</u>
	Assets		
1	Non-current assets		
	A Property, Plant Equipment	4	
	B Intangible assets	5	

	C	Non-current investments	6	
2		Current assets		
	A	Inventories		30,000
	B	Trade receivables		<u>50,000</u>
				<u>5,05,000</u>

Notes to accounts :

			Rs.
1	Share Capital		
	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)		<u>1,50,000</u>
			<u>3,50,000</u>
2	Reserves and surplus		
	Profit and loss account (debit balance)		<u>(70,000)</u>
			<u>(70,000)</u>
3	Long-term borrowings		
	<u>Secured</u>		
	(10% Debentures (secured on the freehold property))		<u>50,000</u>
			<u>50,000</u>
4	Property, Plant and Equipment		
	Freehold property		1,20,000
	Leasehold property		85,000
	Plant and machinery		<u>1,30,000</u>
			<u>3,35,000</u>
5	Intangible assets		
	Goodwill		<u>50,000</u>
			<u>50,000</u>
6	Non-current investments		
	Non-Trade investments at cost		<u>40,000</u>
			<u>40,000</u>

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 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.
- (iv) Plant and Machinery was written down to Rs. 1,00,000.
- (v) Non-trade Investments were sold for Rs. 32,000.
- (vi) Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.
- (vii) 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.



Question 9 : Platinum Limited

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

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	22,00,000
50,000 shares of Rs.50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of Rs.50 each Rs.40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of Rs.100 each	4,00,000	Inventories	3,20,000
12% Debentures of Rs.100 each	6,00,000	Trade receivables	10,90,000
Trade payables	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000
Total	1,03,00,000		1,03,00,000

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

	Mr. Shiv	Mr. Ganesh
--	----------	------------

8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

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

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs. 12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

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



Question 10 : Green Limited

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as at 31.3.20X1 before reconstruction:

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	Shareholders' fund		

	A	Share capital	1	65,00,000
	B	Reserves and Surplus	2	(20,00,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	15,00,000
3		Current liabilities		
	A	Trade Payables		<u>5,00,000</u>
		Total		<u>65,00,000</u>
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	45,00,000
	B	Intangible assets	5	20,00,000
2		Current assets		NIL
		Total		<u>65,00,000</u>

Notes to accounts :

			Rs.
1	Share Capital		
	Equity share capital		
	<u>Authorized share capital</u>		
	1,50,000 Equity shares of Rs. 50 each		<u>75,00,000</u>
	<u>Issued, subscribed and paid up capital</u>		
	50,000 Equity Shares of Rs. 50 each		25,00,000
	1,00,000 Equity shares of Rs. 50 each, Rs. 40 paid up		<u>40,00,000</u>
			<u>65,00,000</u>
2	Reserves and Surplus		
	Debit balance of Profit and loss Account		<u>(20,00,000)</u>
3	Long-term borrowings		
	Secured: 12% First debentures		5,00,000
	12% Second debentures		<u>10,00,000</u>
			<u>15,00,000</u>
4	Property, Plant and Equipment		
	Building		10,00,000
	Plant		10,00,000
	Computers		<u>25,00,000</u>
			<u>45,00,000</u>
5	Intangible assets		

Goodwill	<u>20,00,000</u>
	<u>20,00,000</u>

The following is the interest of Mr. X and Mr. Y in Green Limited

	Mr. X Rs.	Mr. Y Rs.
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	<u>2,00,000</u>	<u>1,00,000</u>
	<u>12,00,000</u>	<u>6,00,000</u>
Fully paid up Rs. 50 shares	3,00,000	2,00,000
Partly paid up shares (Rs. 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- (a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs. 20 each.
- (b) Mr. X is to cancel Rs. 7,00,000 of his total debt (other than share amount) and to pay Rs. 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
- (c) Mr. Y is to cancel Rs. 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- (d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.



Question 11 : Fortunate Ltd.

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.



Question 12 : Z Limited

Z Limited provides the following information as on 31st March, 2021:

Particulars	Amount in Rs.
<u>Share Capital:</u>	
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
<u>Reserves and Surplus:</u>	
Profit and Loss Account (Dr. balance)	14,60,000
<u>Non-Current Liabilities:</u>	
10% Secured Debentures	16,00,000
<u>Current Liabilities:</u>	
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
<u>Non-Current Assets:</u>	
<u>Property, plant and Equipment:</u>	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
<u>Intangible Assets:</u>	
Goodwill	11,00,000
Patents	5,00,000
<u>Current Assets:</u>	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

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

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

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

- (i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.
- (ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.
- (vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid Rs. 15,000.
- (ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.
- (x) The Assets were revalued as under:

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

You are required to pass journal entries for all the above-mentioned transactions including amounts to be written off for Goodwill, Patents and Loss in Profit and Loss account. Also prepare Bank Account and Reconstruction A/c.



