PAPER – 1 : ADVANCED ACCOUNTING

PART – I MCQs

Case Scenario - I

On 1st April, 2019, Black Limited received a government grant of ₹ 15,00,000 for acquisition of a Machine costing ₹ 50,00,000. The grant was credited to the cost of the Machine. The life of the Machine is expected to be 10 years and estimated residual value at the end of 10 years is ₹ 5,00,000. The company charges depreciation on straight line basis.

Due to non-fulfillment of certain conditions the company had to refund the entire grant on 1st April, 2021.

On 31st March, 2023, Black Limited received certain indications of impairment of the Machine and the recoverable amount was ascertained to be ₹ 28,00,000 with revised useful life of 4 years and nil residual value.

On 1st April, 2024, the company exchanged the Machine by paying cash of ₹ 2,00,000 and new Machine valued at ₹ 18,00,000.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

1. *What will be the carrying amount of the Machine as on 31st March, 2021 after charging depreciation for the year?*

   (A) ₹ 28,00,000

   (B) ₹ 26,00,000

   (C) ₹ 41,00,000

   (D) ₹ 29,00,000

2. *What will be the amount of depreciation to be charged on the Machine for the year ended 31st March, 2022?*

   (A) ₹ 4,87,500

   (B) ₹ 6,37,500

(C) ₹ 4,50,000

(D) ₹ 5,37,500

3. What will be the impact of test of impairment on Profit & Loss Account of the company?

(A) Impairment loss of ₹ 4,00,000 to be debited to Profit & Loss A/c.

(B) Impairment loss of ₹ 4,25,000 to be debited to Profit & Loss A/c.

(C) Impairment loss of ₹ 6,25,000 to be debited to Profit & Loss A/c.

(D) Impairment loss of ₹ 15,25,000 to be debited to Profit & Loss A/c.

4. What will be the amount of Profit or Loss on exchange of Machine as on 1st April, 2024?

(A) Loss of ₹ 8,00,000

(B) Loss of ₹ 1,00,000

(C) Profit of ₹ 1,00,000

(D) Loss of ₹ 3,00,000

Case Scenario - II

The following particulars are stated in the Balance Sheet of Star Limited as on 31st March, 2023:

Deferred Tax Assets (Dr.)	*₹ 1,20,000*
Deferred Tax Liabilities (Cr.)	*₹ 2,10,000*

The following transactions were reported during the year 2023-24:

1.	*Depreciation as per accounting records*	*₹ 12,00,000*
2.	*Depreciation as per income tax records*	*₹ 18,00,000*
3.	*Interest paid accounted in books on accrual basis but paid on 15-05-2024*	*₹ 4,50,000*
4.	*Employer PF Contribution exp. disallowed for tax purpose in year 2022-23 but allowed in year 2023-24*	*₹ 82,000*
5.	*Unamortized preliminary expenses as per tax records*	*₹ 1,00,000*

6.	*Donation*	*₹ 70,000*
7.	*Tax Rate*	*20%*

Based on the information given in above Case Scenario, answer the following Question No. 5-8

5. *What would be the value of the Deferred Tax Assets as on 31-03-2024?*
   - *(A) ₹ 1,52,000*
   - *(B) ₹ 3,30,000*
   - *(C) ₹ 1,23,600*
   - *(D) ₹ 4,50,000*
6. *What would be the value of the Deferred Tax Liabilities as on 31-03-2024?*
   - *(A) ₹ 1,23,600*
   - *(B) ₹ 3,30,000*
   - *(C) ₹ 1,52,000*
   - *(D) ₹ 1,20,000*
7. *What would be the value of reversal of Deferred Tax Assets as on 31-03-2024?*
   - *(A) ₹ 20,000*
   - *(B) ₹ 1,04,000*
   - *(C) ₹ 16,400*
   - *(D) ₹ 90,000*
8. *Which is the permanent difference item as per AS 22?*
   - *(A) Employer PF Contribution exp.*
   - *(B) Donation*
   - *(C) Unamortized preliminary expenses*
   - *(D) Depreciation*

9. *AB Contractors undertakes a fixed price contract of ₹350 Lakhs. Information related to contract is given as under:*

Material purchased	*₹125 lakhs*
Labour charges	*₹95 lakhs*
Unused material	*₹22 lakhs*
Estimated future costs to be incurred to complete the contract	*₹115 Lakhs.*
Payment received as part payment of contract	*₹50 Lakhs.*

Machinery used for 4 years for the contract. Original cost of the machine is ₹210 Lakhs. Expected life of machinery is 20 years.

What will be the Profit/Loss on the contract?

(A) *Loss on contract ₹5 lakhs*

(B) *Loss on contract ₹49 Lakhs*

(C) *Profit on contract ₹45 Lakhs*

(D) *Profit on contract ₹26.5 Lakhs*

10. *Ace Limited borrowed ₹25 Lakhs from ABN Bank during the financial year 2023-24. Ace Limited used these funds to invest in Equity shares of Kay Limited.*

Kay Limited is implementing a new Project, so with these future prospects, Ace Limited invested ₹25 Lakhs in Kay Limited.

As on 31st March, 2024, since the said project was not complete, the directors of Ace Limited capitalised the interest on loan amounting to ₹2 lakhs and thus added the amount of interest to the cost of Investments.

Market value of these investments on 31st March, 2024 is ₹24 Lakhs.

