

SUGGESTED ANSWERS JANUARY 2026

**PAPER 1: ADVANCED ACCOUNTING - INTERMEDIATE
COURSE**

PAPER – 1 : ADVANCED ACCOUNTING

Part I - Multiple Choice Questions

Case Scenario - I

P Limited is an Indian company which prepares its accounts as per the Accounting Standards notified by the Ministry of Corporate Affairs. While finalizing its financial statements for the year ended 31st March, 2025, the accountant of the company has sought your advice with regard to the following matters:

P Limited had taken a loan of USD 1,00,000 on 1st April, 2024 for a specific project at an interest rate of 5% per annum, payable annually. On 1st April, 2024, the exchange rate between the currencies i.e. USD vs INR was ₹ 75 per USD. The exchange rate on the reporting date i.e. 31st March, 2025 is ₹ 80 per USD. The corresponding amount could have been borrowed by P Limited in local currency at an interest rate of 10% per annum on 1st April, 2024.

P Limited holds 12% of the voting shares in G Limited. G Limited's board comprises of eight members and two of these members are appointed by P Limited casting significant influence. Each board member has one vote at the meeting.

P Limited is engaged in the manufacturing of toys at its plant at Muzaffarnagar and incurs the following costs to manufacture each unit of toy:

Particulars	Cost per Unit (₹)
Material Cost	200
Direct Labour	40
Direct Variable Production Overheads	20

The plant has the capacity to produce 1,00,000 units of toys per annum and the fixed production overheads for the year are ₹ 15,00,000/-. During the year 2024-25, the actual production of toys was ₹ 1,20,000 units. At the end of the year, 11,000 units of finished toys were lying unsold at the works of P Limited.

P Limited also renders catering services at various events. At a wedding in 2024-25 in which it had given its catering service, ten people died possibly as a result of food poisoning. Legal proceedings were started by the client against

P Limited seeking compensation of ₹ 10,00,000/-, but it disputes the liability. The legal counsel of P Limited has advised that the company is likely to lose the case, although the chances of paying the claim are not remote. The estimated potential liability estimated by counsel is (i) Legal cost to be incurred (irrespective of the outcome of the case) ₹ 75,000/- and (ii) Settlement if the claim is required to be paid ₹ 10,00,000/-.

On the basis of information provided above, you are required to choose the most appropriate answer to the below mentioned Questions 1 to 5 in line with the relevant Accounting Standards:

1. *In case of foreign currency borrowing obtained by P Limited, what would be the amount of borrowing cost to be recognized during the year ended 31 March, 2025 as per AS 16?*
(A) ₹ 3,87,500
(B) ₹ 3,75,000
(C) ₹ 7,50,000
(D) ₹ 4,00,000 **(2Marks)**
2. *What is the amount that would be considered as the exchange difference to be accounted for during the year ended 31 March, 2025 as per AS 11, "The Effects of Changes in Foreign Exchange Rates"?*
(A) ₹ 1,50,000
(B) ₹ 5,00,000
(C) ₹ 2,50,000
(D) Nil **(2 Marks)**
3. *What is the relationship of G Limited with P Limited as per the relevant Accounting Standard?*
(A) G Limited is a subsidiary of P Limited.
(B) G Limited is an associate of P Limited.
(C) G Limited is a Joint Venture of P Limited.
(D) P Limited has invested in G Limited with no further relationship as subsidiary, associate or joint venture. **(2 Marks)**

4. Determine the value of inventory of unsold finished toys lying at the works of P Limited as at 31st March, 2025 as per AS 2?
- (A) ₹ 30,25,000
(B) ₹ 29,97,500
(C) ₹ 32,08,260
(D) ₹ 28,60,000 **(2 Marks)**
5. What accounting treatment should be done in the books of P Limited for the year ended 31st March, 2025, as the client has initiated legal proceedings against the company seeking compensation for deaths due to food poisoning?
- (A) Create a provision of ₹ 10,75,000/-
(B) Create a provision of ₹ 75,000/- and make a disclosure of contingent liability of ₹ 10,00,000/-
(C) Make a disclosure of a contingent liability of ₹ 10,75,000/-
(D) Create a provision of ₹ 10,00,000/- **(2 Marks)**

Case Scenario - II

V Limited entered into a contract to construct a hostel building for MR College at an agreed price of ₹ 224 lakhs on 1st October, 2024. The expected completion time is 18 months. V Limited incurred a cost of ₹ 60 lakhs up to 31st March, 2025. Prudent estimate of additional cost for completion was ₹ 180 lakhs. As at 31st March, 2025, V Limited has billed MR College for ₹ 84 lakhs as per the agreement.