Question 13 : Purple Limited

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

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

Particulars	Notes	Amount in
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings - Bank Overdraft		2,00,000
Total		16,20,000
II. Assets		

	(1) Non-Current Assets		
	(a) Property, Plant and Equipment	3	10,20,000
	(b) Intangible Assets	4	1,20,600
	(2) Current Assets		
	(a) Inventories		1,70,000
	(b) Trade Receivables		3,01,800
	(c) Cash and cash equivalents		7,600
	Total		16,20,000

Note to Accounts :

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

Dividends on preference shares are in arrears for 3 years.

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

- (i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- (ii) The value of equity shares is brought down to Rs.8 per share.
- (iii) The arrears of dividend on preference shares are cancelled.
- (iv) The debit balance of Goodwill account is written off entirely.
- (v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to Rs.14,400 are to be treated as bad and hence to be written off.
- (vii) The company expects to earn a profit at the rate of Rs.90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

- (viii) The balance of total capital reduction is to be utilized in writing down Patents.
- (ix) A secured loan of Rs.4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

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



Question 14 : B Ltd.

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



Question 15 : C Ltd.

C Ltd. had Rs. 5,00,000 authorized capital on 31-12-20X1 divided into shares of Rs. 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 Rs. 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.



Question 16 : Revise Limited

The Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

Particulars		Notes	Rs.
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	10,00,000
	B Reserves and surplus	2	(6,00,000)
2	Non-current liabilities		
	A Long-term borrowings	3	2,00,000
3	Current liabilities		
	A Trade Payables		72,000
	B Other current liabilities	4	24,000
	C Short term provisions	5	24,000

				<u>7,20,000</u>
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	6	1,00,000
2		Current assets		
	A	Inventory		3,20,000
	B	Trade receivables		2,70,000
	C	Cash and cash equivalents		<u>30,000</u>
		Total		<u>7,20,000</u>

Notes to accounts :

				Rs.
1	Share Capital			
	Equity share capital			
	10,000 Equity Shares of Rs. 100 each			<u>10,00,000</u>
				<u>10,00,000</u>
2	Reserves and Surplus			
	Debit balance of Profit and loss Account			<u>(6,00,000)</u>
				<u>(6,00,000)</u>
3	Long-term borrowings			
	12% debentures			<u>2,00,000</u>
				<u>2,00,000</u>
4	Other current liabilities			
	Interest payable on debentures			<u>24,000</u>
				<u>24,000</u>
5	Property, Plant and Equipment			
	Machinery			<u>1,00,000</u>
				<u>1,00,000</u>

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

- (a) Each share is sub-divided into ten fully paid up equity shares of Rs. 10 each.
- (b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- (c) Out of shares surrendered, 10,000 shares of Rs. 10 each shall be converted into 12% preference shares of Rs. 10 each, fully paid up.

- (d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of Rs. 1,00,000 which are converted out of shares surrendered.
- (e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
- (f) Balance of profit and loss account to be written off.
- (g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet



Question 17 : Weak Ltd.

The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

Particulars		Notes	Rs.
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	1,50,00,000
B	Reserves and Surplus	2	(6,00,000)
2	Non-current liabilities		
A	Long-term borrowings	3	40,00,000
3	Current liabilities		
A	Trade Payables		50,00,000
B	Short term provisions	4	<u>1,00,000</u>
	Total		<u>2,35,00,000</u>
Assets			
1	Non-current assets		
A	Property, plant and equipment		1,25,00,000
B	Non-current investment	5	10,00,000
2	Current assets		<u>1,00,00,000</u>
	Total		<u>2,35,00,000</u>

Notes to accounts :

		Rs.
1	Share Capital	
	Equity share capital	
	1,00,000 Equity Shares of Rs. 100 each	1,00,00,000
	50,000, 12% Cumulative Preference shares of Rs. 100 each	<u>50,00,000</u>