Identify the correct statement, considering the above facts as per AS 16:

(A) *Interest paid is acquisition charge, hence directors of Ace Limited correctly added the amount of interest in cost of investment.*

(B) *Since project is qualifying Asset, directors of Ace Limited correctly added the amount of interest in cost of investments.*

(C) *Ace Limited invested in equity share which is not a qualifying asset, therefore directors are wrong to add the interest in cost of investments, rather it should be charged to profit and loss account.*

(D) *Since project is qualifying asset, directors of Ace Limited should capitalise the interest amount to market value of investments, rather than cost of investments.*

Case Scenario - III

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

		₹
Cash Balance as on 01-04-2023		*72,000*
Cash Sales	*15,56,000*	
Trade Receivable	*7,40,000*	
Rent from Property held as investment	*64,000*	
Income tax refund	*25,000*	
Loan from Bank	*5,00,000*	
Issue of Shares	*2,50,000*	
Sale of Investment	*49,500*	
		31,84,500
Outflow of Cash		
Trade Payable	*19,60,000*	
Office and Selling Exp.	*1,20,000*	
Trade Commission	*40,500*	
Underwriting Commission	*25,000*	
Redemption of Preference shares	*8,00,000*	
Brokerage on Sale of Investment	*9,200*	
Interest on long term borrowings	*85,600*	

Payment for Overheads	*46,000*	
Purchases of Goodwill	*50,000*	
		(31,36,300)
Balance as on 31-03-24		*1,20,200*

Based on the information given in above Case Scenario, answer the following Question No. 11-14

11. *What would be the value of Cash Flow from Operating Activities?*

    (A) ₹ 1,29,500

    (B) ₹ 1,54,500

    (C) ₹ 1,45,300

    (D) ₹ 4,04,000

12. *What would be the value of Cash Flow from Investing Activities?*

    (A) ₹ 54,300

    (B) ₹ 1,04,300

    (C) ₹ 29,300

    (D) ₹ (500)

13. *What would be the value of Cash Flow from Financing Activities?*

    (A) ₹ (50,000)

    (B) ₹ (1,35,600)

    (C) ₹ 54,300

    (D) ₹ (1,60,600)

14. *Which of the following would be considered as a 'Cash Flow item from an Investing Activities?*

    (A) Underwriting Commission

    (B) Trade Commission

    (C) Purchase of Goodwill

    (D) Interest on Long Term Borrowings

15. *Glow Limited had taken a loan of ₹ 5,00,000 in June, 2023. The loan is to be repaid in 10 half yearly equal installments starting from December, 2023. Determine how the remaining loan will be classified in the Balance Sheet as on 31st March, 2024 as per Schedule III of the Companies Act, 2013?*

    (A) ₹ 3,50,000 is to be shown under the head 'Long term borrowings and ₹ 1,00,000 is to be shown under the head 'Short term borrowings"

    (B) ₹ 3,50,000 is to be shown under the head 'Long term borrowings and ₹ 75,000 is to be shown under the head "Short term borrowings" and ₹ 25,000 is to be shown under the head 'Other Current liabilities."

    (C) ₹ 4,50,000 is to be shown under the head 'Long term borrowings"

    (D) ₹ 3,50,000 is to be shown under the head 'Long term borrowings' and ₹ 1,00,000 is to be shown under the head 'Other Current liabilities."

Answer Key

MCQ No.	Correct Option
1.	D
2.	A
3.	C
4.	No Correct Option
5.	C
6.	B
7.	C
8.	B
9.	A
10.	C
11.	B
12.	A
13.	D
14.	C
15.	A

Part II

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *XYZ Limited has provided you the following information as on 31st March,2024:*

Particulars	*₹*
Net profit (After Tax)	*₹ 31,20,000*
No. of shares outstanding as on 31-3-2024 of ₹ 10 each	*8,00,000*
Average fair value of one equity share during the year 2023-24	*₹ 25*
Weighted average on. Of shares under option during the year 2023-24	*80,000*
Exercise price for shares under option during the year 2023-24	*₹ 20*
12% Debentures of ₹ 100 each	*₹ 30,00,000*
(Each debenture is convertible into 4 equity shares)	
Tax rate	*30%*

The company issued one equity share as bonus for every 5 equity shares outstanding as on 1st October, 2023. It further issued 2,00,000 equity shares of ₹ 10 each as on 1st January, 2024. The Financial Year of the company ends on 31st March each year.

You are required to calculate Basic and Diluted earnings per share as on 31st March, 2024 (round off your answer to 2 decimal places). ***(5 Marks)***

(b) *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 ₹ 12,50,000.

(ii) The equipment reverts back to the lessor on termination of the lease.

(iii) The unguaranteed residual value is estimated at ₹ 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 ₹ 1 at the end of 4th year at 8% of interest is ₹ 0.735.

(vii) The present value of annuity of ₹ 1 due at the end of 4th year at 8% IRR is ₹ 3.312

State whether this lease is operating lease or Finance lease (by applying two deterministic parameters). Also calculate unearned finance Income.