On 1st June, 2024, V Limited acquired 30% shares of M Limited for a consideration of ₹ 20,00,000/-. Such acquisition enables V Limited to exercise significant influence over M Limited. On 14th August, 2024, M Limited declared a dividend of ₹ 5,00,000/- out of the profit of ₹ 8,00,000/- earned by it during the year ended 31st March, 2024. Further, M Limited reported earnings of ₹ 30,00,000/- for the year ended 31st March, 2025 (assume profits to accrue evenly) and declared dividend of ₹ 6,00,000/- on 15th June, 2025

V Limited has reported a pre-tax Profit of ₹ 7,00,000/- in the first quarter of Financial Year 2024-25 and ₹ 8,00,000/- during the second quarter of Financial Year 2024-25. Further it expects to earn a pre-tax profit of ₹ 4,00,000/- and

₹ 6,00,000/- during the third and fourth quarters respectively of Financial Year 2024-25. It has a corporate tax slab rate of 30% on the first ₹ 5,00,000/- earnings and 40% on all additional earnings.

The following information has been provided by V Limited for deferred tax assets/liability as at 31st March, 2025:

Particulars	Amount (₹)
Depreciation as per Accounting Records	4,00,000
Depreciation allowable under Section 32 of the Income Tax Act, 1961	10,00,000
Unamortized Preliminary Expenses as per Tax Records	30,000
Penalty imposed by GST Department on 30 th March, 2025, payable by 30 th April, 2025	1,25,000

On the basis of information provided above, you are required to choose the most appropriate answer to the below mentioned Questions 6 to 9 in line with the relevant Accounting Standards:

6. What amount should be recognized by V Limited as Revenue and Total Expenses in respect of the hostel building contract in its Statement of Profit and Loss for the year ended 31st March, 2025 as per provisions of Accounting Standard 7 (Revised)?

- (A) Revenue of 84 lakhs, Total Expense of ₹ 60 lakhs.
 (B) Revenue of 56 lakhs, Total Expense of ₹ 60 lakhs.
 (C) Revenue of 56 lakhs, Total Expense of ₹ 76 lakhs.
 (D) Revenue of 60 lakhs, Total Expense of ₹ 60 lakhs.

(2 Marks)

7. What would be the carrying amount of Investment in M Limited in the Consolidated Financial Statements of V Limited as at 31st March, 2025?

- (A) ₹ 24,20,000/-
 (B) ₹ 26,00,000/-
 (C) ₹ 18,50,000/-
 (D) ₹ 20,00,000/-

(2 Marks)

8. What would be the amount of current tax expense to be reported in the interim financial report for the second quarter of financial year 2024-25?

(A) ₹ 3,20,000/-
(B) ₹ 2,70,000/-
(C) ₹ 3,04,000/-
(D) ₹ 2,37,500/-

(2 Marks)

9. Assuming a tax rate of 30%, determine the amount of Deferred Tax Asset/Liability as at 31st March, 2025. There is adequate evidence of future profit sufficiency.

(A) Deferred Tax Liability of ₹ 1,71,000/-
(B) Deferred Tax Liability of ₹ 1,80,000/-
(C) Deferred Tax Assets of ₹ 1,89,000/-
(D) Deferred Tax Asset of ₹ 1,71,000/-

(2 Marks)

10. PQR Ltd. is a manufacturing company that has several subsidiaries and joint ventures. During the financial year, it sold machinery worth ₹ 2 crores to one of its subsidiaries, STU Pvt. Ltd., at arm's length price. The company also paid ₹ 50 lakhs in remuneration to its CEO and CFO. Additionally, PQR Ltd. received a loan of ₹ 1 crore from its holding company, LMN Ltd. All these transactions were disclosed separately in the notes to accounts of the financial statements.