		<u>1,50,00,000</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	<u>(6,00,000)</u>
		<u>(6,00,000)</u>
3	Long-term borrowings	
	40,000, 10% debentures of Rs. 100 each	<u>40,00,000</u>
		<u>40,00,000</u>
4	Short term provisions	
	Provision for taxation	<u>1,00,000</u>
		<u>1,00,000</u>
5	Non-current investments	
	Investments (market value of Rs. 9,50,000)	<u>10,00,000</u>
		<u>10,00,000</u>

The following scheme of reorganization is sanctioned:

- (i) All the existing equity shares are reduced to Rs. 40 each.
- (ii) All preference shares are reduced to Rs. 60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes Rs. 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs. 40 each in full satisfaction of his claim.
- (v) Property, plant and equipment are to be written down by 30%.
- (vi) Current assets are to be revalued at Rs. 45,00,000.
- (vii) The taxation liability of the company is settled at Rs. 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.



Question 18 : X Ltd.

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

Particulars		Notes	Rs.
	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		<u>6,00,000</u>
			Total	<u>36,60,000</u>
		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		<u>30,000</u>
			Total	<u>36,60,000</u>

Notes to accounts :

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

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

- (i) The equity shares are to be reduced to shares of Rs. 40 each fully paid and the preference shares to be reduced to fully paid shares of Rs. 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 Rs. 5,000.

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



Question 19 : Z Limited

Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024 :

Particulars	Rs.
Equity and Liabilities :	
Share Capital	
Equity shares of Rs.100 each	60,00,000
8% Preference shares of Rs.100 each	21,00,000
10% Debentures of Rs.100 each	18,00,000
Trade Payables	16,80,000
Total	1,15,80,000
Assets :	
Goodwill	81,000
Property, Plant and Equipment	72,00,000
Trade Receivables	13,75,000
Inventories	9,80,000
Cash at Bank	1,33,000
Own Debentures (Nominal value of Rs.6 lakhs)	5,76,000
Profit and Loss A/c	12,35,000
Total	1,15,80,000

On 1st April, 2024, Court approved the following reconstruction scheme for Z Limited :

- (i) Each equity share shall be sub-divided into 10 equity shares of Rs.10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.
- (ii) Preference share dividend are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

- (iii) Own debentures of Rs.2,40,000 (nominal value) were sold at Rs.98 cum interest and remaining own debentures were cancelled.
- (iv) Debenture holders of Rs.6,00,000 agreed to accept one machinery of book value of Rs.9,00,000 in full settlement.
- (v) Remaining Property, Plant and Equipment were value at Rs.60,00,000.
- (vi) Trade Payables, Trade Receivables and Inventories were value at Rs.15,00,000; Rs.13,00,000 and Rs.9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.
- (vii) Company paid Rs.60,000 as penalty to avoid capital commitments of Rs.12 lakhs.
- (viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to:

- (1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.
- (2) Prepare Capital Reduction Account.
- (3) Prepare Bank Account.

2. MCQs :

- 1. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called
 - (a) Internal reconstruction with liquidation
 - (b) Internal reconstruction without liquidation of the company
 - (c) External reconstruction
 - (d) None of the above.
- 2. The accumulated losses under scheme of internal reconstruction are written off against
 - (a) Capital Reduction account
 - (b) Share Capital account
 - (c) Shareholders' account
 - (d) Reserve and surplus
- 3. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
 - (a) Internal reconstruction.
 - (b) External reconstruction.
 - (c) Amalgamation in the nature of merger.
 - (d) Amalgamation in the nature of purchase.
- 4. Reconstruction is a process by which affairs of a company are reorganized by
 - (a) Revaluation of assets and Reassessment of liabilities.

- (b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
- (c) Both (a) and (b).
- (d) None of the above.
5. For reduction of the share capital, the permission has to be sought from
- (a) Court. (b) Controller.
- (c) State government. (d) Shareholders.
6. In case of internal reconstruction
- (a) Only one company is liquidated. (b) Two or more companies are liquidated.
- (c) No company is liquidated. (d) Two companies amalgamated

Thanks



33

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES



contact@rahulmalkan.com



www.rahulmalkan.com



[rahulmalkan](https://www.facebook.com/rahulmalkan)



[Rahulmalkan](https://www.youtube.com/Rahulmalkan)



[prof.rahulmalkanRM](https://www.instagram.com/prof.rahulmalkanRM)



[Rahulmalkan](https://www.linkedin.com/Rahulmalkan)

CHAPTER DESIGN

1. INTRODUCTION
2. CLASSIFICATION OF BRANCHES
3. ACCOUNTING FOR DEPENDENT BRANCHES
4. ACCOUNTING FOR INDEPENDENT BRANCHES
5. FOREIGN BRANCHES
6. MCQ'S