(5 Marks)

(c) 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	*₹ 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*

(4 Marks)

Answer

(a) Computation of Basic Earnings per Share

	Earnings ₹	**No. of Shares**	**EPS ₹**
Earnings per share for the year 2023- 2024	31,20,000	6,50,000 (W.N 2)	4.80

Computation of Dilutive Earnings per Share			
	Earnings ₹	Shares	EPS ₹
Net profit for the year	31,20,000		
Weighted average number of shares (W.N. 2) outstanding during year on 31.3.2024 (i)		6,50,000	
Number of shares under option		80,000	
Number of shares that would have been issued at fair value: (80,000 x 20.00)/25.00		(64,000)	
No. of incremental shares issued for no consideration (ii)		16,000	
Diluted earnings per share after options	31,20,000	6,66,000 (i +ii)	4.68
12% Convertible Debentures (W.N. 3)	2,52,000	1,20,000	-
Diluted earnings	33,72,000	7,86,000	4.29

Working notes:

1. Computation of shares issued on bonus

No. of shares outstanding as on 31st March 2024	8,00,000
Less: Shares issued on 1st Jan 2024	(2,00,000)
Outstanding shares as on 31st December 2023	6,00,000
Bonus shares (6,00,000 x 1/(1+5))	1,00,000
Outstanding shares before bonus issue as on 1st April 2023 (6,00,000x5/6)	5,00,000

2. Weighted Average number of Equity shares

	Shares	Months	Weighted average
Opening balance as on 1.4.2023	5,00,000(W.N.1)	12/12	5,00,000
Bonus	1,00,000	12/12	1,00,000
Further issue of shares on 1.1.2024	2,00,000	3/12	50,000
			6,50,000

3. 12% Convertible Debentures

Increase in net profit {₹ 30,00,000 x 0.12 x (1 - 0.30)}	₹ 2,52,000
No. of incremental shares {30,000 x 4}	1,20,000

(b) Computation of annual lease payment:

Particulars	₹
Cost of equipment	12,50,000.00
Unguaranteed residual value	1,20,000.00
Present value of unguaranteed residual value	
(₹ 1,20,000 x 0.735)	88,200.00
Present value of lease payments	
(₹ 12,50,000 -₹ 88,200)	11,61,800.00
Present value of annuity for four years is 3.312	
Annual lease payment [11,61,800/3.312]	3,50,785.02

Classification of lease:

Parameter 1:

The present value of the lease payment i.e. ₹ 11,61,800 which equals 92.94% of the fair market value i.e. ₹ 12,50,000.

The present value of minimum lease payments substantially covers the fair value of the leased asset.

Parameter 2:

The lease term (i.e. 4 years) covers the major part of the life of asset (i.e. 6 years).

Therefore, **it constitutes a finance lease.**

Computation of Unearned Finance Income:

Particulars	₹
Total lease payments (Rs 3,50,785.02 x 4)	14,03,140.08
Add: Unguaranteed residual value	1,20,000.00
Gross investment in the lease	15,23,140.08
Less: Present value of lease payments and residual value i.e. Net Investment (₹ 88,200 + ₹ 11,61,800)	(12,50,000.00)
Unearned finance income	2,73,140.08

(c) Difference between Defined Contribution Plan and Defined Benefit Plan:

S No.	Defined Contribution Plan	Defined Benefit Plan
1	Fixed Contributions are paid by the employer into a separate fund and will have no obligation to pay further contributions.	Detailed actuarial calculation is performed to determine the charge.
2	The employer has no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits and the employee has to bear the investment and actuarial risk.	The employer ensures that sufficient funds are available to meet the promised benefits regardless of fund performance and the actuarial and investment risk fall on the employer.

Computation of defined benefit liability /Asset:

Particulars	₹ in lakhs
Present value of the defined benefit obligation as on 31.3.2024	36.00
Less: Past service cost not yet recognized	(7.50)
	28.50
Less: The fair value of plan assets	(38.50)
Defined benefit Asset	**10.00**

In case where fair value of plan assets is high, it may so happen that the net amount under defined benefit liability turns negative (giving rise to net assets).

As per AS 15 the enterprise, in such a situation, should measure the resulting asset **at the lower of:**

(i) the amount so determined, i.e. ₹ 10 lakh; and

(ii) the present value of available future refunds from the plan i.e. ₹ 6 lakh.

Therefore, defined benefit asset will be recognised at ₹ 6 lakhs.

Question 2

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

Particulars	***Notes***	***₹***
Equity and Liabilities		
1. Shareholders' Fund	*1*	*10,00,000*
(a) Share Capital	*2*	*(2,50,000)*
(b) Reserves and Surplus		

2. Non-current liabilities		
Long term borrowing	*3*	*4,50,000*
3. Current liabilities		
(a) Trade Payables		*1,30,000*
(b) Short term borrowings – Bank Overdraft		*65,000*
(c) Other Current Liabilities (Interest payable on Debentures)		*45,000*
(d) Short term provision (Provision for Income Tax)		*1,00,000*
Total		***15,40,000***
Assets		
1. Non-current assets		
(a) Property, Plant & Equipment	*4*	*8,50,000*
(b) Intangible assets	*5*	*60,000*
(c) Non-current investments	*6*	*2,80,000*
2. Current assets		
(a) Inventories		*1,20,000*
(b) Trade receivables		*2,30,000*
Total		***15,40,000***

Notes to accounts:

	₹
1. Share Capital	
Equity share capital:	
50,000 Equity shares of ₹ 10 each fully paid up	*5,00,000*
25,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*2,00,000*
Preference share capital:	
30,000 8% Cumulative Preference shares of ₹ 10 each (Preference dividend has been in arrears for 3 years)	*3,00,000*
	10,00,000

2.	***Reserves and Surplus***	
	Profit and Loss account (debit balance)	*(2,50,000)*
3.	***Long-term borrowings***	
	Secured:	
	10% Debentures of ₹ 100 each	*4,50,000*
		4,50,000
4.	***Property, Plant and Equipment***	
	Freehold property	*1,00,000*
	Plant and machinery	*7,50,000*
		8,50,000
5.	***Intangible assets***	
	Goodwill	*60,000*
		60,000
6.	***Non-current investments***	
	Non-trade investments at cost	*2,80,000*
		2,80,000

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

(1) Uncalled capital is to be called up in full and such shares and other fully paid -up equity shares to be reduced to ₹ 5 per share.