Which of the following statements correctly reflect the application of AS 18 in the above scenario?

(A) AS 18 does not apply to transactions with subsidiaries.
(B) Remuneration paid to CEO and CFO need not be disclosed under AS 18.
(C) AS 18 requires disclosure of related party transactions such as sale of machinery, loans, and managerial remuneration.
(D) AS 18 applies only to financial institutions and banks.

(2 Marks)

Case Scenario - III

XYZ Ltd. is a diversified company operating in the consumer goods sector. For the financial year ending March 31, 2025, the company reported a net profit before tax of ₹ 22,00,000. The depreciation expense for the year was ₹ 4,00,000, and amortization of intangible assets amounted to ₹ 1,50,000. During the year, accounts receivable increased by ₹ 3,70,000, inventory rise by ₹ 1,60,000 and accounts payable increased by ₹ 1,85,000. The company also paid ₹ 1,35,000 in interest and ₹ 2,40,000 in income taxes. The company issued new equity shares worth ₹ 9,00,000 and raised a long-term loan of ₹ 5,00,000. It repaid ₹ 3,50,000 of existing debt and paid ₹ 90,000 in dividends to shareholders. The opening balance of cash and cash equivalents was ₹ 2,50,000.

XYZ Ltd. uses the indirect method to prepare its cash flow statement. The management is keen to understand the impact of these transactions on the company's liquidity and overall cash position.

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

11. What is the total monetary adjustment for non-cash expenses that will be added back to net profit?
- (A) ₹ 4,00,000
 - (B) ₹ 1,50,000
 - (C) ₹ 5,50,000
 - (D) ₹ 22,00,000
- (2 Marks)**
12. What is the cash flow from operating activities (indirect method)?
- (A) ₹ 26,45,000
 - (B) ₹ 23,00,000
 - (C) ₹ 21,15,000
 - (D) ₹ 21,50,000
- (2 Marks)**
13. What is the net cash flow from financing activities?
- (A) ₹ 8,25,000
 - (B) ₹ 14,00,000
 - (C) ₹ 9,60,000

(D) ₹ 10,50,000

(2 Marks)

14. What is the closing balance of cash and cash equivalents?

(A) ₹ 33,75,000

(B) ₹ 17,50,000

(C) ₹ 16,50,000

(D) ₹ 24,50,000

(2 Marks)

15. AAR Ltd. is formed to take over the assets and liabilities of ABC Ltd., which is then dissolved. This is an example of:

(A) Internal reconstruction

(B) Merger

(C) External reconstruction

(D) Absorption

(2 Marks)

Answer Key

MCQ. NO.	Correct Answer
1.	(C)
2.	(A)
3.	(B)
4.	(B)
5.	(B)
6.	(C)
7.	(B)
8.	(C)
9.	(A)
10.	(C)
11.	(C)
12.	(B)
13.	(A)
14.	(A)
15	(C)

Part II - Descriptive Questions

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) On 1st April, 2024. RM Limited obtained a term loan of ₹ 50,00,000/- at an interest rate of 12% per annum from bank for the construction of a building.

In addition to the above loan, the company has also raised multiple non-specific borrowings as follows:

8% Debentures	₹ 30,00,000/-
15% Term Loan	₹ 60,00,000/-
10% Inter Corporate Loan	₹ 36,00,000/-

RM Limited has utilized the aforesaid funds in construction of the following assets:

Building	₹ 1,40,00,000/-
Furniture	₹ 44,00,000/-
Plant and Machinery	₹ 1,80,00,000/-
Factory Shed	₹ 86,00,000/-

The construction of Building, Plant and Machinery and Factory Shed took substantial period of time and was completed on 31st March, 2025. The Furniture was purchased directly from a local manufacturer. The factory was ready to commence production on 1st April, 2025.

You are required to show the treatment of interest as per AS- 16 in respect of borrowing cost for the year ended 31st March, 2025 in the books of RM Limited. **(5 Marks)**

- (b) RMC Limited operates a defined retirement benefits plan on behalf of its current and former employees. It receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits.

On 1st April, 2024, the actuaries advised that the fair value of the plan assets in respect of the defined retirement benefits plan of RMC Limited stood at ₹ 25,00,000/-

On 30th September, 2024, the plan paid out benefits of ₹ 4,75,000/- and received inward contributions of ₹ 12,25,000/-.