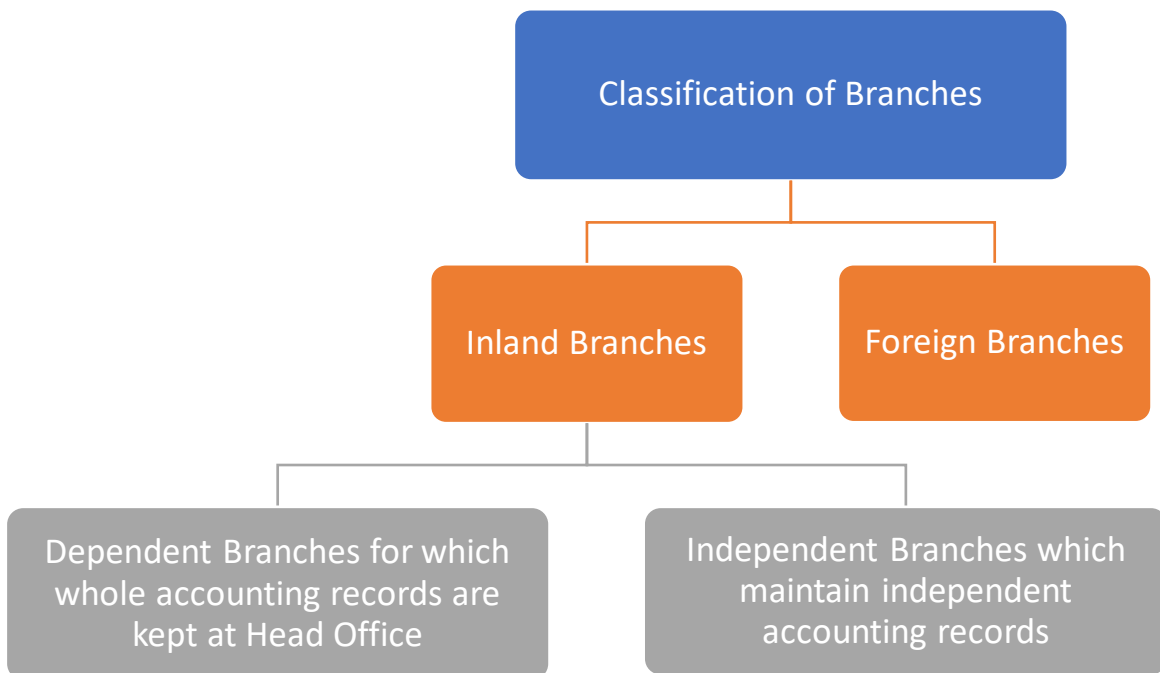
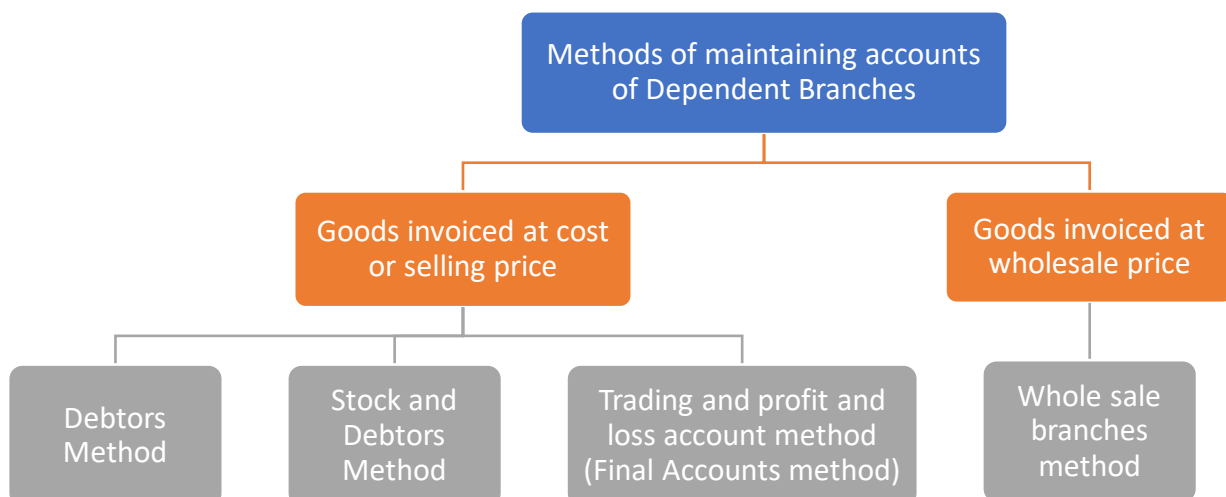
"If I don't go pro, I can't play against the best. If I can't play against the best, I can't be the best."