(2) The preference shareholders will accept a reduction of ₹ 2.5 per share, in exchange the rate of dividend is to be increased to 9%.

(3) Preference shareholders will forgo their claim of dividend for one year and one equity share of ₹ 5 each is to be issued for the remaining arrears of dividend.

(4) Mr. X holds 10% debentures for ₹ 2,50,000. He is also a creditor for ₹ 50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay ₹ 20,000 to the company and to receive new 12% debentures for the balance amount.

(5) The remaining claim of the debenture holders, including outstanding interest to be reduced to 60%. In consideration of the reduction, the

debenture holders are to receive new 9% preference shares at new face value.

(6) *The taxation liability is to be settled at ₹ 1,20,000.*

(7) *Market value of Non-current Investments is ₹ 2,50,000. Investments to be brought to their market value.*

(8) *Inventory equal to ₹ 1,00,000 at book value will be taken over by remaining creditors in full settlement of their claim.*

(9) *A bad debt provision of 2% is to be created on trade receivables.*

(10) *Plant and Machinery is to be written down by 20%.*

(11) *The company will further issue 12% debentures for such amount which is sufficient to pay off bank overdraft and other outstanding liabilities and maintain its cash/bank balance at ₹ 85,000.*

(12) *The amount available by the scheme shall be utilized in writing of Goodwill, debit balance of profit and loss a/c and balance of inventory.*

You are required to:

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

(b) *Prepare a note to show revised Share capital structure of the company after completion of the scheme.* ***(14 Marks)***

Answer

(a) Journal Entries in books of Sustain Limited

			₹	₹
1.	Bank Account	Dr.	50,000	
	To Equity Share Capital Account			50,000
	(Balance of ₹ 2 per share on 25,000 equity shares called up)			
2.	Equity Share Capital (₹ 10) Account		7,50,000	
	To Equity Share Capital (₹ 5) Account			3,75,000

	To Capital Reduction Account			3,75,000
	(Reduction of equity shares of ₹ 10 each to shares of ₹ 5 each as per reconstruction scheme)			
3.	8 % Cumulative Preference Share Capital (₹ 10) A/c	Dr.	3,00,000	
	To 9% Cumulative Preference Share Capital (₹ 7.5) A/c			2,25,000
	To Capital Reduction A/c			75,000
	(Being Preference shares of ₹ 10 each reduced by ₹ 2.5 each per share by changing the rate of dividend from 8% to 9% and the balance transferred to Capital Reduction A/c.)			
4.	Capital Reduction A/c	Dr.	48,000	
	To Preference share dividend payable A/c			48,000
	(Being arrear of Preference share dividend payable for one year)			
5.	Preference share dividend payable A/c	Dr.	48,000	
	To Equity Share Capital (₹ 5) A/c			48,000
	(Being Equity Shares of ₹ 5 each issued against arrears of 2 years Preference Share dividend) (W.N.1)			
6	10% Debentures Account	Dr.	2,50,000	
	Interest on Debentures Outstanding A/c	Dr.	25,000	
	Trade payables Account	Dr.	50,000	
	To Mr. X			3,25,000
	(The total amount due to X, transferred to his account)			

7	Bank Account	Dr.	20,000	
	To Mr. X			20,000
	(The amount paid by X under the reconstruction scheme)			
8	Mr. X		3,45,000	
	To 12% Debentures Account			1,82,500
	To Capital Reduction A/c			1,62,500
	(The cancellation of 50% of the total debt of Mr. X and the issue of 12% new debentures for the balance amount as per the reconstruction scheme)			
9	10% Debentures A/c	Dr.	2,00,000	
	Interest on Debentures Outstanding A/c		20,000	
	To 9% Cumulative Preference Share capital A/c			1,32,000
	To Capital Reduction A/c			88,000
	(Being 9% preference share capital issued to 10% debenture-holders for 60% of their claims. The balance is transferred to capital reduction account as per the reconstruction scheme)			
10	Provision for Tax A/c	Dr.	1,00,000	
	Capital Reduction A/c		20,000	
	To Bank A/c			1,20,000
	(Being payment of tax liability in full settlement)			
11	Trade payables A/c (1,30,000-50,000)	Dr.	80,000	
	Capital reduction A/c		20,000	

	To Inventory A/c			1,00,000
	[Being settlement of creditors by giving inventory]			
12	Capital reduction A/c	Dr.	1,84,600	
	To Investment A/c			30,000
	To Provision for bad debt A/c (2,30,000 x 2%)			4,600
	To Plant & Machinery (7,50,000x 20%)			1,50,000
	(Investment brought to their market value, Plant & machinery is written down by 20% & Provision for Bad debts of 2% created under the scheme of reconstruction)			
13	Bank A/c	Dr.	2,00,000	
	To 12% debentures A/c			2,00,000
	(New 12 % debentures issued to pay off bank overdraft and maintain cash balance)			
14.	Bank Overdraft	Dr.	65,000	
	To Bank A/c			65,000
	(Bank overdraft paid)			
15.	Capital reduction A/c	Dr.	4,27,900	
	To Goodwill A/c			60,000
	To Profit and loss A/c			2,50,000
	To Inventory			20,000
	To Capital reserve A/c			97,900
	[Being goodwill and profit and loss account (Dr. bal.), balance inventory; and balance of capital reduction account transferred to capital reserve]			