On 31st March, 2025, the actuaries assessed the present value of the defined benefit obligation at ₹ 36,98,000/-. On the same day the fair value of plan assets was ₹ 37,50,000/-. Actuarial losses on the obligations for the year 2024-25 were ₹ 15,000/-.

On 1st April, 2024, the company made the following estimates, based on its market studies and prevailing prices:

	%
Interest and dividend income (after tax) payable by the fund	9.75
Realized gains on plan assets (after tax)	2.50
Fund administrative costs	(2.00)
Expected rate of return (Interest is compounded half yearly)	10.25

You are required to ascertain the expected and actual returns on plan assets.
(4 Marks)

- (c) The following information has been extracted from the financial records of P Limited:

Profit before tax for the year ended 31 st March, 2024	₹ 25,00,000
Profit before tax for the year ended 31 st March, 2025	₹ 32,50,000
Number of Equity Shares (Face Value ₹ 5/- per share) outstanding as on 31 st March, 2024	₹ 12,00,000
Applicable Tax Rate for 2023-24 and 2024-25	20%

On 1st June, 2024, the Directors of P Limited announced a rights issue which entitled the existing shareholders to subscribe one share for every six shares held by them @ ₹ 20/- per share. The last date of exercising the rights was 30th June, 2024 and the rights issue was subscribed in full. The fair value of one equity share immediately prior to exercise of right on 30th June, 2024 was ₹ 25/-.

You are required to calculate the Basic Earnings per Share to be reported in the financial statements of P Limited for the year ended 31st March, 2025 including the comparative figure for the year ended 31st March, 2024 in accordance with AS 20. **(5 Marks)**

Answer**(a) Interest to be capitalized (on qualifying assets)**

	Particulars	Computation	₹
i.	On Specific Borrowings	50,00,000 x 12%	6,00,000
ii.	On Non-Specific borrowings	(W.N.1)	13,35,000
iii.	Amount of interest to be Capitalized	(i+ii)	19,35,000

Interest transferred to Statement of Profit and Loss (on non-qualifying assets)

	Particulars	Computation	₹
i.	On Non-Specific Borrowings	(W.N.1)	1,65,000

Working Notes:**1. Treatment of Interest under AS 16 on Non-Specific Borrowings**

	Particulars	Qualifying asset	Computation ₹	Interest-Capitalized ₹	Interest Charged to Statement of P&L
i.	Building	Yes	$(90,00,000/4,00,00,000) \times 15,00,000$	3,37,500	-
ii.	Furniture	No	$(44,00,000/4,00,00,000) \times 15,00,000$	-	1,65,000
iii.	Plant & Machinery	Yes	$(1,80,00,000/4,00,00,000) \times 15,00,000$	6,75,000	-
iv.	Factory shed	Yes	$(86,00,000/4,00,00,000) \times 15,00,000$	3,22,500	-
	Total			13,35,000	1,65,000

2. Total Amount of Interest Non-Specific Borrowings

Particulars	Amount of loan (a)	Rate of interest (b)	Amount of interest (c) = (a) x (b)
Debentures	30,00,000	8%	2,40,000
Term Loan	60,00,000	15%	9,00,000
Other Corporate Loan	<u>36,00,000</u>	10%	<u>3,60,000</u>
Total	<u>126,00,000</u>		<u>15,00,000</u>

(b) Computation of Expected and Actual Returns on Plan Assets

	₹
Return on ₹ 25,00,000 held for 12 months at 10.25%	2,56,250
Return on ₹ 7,50,000 (₹ 12,25,000 - ₹ 4,75,000) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	<u>37,500</u>
Expected return on plan assets for 2024-2025	<u>2,93,750</u>
Fair value of plan assets as on 31 March, 2025	37,50,000
Less: Fair value of plan assets as on 1 April, 2024 ₹ 25,00,000	
Contributions received ₹ <u>12,25,000</u>	<u>(37,25,000)</u>
	25,000
Add: Benefits paid	4,75,000
Actual return on plan assets	<u>5,00,000</u>