1. INTRODUCTION :

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company. It must also be noted that the concept of a branch means existence of a head office; for there can be no branch without a head office - the principal place of business.

2. CLASSIFICATION OF BRANCHES :

From the accounting point of view, branches may be classified as follows:

**3. ACCOUNTING FOR DEPENDENT BRANCHES :**

3.1 Debtors Method :

This method of accounting is suitable for small sized branches. Under this method, separate branch account is maintained for each branch to compute profit or loss made by each branch.

Proforma Branch Account

Particulars	Amount	Particulars	Amount
To Balance b/d (opening Assets)		By Balance b/d (Opening Liabilities)	
Cash	XXX	Liabilities	XXX
Stock	XXX	By Goods returned to HO	XXX
Debtors	XXX	By Bank A/c (Cash Remitted)	XXX
Petty cash	XXX	By Balance c/d (Closing Assets)	
Fixed Assets	XXX	Cash	XXX
Prepaid Expenses	XXX	Stock	XXX
To Goods sent to branch	XXX	Debtors	XXX
To Bank A/c		Petty cash	XXX
Salaries	XXX	Fixed Assets	XXX
Rent	XXX	Prepaid Expenses	XXX
Sundry expenses	XXX	By Profit and Loss A/c	XXX
To Balance c/d (Closing Liabilities)		(Balancing figure – Loss)	
Liabilities	XXX		
To Profit and Loss A/c	XXX		
(Balancing figure – Profit)			
Total	XXX	Total	XXX

Note:

1. Only transaction between HO and Branch and HO and others in relation to branch are recorded
2. Transaction between branch and others in are not recorded.



Question 1 : Buckingham Bros, Bombay

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)	2,000	Bad Debts	1,000
Imprest Cash			
Sundry Debtors	25,000	Discount to Customers	2,000
Stock: Transferred from H.O.	24,000	Remittances to H.O. (recd. by H.O.)	1,65,000
Direct Purchases	16,000	Remittances to H.O. not recd. by H.O. so far)	5,000
Cash Sales	45,000	Branch Exp. directly paid by H.O.	30,000
Credit Sales	1,30,000	Closing Balance (31-12-20X1)	
Direct Purchases	45,000	Stock: Direct Purchase	10,000
Returns from Customers	3,000	Transfer from H.O.	15,000
Goods sent to branch from H.O.	60,000	Debtors	?
Transfer from H.O. for Petty Cash expenses	4,000	Imprest Cash	?
		Petty Cash expenses	4,000

3.2 Stock and Debtors Method :

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under the Stock and Debtors Method. According to this method, the following accounts are maintained by the Head Office:

1. Brach Stock A/c - To ascertain shortage or surplus
2. Goods sent to Branch A/c - Ascertainment of cost of goods sent to branch
3. Branch Adjustment A/c - To ascertain trading profit
4. Branch Debtors A/c - Ascertainment of closing balance of debtors
5. Branch Cash/Bank A/c - To ascertain closing balance of cash/bank at branch
6. Branch Asset A/c - To Maintain branch Assets
7. Branch Expenses A/c - Ascertainment of total expenses incurred
8. Branch profit and Loss A/c - Calculation of net profit or loss

Journal Entries :

1	<u>H.O sends goods to branch</u>		
(A)	AT IP	Branch Stock A/c	Dr.
		To Goods sent to Branch A/c	
(B)	Loading	Goods sent to branch A/c	Dr.
		To Branch Adjustment A/c	
2	<u>Branch returns goods to H.O</u>		
(A)	At IP	Goods sent to Branch A/c	Dr.
		To Branch Stock A/c	
(B)	Loading	Branch Adjustment A/c	Dr.
		To Goods sent to Branch A/c	
3	<u>Remittance for expenses</u>		
		Branch Cash A/c	Dr.
		To Cash A/c	
4	<u>Cash Sales at Branch</u>		
		Branch Cash A/c	Dr.
		To Branch Stock A/c	
5	<u>Credit sales at Branch</u>		
		Branch Debtors A/c	Dr.
		To Branch Stock A/c	
6	<u>Return of goods by debtors</u>		
		Branch Stock A/c	Dr.
		To Branch Debtors A/c	
7	<u>Cash paid by debtors</u>		
		Branch Cash A/c	Dr.
		To Branch Debtors A/c	
8	<u>Discount Allowed / Bad Debts</u>		
		Branch Expenses A/c	Dr.