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Issued, subscribed and paid up	
84,600 equity shares of ₹ 5 each each (75,000+9,600)	4,23,000
47,600, 9 % Cumulative Preference Shares of ₹ 7.50 each (30,000+17,600)	3,57,000
Total	7,80,000

Working note

1. **Calculation of the number of equity shares issued for 2 years arrear of preference share dividend**

   3,00,000x 8%x 2 = 48,000

   Equity share of ₹ 5 per share issued= 48,000/5= 9,600 shares

2. **Cash & bank Account**

To Uncalled capital	50,000	By Bank Overdraft	65,000
To Mr. X	20,000	By Tax	1,20,000
To 12% Debentures A/c (bal. fig.)	2,00,000	By Balance C/d	85,000
	2,70,000		2,70,000

3. **The new face value of preference share is 10-2.5= ₹ 7.5**

   Calculation of Number of 9% Preference shares issued in consideration of reduction:

   1,32,000/7.5 = 17,600

Question 3

(a) *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	***₹***
20th February, 2021	*42,000*
17th July, 2022	*25,000*
27th January, 2022	*47,000*
1st March, 2023	*1,10,000*
24th August, 2023	*34,000*
20th March, 2024	*75,000*

You are required to:

(i) *Calculate the provision to be make for warranty under AS 29 as at 31st March, 2023 and 31st March, 2024:*

(ii) *Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2024.* ***(7 Marks)***

(b) *Given below are the extracts of the Balance Sheet of BGH Limited:*

Particulars	***31st March, 2024 (₹)***	***31st March, 2023 (₹)***
Share Capital	*5,00,000*	*4,00,000*
Profit & Loss Account	*1,10,000*	*60,000*
10% Debentures (issued at the end of the year)	*1,00,000*	*-*
Bank Loan	*2,50,000*	*2,00,000*
Trade Payable	*60,000*	*75,000*

Dividend Payable	*-*	*50,000*
Interest Payable on Bank Loan (Current Year)	*25,000*	*20,000*
Goodwill	*1,20,000*	*1,50,000*
Trade Receivables	*65,000*	*95,000*
Inventory	*55,000*	*30,000*

You are required to prepare for the year ended 31st March,2024:

Cash Flow from Operating Activities;

Cash Flow from Financing Activities. ***(7 Marks)***

Answer

(a) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March 2023 = ₹ 25,000 x 2.5% + ₹ 47,000 x 2.5% + ₹ 1,10,000 x 4.5%

= ₹ 625 + ₹ 1,175+ ₹ 4,950 = ₹ 6,750

As at 31st March 2024 = ₹ 1,10,000x 2.5% + ₹ 34,000 x 4.5% +₹ 75,000 x 4.5%

= ₹ 2,750 + ₹ 1,530+ ₹ 3,375 = ₹ 7,655

Amount debited to Statement of Profit and Loss for year ended 31st March 2024

	₹
Balance of provision required as on 31.03.2024	7,655
Less: Opening Balance as on 1.4.2023	(6,750)
Amount debited to Statement of Profit and loss	905

Note: No provision will be made on 31st March 2024 in respect of sales amounting ₹ 42,000,25,000 and 47,000 made on as the warranty period

(b) Cash Flow from Operating Activities for the Year Ended 31 March 2024

Particulars	₹
Cash Flow from Operating Activities	
Retained earnings (1,10,000-60,000)	50,000
Adjustments for non-cash items	
Goodwill Amortisation	30,000
Interest expenses	25,000
	1,05,000
Changes in Working Capital	
Decrease in Trade Receivables	30,000
Increase in Inventory	(25,000)
Decrease in Trade Payables	(15,000)
Cash Flow from Operating Activities	95,000

Cash Flow from Financing Activities for the Year Ended 31 March 2024

Increase in Share Capital	1,00,000
Increase in Bank Loan	50,000
Issue of 10% Debentures	1,00,000
Dividend Paid	(50,000)
Interest Paid	(20,000)
Cash Flow from Financing Activities	1,80,000

Question 4

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

Particulars	***Notes***	***Light Limited (₹ in Lakhs)***	***Bright Limited (₹ in Lakhs)***
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	*1*	*50.00*	*40.00*

(b) Reserves and Surplus	*2*	*27.00*	*24.00*
Non- Current Liabilities			
Long Term Provisions		*1.50*	*-*
Current Liabilities			
Trade Payables		*3.40*	*2.00*
Total		***81.90***	***66.00***
Assets			
Non-Current Assets			
Property, Plant and Equipment	*3*	*68.70*	*50.25*
Current Assets			
(a) Inventories		*5.75*	*7.10*
(b) Trade Receivables		*4.30*	*5.80*
(c) Cash and Cash equivalents		*3.15*	*2.85*
Total		***81.90***	***66.00***

Notes to Accounts:

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

Other Information:

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

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

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

You are required to Prepare:

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

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

(14 Marks)

Answer

Adjustment in bank balance and profit & loss account before amalgamation

Other assets of Bright limited

	₹ In lakhs
Book value	1.75
Less: Sale proceeds	(0.50)
Loss on sale of other assets (debited to Profit & Loss A/c)	1.25

The new balance of Bank = 2.85 +0.5= 3.35 (₹ In lakhs)

The new balance of Profit & Loss A/c = 4-1.25= 2.75 (₹ In lakhs)