		To Branch Debtors A/c	
9	<u>Expenses of Branch paid by HO</u>		
		Branch Expenses A/c	Dr.
		To Cash A/c	
10	<u>Expenses of Branch paid by Branch</u>		
		Branch Expenses A/c	Dr.
		To Branch Cash A/c	
11	<u>Remittance to HO</u>		
		Cash A/c	Dr.
		To Branch Cash A/c	



Question 2 : Buckingham Bros, Bombay

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 following, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

	Rs.		Rs.
Opening balance (1-1-20X1)	2,000	Bad Debts	1,000
Imprest Cash			
Sundry Debtors	25,000	Discount to Customers	2,000
Stock: Transferred from H.O.	24,000	Remittances to H.O. (recd. by H.O.)	1,65,000
Direct Purchases	16,000	Remittances to H.O. not recd. by H.O. so far)	5,000
Cash Sales	45,000	Branch Exp. directly paid by H.O.	30,000
Credit Sales	1,30,000	Closing Balance (31-12-20X1)	
Direct Purchases	45,000	Stock: Direct Purchase	10,000
Returns from Customers	3,000	Transfer from H.O.	15,000
Goods sent to branch from H.O.	60,000	Debtors	?

Transfer from H.O. for Petty Cash expenses	4,000	Imprest Cash	?
		Petty Cash expenses	4,000

3.3 Branch Trading and Profit and Loss Account :

In this method, Trading and Profit and Loss accounts are prepared considering each branch as a separate entity. The main advantage of this method is that, it is easy to prepare and understand. It also gives complete information of all transactions which are ignored in the other methods. It should be noted that Branch Trading and Profit and Loss account is merely a memorandum account and therefore, the entries made there in do not have double entry effect.



Question 3 : Buckingham Bros, Bombay

Solved Question 2 Again



Question 4 : The Bombay Traders

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 20X1.

	Rs.		Rs.
Balances as on 1.1.20X1:		Bad Debts	600
Stock	7,000	Goods returned by customers	500
Debtors	12,600	Salaries & Wages	6,200
Petty Cash,	200	Rent & Rates	1,200
Goods sent from H.O.	26,000	Sundry Expenses	800
Goods returned to H.O.	1,000	Cash received from Sundry Debtors	28,500
Cash Sales	17,500	Balances as on 31.12.20X1:	
Credit Sales	28,400	Stock	6,500
Allowances to customers	200	Debtors	9,800
Discount to customers	1,400	Petty Cash	100

Prepare: (a) Branch Account (Debtors Method), (b) Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and

Debtors Method and (c) Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.



Question 5 : Harrison of Chennai

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
Balance as on		
	Rs.	Rs.
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.



Question 6 :

Take figures from Illustration 5 and prepare branch account following debtors' method.



Question 7 : Ayan Ltd.

Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}\%$. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

		Rs.
Stock at commencement at Branch at invoice Price		3,60,000
Stock at close at Branch at Invoice Price		2,88,000

Goods sent to Branch during the year at invoice price (including goods invoiced at Rs.48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018.



Question 8 : Jammu branch of Best New Delhi

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 plus 20%.
- (2) The sale price is cost plus 50%.
- (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.



Question 9 : Sell Well

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.



Question 10 : Pune Branch

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	<u>600</u>	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.



Question 11 : Hindustan Industries Mumbai

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.



Question 12 : Arnold of Delhi

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 :

		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 (including Cash Sales)		-	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).



Question 13 : Vijay & Co.

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & Credit sales. Branch expenses are paid directly from head office

and the branch has to remit all cash received into the bank account of head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office. Following further details are given for the year ended 31st March, 2020.

	Amount (Rs)
Goods received from Head Office at Invoice Price	8,40,000
Goods returned to Head office at Invoice price	60,000
Cash sales for the year 2019 -2020	1,85,000
Credit sales for the year 2019 -2020	6,25,000
Stock at branch as on 1/4/2019 at invoice price	72,000
Debtors at Patna branch as on 1/4/2019	96,000
Cash received from debtors	4,38,000
Discount allowed to debtors	7,500
Goods returned by customers at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from bad debts previously written off as bad	1,000
Rent, rates & Taxes at branch	24,000
Salaries & Wages at Branch	72,000
Office Expenses (At branch)	9,200
Stock at branch as on 31/3/2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following stock and debtors method and ascertain branch profit.



Question 14 : M/s Rahul

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.



Question 15 : Widespread

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 withholding 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 Rs. 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.



Question 16 : Delta Ltd.

Delta Ltd. has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office.

Prepare necessary Ledger accounts in the books of Delta Ltd. under Stock and Debtors system to show profit earned at the branch for the year ending 31st March, 2021.

Following information related to Branch is given :

Stock on 1 st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
Debtors on 1 st April, 2020	17,400	Surplus in stock (Invoice price)	600
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch : Cash sales	20,000	Discount allowed to Debtors	700
Credit sales	68,200	Debtors on 31 st March, 2021	14,300



Question 17 : Delta Ltd.

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March, 2022.

(Figures in Rs.)

Stock on 1 st April, 2021 (invoice price)		12,000
Debtors on 1 st April, 2021		10,000
Goods received from head office (invoice price)		1,32,000
Sales: Cash	46,000	
Credit	<u>1,00,000</u>	1,46,000
Cash received from debtors		85,000
Expenses at branch		17,500
Debtors on 31 st March, 2022		25,000
Stock on 31 st March, 2022 (invoice price)		17,600
Remittances to head office		1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Debtor Account for the year ended 31st March, 2022.

4. ACCOUNTING FOR INDEPENDENT BRANCHES :

When the size of the business is big, it is desirable that the branch maintains complete records of its transactions. These branches are called independent branches and each independent branch maintains comprehensive account books for recording their transactions; therefore a separate trial balance of each branch can be prepared. The head office maintains one ledger account for each such branch, wherein all transactions between the head office and the branches are recorded.

**Question 18 : Ring Bell Ltd.**

Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 20X1.

Head Office Trial Balance

	Rs.	Rs.
Share Capital (Authorised: 10,000 Equity Shares of Rs.100 each):		
Issued: 8,000 Equity Shares		8,00,000
Profit & Loss Account - 1-1-20X1		25,310
General Reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	21,900
Profit for 20X1		52,200
Cash Balance	62,730	
Branch Current Account	1,33,710	
	9,99,410	9,99,410

Branch Trial Balance

	Rs.	Rs.
Fixed Assets	95,000	
Profit for 20X1		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	1,71,110

The difference between the balances of the Current Account in the two sets of books is accounted for as follows:

- (a) Cash remitted by the Branch on 31st December, 20X1, but received by the Head Office on 1st January 20X2 – Rs.3,000.
- (b) Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance) – Rs.1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

**Question 19 : KP manufactures**

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 a newly opened 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.

	HO		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:

- (1) 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.
- (2) The stock of raw materials held at the H.O. on 31st Dec., 20X1 was valued at Rs.2,300.
- (3) 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.
- (4) Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.



Question 20 : AFFIX of Kolkata

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 :

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 of Rs.2,000)	6,400	Discount earned	1,200
General Expenses	1,600	Cash paid to Creditors	60,000
Fire Insurance (paid for one year)	3,200	Building Account (further payment)	4,000
Remittance to H.O.	38,400	Cash in Hand	1,600
		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.



Question 21 : Manohar of Mohali

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c.	–
		Cash at Bank	26,000
	2,50,000		2,50,000

During the six months ending on 30.09.2020, the following transactions took place at Noida:

	Rs.		Rs.
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (paid for one year)	11,200	Building Account further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.



Question 22 : Major Ltd.

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.

	HO		Branch	
	Dr. (Rs.)	Cr. (Rs.)	Dr. (Rs.)	Cr. (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.



Question 23 : Branch A

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.

**Question 24 : Kanpur Branch**

On 31st March, 20X2 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow :

Debit Balances	Rs. In lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 20X1	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 20X2 was valued at Rs. 62 lacs. On 29th March, 20X2 the Head Office dispatched goods costing Rs. 10 lacs to its branch. Branch did not receive these goods before 1st April, 20X2. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch Rs. 1 lac for centralized services for which the branch has not passed the entry.

You are required to:

- (i) Pass Journal Entries in the books of the Branch to make the necessary adjustments
- (ii) Prepare Final Accounts of the Branch including Balance Sheet, and
- (iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance.