(a) (i) Realisation Account

	Light Ltd. (₹ In lakhs)	**Bright Ltd. (₹ In lakhs)**		**Light Ltd. (₹ In lakhs)**	**Bright Ltd. (₹ In lakhs)**
To Sundry Assets, transfer :			By Long term provision	1.50	-
To Land & Building,	58.00	44.00	By Trade payables	3.40	2.00

To Plant & machinery	7.50	4.50	By Rainbow Ltd. - purchase	80.00	64.00
To Other assets	3.20	-			
To Inventories	5.75	7.10			
To Trade receivable	4.30	5.80			
To Cash & Bank Balance	3.15	3.35			
To Equity Shareholders - profit	3.00	1.25			
	84.90	66.00		84.90	66.00

(ii) Shareholders Account

	Light ltd. (₹ In lakhs)	Bright Ltd. (₹ In lakhs)		Light Ltd. (₹ In lakhs)	Bright Ltd. (₹ In lakhs)
To Shares in Rainbow Ltd.	80.00	64.00	By Share Capital A/c - transfer	50.00	40.00
			By Statutory reserve	2.00	-
			By General Reserve	18.00	15.00
			By Securities premium	-	5.00
			By Profit & Loss A/c	7.00	2.75
			By Realisation A/c	3.00	1.25
	80.00	64.00		80.00	64.00

(b) Balance Sheet of Super Rainbow Ltd.

		Particulars	Notes	(₹ In lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	144.00
	B	Reserves and Surplus	2	1.00
2		Non-current liabilities		
	A	Long-term provisions		1.50
3		Current liabilities		
	A	Trade Payables		5.40
		Total		151.90

		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	121.20
	B	Intangible assets	4	1.25
2		Current assets		
		Inventories		12.85
		Trade receivables		10.10
		Cash and cash equivalents		6.50
		Total		151.90

(c) Notes to Accounts

		(₹ In lakhs)
1.	Share Capital	
	Equity share capital	
	Issued, subscribed and paid up	
	1,44,000 Equity shares of ₹ 100 each	144.00
	(all shares are issued for consideration other than cash)	
2.	Reserves and Surplus	
	Statutory Reserves	2.00
	Amalgamation Adjustment Reserves	(2.00)
	Capital Reserves	1.00
		1.00
3.	Property, Plant and Equipment	
	Land and Buildings	106.00
	Plant and Machinery	12.00
	Other Assets	3.20
		121.20
4	Intangible assets	
	Goodwill	1.25

Working notes:

1. Calculation of purchase consideration

	Light ltd. (₹ In lakhs)	Bright Ltd. (₹ In lakhs)
80,000 Equity Shares of ₹ 100	80	
64,000 Equity Shares of ₹ 100		64

2. Calculation of Net assets taken over

			(₹ In lakhs)
Particulars		**Light Ltd.**	**Bright Ltd.**
Assets taken over:			
Land and Buildings		62.00	44.00
Plant and Machinery		7.50	4.50
Other Assets		3.20	-
Inventory		5.75	7.10
Trade Receivable		4.30	5.80
Cash at Bank (2.85 + 0.50)		3.15	3.35
	(i)	85.90	64.75
Liabilities taken over:			
Long term provisions		1.50	-
Trade payable		3.40	2.00
	(ii)	4.90	2.00
Net assets taken over	(i) – (ii)	81.00	62.75

3. Calculation of Goodwill/Capital Reserve

		(₹ In lakhs)
Particulars	Light Ltd.	Bright Ltd.
Net Assets takeover	81.00	62.75
Less: Purchase Consideration	(80.00)	(64.00)
Goodwill/ (Capital Reserve)	(1.00)	1.25

Question 5

The summarized Balance Sheets of Super Limited and Clear Limited as on 31st March,2024 is as below:

Particulars	Note	Super Limited ₹	Clear Limited ₹
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	95,00,000	50,00,000
(b) Reserves and Surplus	2	25,75,000	12,25,000
Non-Current Liabilities			
(a) Long term borrowings	3	5,00,000	2,00,000
Current Liabilities			
(a) Short term borrowings		4,50,000	-
(b) Trade Payables		3,65,000	2,45,000
Total		**1,33,90,000**	**66,70,000**
Assets			
Non-current assets			
(a) Property, Plant and Equipment	4	77,00,000	54,00,000
(b) Non-Current Investment	5	41,50,000	-
Current Assets			
(a) Inventories		6,75,000	5,65,000
(b) Trade Receivables		5,85,000	4,90,000
(c) Cash and Cash equivalents		2,80,000	2,15,000
Total		**1,33,90,000**	**66,70,000**

Notes to Accounts:

Particulars		*Super Limited* ₹	*Clear Limited* ₹
1.	***Share Capital***		
	8,00,000 Equity Shares of ₹ 10 each fully paid up	*80,00,000*	
	5,00,000 Equity Shares of ₹ 10 each fully paid up	*-*	*50,00,000*
	15,000 Preference Shares of ₹ 100 each fully paid up	*15,00,000*	*-*
		95,00,000	***50,00,000***
2.	***Reserves and Surplus***		
	General Reserve	*15,50,000*	*6,50,000*
	Profit and Loss Account	*10,25,000*	*5,75,000*
		25,75,000	***12,25,000***
3.	***Long term borrowing***		
	10% Debentures	*5,00,000*	*-*
	9% Debentures	*-*	*2,00,000*
4.	***Property, Plant & Equipment***		
	Land & Building	*65,00,000*	*45,50,000*
	Plant & Machinery	*9,50,000*	*6,75,000*
	Furniture & Fittings	*2,50,000*	*1,75,000*
		77,00,000	***54,00,000***
5.	***Non–Current Investment***		
	Investment in Clear Limited	*41,50,000*	*-*

Additional Information:

(a) Super Limited holds 75% of Equity Shares in Clear Limited since the incorporation of Clear Limited.