**Question 25 :**

Give Journal Entries (with Narrations) in the books of an Independent Branch of a business entity to rectify or adjust the following :

- (i) Commission (income) of Rs.7,500 allocated to Branch by Head office but still no entry is passed in the books of branch.
- (ii) Head office paid Rs.12,000 directly to one of branch's supplier. The intimation is received by branch on reconciliation of bank statement of branch with its books.
- (iii) A remittance of Rs.85,000 is sent by branch to Head office has not been received by Head office till date.
- (iv) Branch paid Rs.9,800 as salary to Head office's employee, but the amount paid has been wrongly debited to salary account.
- (v) Branch purchased furniture for Rs.18,000 through cheque, but the Furniture account was retained in Head Office Books. No entry has yet been passed.
- (vi) Branch incurred Rs.5,500 of expense on behalf of other branches of Head office, this transaction was not recorded in the books of branch.

5. FOREIGN BRANCHES :

For the purpose of accounting, AS 11 (revised 2003) classifies the foreign branches may be classified into two types:

- Integral Foreign Operation;
- Non- Integral Foreign Operation.

**Question 26 : Books of Chennai Branch**

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:

	Rs.	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 \$ 13,400 on 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.



Question 27 : S & M Ltd.

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		Sydney	
	(Rs. thousands)		(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. Current A/c	120	–	–	7
	4,880	4,880	390	390

The following information is also available:

- (1) 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 A \$ =Rs.20

Closing rate A \$ = Rs.24

Average rate A \$ = Rs.22

For Fixed Assets A \$ = Rs.18).



Question 28 : M/s Carlin

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 upto 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 items pending reconciliation.



Question 29 : The Washington branch of XYZ

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st 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:

1st 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.



Question 30 : Artis Limited

Artis Limited has a branch at Seattle USA. Its Trial Balance as on 31st December, 2022 is as follows:

	Dr.in US \$	Cr.in US \$
Stock as on 01.01.2022	22,000	—
Purchases	1,00,000	—
Sales	—	1,30,500
Goods from H.O.	30,000	—
Salaries	4,000	—
Head Office A/c.	—	27,000
Sundry Debtors	2,200	—
Sundry Creditors	—	1,500
Cash at Bank & Hand	800	—
Total	1,59,000	1,59,000

The following information is given :

- (i) Salaries outstanding are \$ 500.
 (ii) The Head Office sent goods to Branch for Rs.24,00,000.
 (iii) The Head Office shows an amount of Rs.21,90,000 due from Branch.

The exchange rates were as below :

- On 1st January 2022 – Rs.79 to 1 \$
- On 31st December 2022 - ? 83 to 1 \$
- Average rate during the year was 79.50 to 1 \$

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees.

6. MCQs :

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
 - (a) Debtors method.
 - (b) Stock and debtors method.
 - (c) Either (a) or (b).
 - (d) Both (a) and (b).
2. Under branch trading and profit loss account method
 - (a) H.O prepares profit and loss account.
 - (b) Each branch is treated separate entity.
 - (c) Both (a) and (b).
 - (d) Either (a) or (b).





3. Goods may be invoiced to branch at
- (a) Cost or Selling price. (b) Wholesale price.
(c) Both (a) and (b). (d) Either (a) or (b).
4. Under debtors method, opening balance of debtors is
- (a) Debited to branch account. (b) Credited to branch account.
(c) Debited to H.O account. (d) Credited to H.O account.
5. Cost of goods returned by branch will have the following effect
- (a) Goods sent to branch account will be debited.
(b) Branch stock account will be credited.
(c) Both (a) and (b).
(d) Either (a) or (b).

Thanks



WHY THIS BOOK

Advanced Accounting is one of the most scoring yet conceptually rich paper for CA Inter. This book is designed to provide complete conceptual clarity, in-depth analysis of Accounting Standards, extensive practical questions and exam-focused insights to help students excel with confidence

	Complete Coverage of Advanced Accounting Updated as per ICAI New Syllabus
	Accounting Standards Simplified In-depth coverage with illustrations and practical applications
	ICAI-Based Illustrations & Questions Chapter-wise questions including RTP, MTP & PYQ's
	Exam-Focused Presentation Conceptual clarity with exam-oriented approach and structured flow.

ABOUT THE AUTHOR

Prof. Rahul Malkan

Popularly known as RM, Prof. Rahul Malkan is one of Mumbai's most esteemed faculty members for Students pursuing CA, ACCA, CFA, FRM and US CMA. With a deep expertise in Financial Reporting and Advanced Financial Management, he has been instrumental in shaping the careers of thousands of finance professionals.