(b) 25% of Trade Receivables of Super Limited is due from Clear Limited.

(c) *During the year Super Limited sold inventory costing ₹ 2,00,000 to Clear Limited at a price of 15% above cost. The entire inventory remains unsold with Clear Limited at the end of financial year.*

You are required to prepare Consolidated Balance Sheet of Super Limited and Clear Limited as on 31st March, 2024. ***(14 Marks)***

Answer

Consolidated Balance Sheet of Super Ltd. and its subsidiary Clear Ltd. as at 31st March, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	95,00,000
(b) Reserves and Surplus	2	34,63,750
(2) Minority Interest [W.N.4]		15,56,250
(3) Non-current Liabilities		
(a) Long term borrowings	3	7,00,000
(4) Current Liabilities		
(a) Short-term borrowings		4,50,000
(b) Trade payables	4	4,63,750
Total		1,61,33,750
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	1,31,00,000
(b) Intangible Assets – Goodwill		4,00,000
(2) Current assets		
(a) Inventory	6	12,10,000
(b) Trade Receivables	7	9,28,750
(c) Cash and Cash Equivalents		4,95,000
Total		1,61,33,750

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity Share Capital		
	8,00,000 Equity Shares of ₹ 10 each fully paid up		80,00,000
	Preference Share Capital		
	15,000 Preference Shares of ₹ 100 each fully paid up		15,00,000
	Total		95,00,000
2.	Reserves and Surplus		
	General Reserve (WN 5)		20,37,500
	Profit & Loss A/c (WN 5)		14,26,250
	Total		34,63,750
3.	Long term borrowings		
	10% Debentures		5,00,000
	9% Debentures		2,00,000
	Total		7,00,000
4	Trade payables		
	Super Ltd.	3,65,000	
	Clear Ltd.	2,45,000	
	Less: Mutual Owing	(1,46,250)	4,63,750
5	Property Plant & Equipment		
	Land & Building		
	Super Ltd.	65,00,000	
	Clear Ltd.	45,50,000	1,10,50,000
	Plant & Machinery		
	Super Ltd.	9,50,000	
	Clear Ltd.	6,75,000	16,25,000

	Furniture & Fittings		
	Super Ltd.	2,50,000	
	Clear Ltd.	1,75,000	4,25,000
6	Inventory		
	Super Ltd.	6,75,000	
	Clear Ltd.	5,65,000	
	Less: Unrealized profit	(30,000)	12,10,000
7	Trade Receivables		
	Super Ltd.	5,85,000	
	Clear Ltd.	4,90,000	
	Less: Mutual Owing	(1,46,250)	9,28,750

Working Notes:

1. Shareholding Pattern

Super Ltd	5,00,000 Shares
Holding 75%	3,75,000 shares
Minority Interest 25%	1,25,000 shares

2. Analysis of Profit of Clear Ltd.

	Capital Profit	Revenue Reserve	Revenue Profit
Opening Balance of General Reserve	-	6,50,000	-
Opening Balance of P&L	-	-	5,75,000
Total ₹		6,50,000	5,75,000
Share of Minority (25%)		1,62,500	1,43,750
Share of Holding (75%)		4,87,500	4,31,250

3. Computation of Cost of Control (Goodwill / Capital Reserve)

	Computation	₹
Cost of Investment	Given	41,50,000
Less: Share of Equity Capital in Clear Ltd.	50,00,000 × 75%	(37,50,000)

Less: Pre -acquisition Profit	WN 2	-
Goodwill		4,00,000

4. Calculation of Minority Interest

Particulars		₹
Share in Equity Share Capital	50,00,000 × 25%	12,50,000
Share in Revenue Reserve	6,50,000 × 25%	1,62,500
Share in profit & loss	5,75,000 × 25%	1,43,750
Total		15,56,250

5. General Reserve and Consolidated Profit & Loss A/c

Particulars	**General Reserve**	**Profit & Loss A/c**
Balance from Balance Sheet	15,50,000	10,25,000
Revenue Profit (WN 2)	-	4,31,250
Revenue Reserve (WN 2)	4,87,500	-
Unrealized Profit	-	(30,000)
Total	20,37,500	14,26,250

Question 6

(a) The following information is provided for the year ended 31st March, 2024:

(i) AX Limited holds 70% shares of BX Limited

(ii) BX Limited holds 30% shares of CX Limited

(iii) DX Limited holds 40% shares of in CX Limited

(iv) DX Limited holds 49% shares in EX Limited

You are required to:

(i) Identity the related parties for the reporting entities – AX Limited, CX Limited and EX Limited.

(ii) If DX Limited would have sold its investment in EX Limited on 1st October, 2023, but goods were continued to be supplied by DX Limited to EX Limited throughout the year, will this scenario change your answer with respect to any of the reporting entity mentioned in point (i)?

Give reasons for your answer as per AS 18. ***(4 Marks)***

OR

(a) Given below is the Balance Sheet of Sky and Associates as on 31st March,2023:

Liabilities	₹	Assets	₹
Capital	1,60,000	Machinery	1,80,000
Profit & Loss Account	93,000	Stock	1,15,000
8% Loan	40,000	Trade Receivables	75,000
Trade Payables	66,000	Deferred Expenditure	9,000
Bank Overdraft	20,000		
	3,79,000		3,79,000

Additional information:

(1) The firm is planning to shut down its business with immediate effect from 1st April, 2024.

(2) The sale and purchase of the firm for the year 2023-24 amounts to ₹ 8,20,000 and ₹ 6,50,000 respectively.

(3) The value of Closing Stock as on 31-3-2024 was ₹ 65,000. The net realizable value is estimated at 120% of cost.

(4) Other expenses for the period amount to ₹ 25,000.

(5) Deferred expenditure is getting amortized over 5 years starting form 31-3-2022.

(6) The remaining life of Machinery is expected to be 3 years. The realizable value of Machine is expected at ₹ 1,65,000, an expense of ₹ 5,000 is to be incurred to realize the same.

(7) Out of trade receivables, ₹ 5,000 is expected to be unrealizable due to an ongoing dispute.

(8) Bank has charged a penalty of ₹ 2,500 for crossing the overdraft limit.

(9) The lender has agreed to forgo 50% of interest charge for the year.

(10) *The firm is expecting a discount of ₹ 4,000 from creditors at the time of full and final settlement.*

You are required to prepare a Profit & Loss A/c for the year ended 31st March, 2024 to ascertain its Profit/Loss for the period. ***(4 Marks)***

(b) *Following information are available in respect of Z Limited as on 31st March, 2024:*

4,00,000 Equity share capital of ₹ 10 each	*₹ 40,00,000*
Capital Reserve	*₹ 20,000*
Revenue Reserve	*₹ 50,00,000*
Securities Premium	*₹ 6,00,000*
Profit and Loss Account	*₹ 19,00,000*
Investments	*₹ 40,00,000*

The company decides to buy back 20% of its Equity capital @ ₹ 15 per share on 1st April, 2024. Buy back is as per provisions of the Companies Act and company passed the necessary resolutions for it. For this purpose, it sold its investments of ₹ 40 lakhs for ₹ 32 lakhs.

You are required to pass the necessary journal entries. ***(4 Marks)***

(c) *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 ₹ 7,500 allocated to Branch by Hand office but still no entry is passed in the books of branch.*

(ii) *Head office paid ₹ 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 ₹ 85,000 is sent by branch to Head office has not been received by Head office till date.*

(iv) *Branch paid ₹ 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 ₹ 18,000 through cheque, but the Furniture account was retained in Head office Books. No entry has yet been passed.*

(vi) *Branch incurred ₹ 5,500 of expenses on behalf of other branches of head office, this transaction was not recorded in the books of branch.*

(6 Marks)

Answer

(a) (i)

Reporting entity	**Related party**
AX Limited	BX Limited (AX Limited controls BX Limited directly as holding company CX Limited (AX Limited has significant influence in CX Limited indirectly through BX Limited)
CX Limited	AX Limited (AX Limited has significant influence in CX Limited indirectly through BX Limited) BX Limited (BX Limited has significant influence in CX Limited) DX Limited (DX Limited holds 40% shares, means substantial interest of more than or equal to 20%, hence significant influence exists in this case)
EX Limited	DX Limited (DX Limited holds 49% shares, means substantial interest of more than or equal to 20%, hence significant influence exists in this case)

(ii) No, DX would still be a related party of EX Limited EX Limited will report DX Limited as a related party as per AS 18. However, the transaction for the period in which the related party relationship exists will only be disclosed.

OR

Profit and Loss Account of Sky & Associate

for the year ended 31st March, 2024

Particulars	₹	Particulars	₹
To Opening Stock	1,15,000	By Sales	8,20,000
To Purchases	6,50,000	By Closing Stock	78,000
To Gross Profit *	1,33,000		
	8,98,000		8,98,000
		By Gross Profit	1,33,000
To Deferred Expense	9,000	By Discount	4,000
To Other Expenses	25,000		
To Bad Debts	5,000		
To Penalty	2,500		
To Depre. (180 – 160)	20,000		
To Interest on loan	1,600		
To Net Profit	73,900		
	1,37,000		1,37,000

(b) **In the books of Z Limited**

Journal Entries

	Particulars		(₹)	(₹)
1)	Bank A/c	Dr.	32,00,000	
	Profit & Loss A/c	Dr.	8,00,000	
	To Investments			40,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			

2)	Equity share capital A/c Premium payable on buy-back A/c To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	8,00,000 4,00,000	 12,00,000
3)	Equity shares buy-back A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr	12,00,000	 12,00,000
4)	Securities Premium A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr	4,00,000	 4,00,000
5)	Profit & Loss A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back)	Dr	8,00,000	 8,00,000

(c) **In the books of Branch**

Journal Entries

	Particulars		₹	₹
1)	Head office account To Commission Income (Being commission income recognized)	Dr	7,500	 7,500
2)	Creditors A/c To Head office account (Being H.O. paid off a creditor directly)	Dr	12,000	 12,000

3)	No entry in Branch Books			
4)	Head office account	Dr	9,800	
	To Salary A/c			9,800
	(Being amount debited to salary account by mistake now rectified)			
5)	Head office account	Dr	18,000	
	To Bank A/c			18,000
	(Being furniture purchased by branch retained by H.O.)			
6)	Head Office A/c	Dr	5,500	
	To Bank A/c			5,500
	(Being expenses incurred on behalf of other branches, due from H.O.)			