(c) Computation of Basic Earnings Per Share**(as per paragraphs 10 and 26 of AS 20 on Earnings Per Share)**

Particulars	Year 2024 ₹	Year 2025 ₹
EPS for the year 2024 as originally reported		
Net profit of the year attributable to equity shareholders		
Weighted average number of equity shares outstanding during the year		
= (₹ 20,00,000 / 12,00,000 shares)	1.67	

EPS for the year 2024 restated for rights issue = $[\text{₹ } 20,00,000 / (12,00,000 \text{ shares} \times 1.0294^*)]$ $20,00,000 / 12,35,280$	1.62 (approx.)	
EPS for the year 2025 including effects of rights issue $\text{₹ } 26,00,000$ $(12,00,000 \text{ shares} \times 1.029 \times 3/12) + (14,00,000 \text{ shares} \times 9/12)$ $\text{₹ } 26,00,000$ $13,58,700 \text{ shares}$		1.91 (approx.)

Working Notes:**1. Calculation of Net Profit after tax (NPAT)**

$$\begin{aligned}
 2024 &= 25,00,000 - \text{Tax } 20\% \\
 &= 20,00,000 \\
 2025 &= 32,50,000 - \text{Tax } 20\% \\
 &= 26,00,000
 \end{aligned}$$

2. Computation of theoretical ex-rights fair value per share

Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise

$$\begin{aligned}
 &\frac{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}{=} \\
 &= \frac{(\text{₹ } 25 \times 12,00,000 \text{ shares}) + (\text{₹ } 20 \times 2,00,000 \text{ shares})}{12,00,000 \text{ shares} + 2,00,000 \text{ shares}} \\
 &= \frac{\text{₹ } 3,40,00,000}{14,00,000 \text{ shares}} = \text{₹ } 24.29
 \end{aligned}$$

3. Computation of adjustment factor

$$\begin{aligned}
 &= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} \\
 &= \frac{\text{₹ } 25}{\text{₹ } 24.29 \text{ (Refer Working Note 2)}} = 1.029 \text{ (approx.)}
 \end{aligned}$$

Question 2

The business of MA Limited was being carried on continuously at losses. The following are the extracts from the balance sheet of the company as on 31st March, 2025:

Particulars	Amount (₹)
ASSETS:	
Property, Plant & Equipment	6,50,000
Investments	2,55,000
Stock	5,10,000
Trade Receivables	3,40,000
Cash & Cash Equivalents	70,000
Profit and Loss A/c (debit balance)	3,25,000
TOTAL	21,50,000
EQUITY AND LIABILITIES:	
10,000 Equity Shares @ 100 each	10,00,000
40,000, 8% Cumulative Preference Shares @ 10 each (Dividends on cumulative preference shares are in arrears for 3 years.)	4,00,000
10% Debentures	2,00,000
Unsecured Loans (from directors)	80,000
Trade Payables	4,10,000
Outstanding interest on debentures	<u>60,000</u>
TOTAL	21,50,000

The following scheme of reconstruction has been agreed upon and duly approved by court:

- (1) Equity shares to be converted into 20,000 shares of ₹ 50 each (fully paid up)
- (2) After sub-division, each shareholder shall surrender to the company 60% of their holdings.
- (3) Preference shareholders agree to forego their right to arrears of dividends in consideration of which 8% Preference shares are to be converted into 9% Preference shares.

- (4) Trade Payables agree to reduce their claim by 60% in consideration of their getting shares of ₹ 1,50,000 out of surrendered equity shares.
- (5) The total claims of debentures holders were reduced to 40% and in consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of the surrendered shares.
- (6) Assets are valued at:
- Fixed assets ₹ 4,40,000
- Investments ₹ 2,00,000
- Trade Receivables ₹ 2,50,000
- Stock ₹ 4,50,000
- (7) Expenses of reconstruction amounted to ₹ 10,000.
- (8) Directors agree to forego the amount due on account of unsecured loan.
- (9) Balance of profit and loss account to be written off.
- (10) Further 8,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.
- (11) The shares surrendered and not re-issued shall be cancelled.

You are required to:

- (a) Show the journal entries to record the above transaction in the company's books and prepare Reconstruction A/c.
- (b) Show revised share capital structure of the Company in Notes to Accounts.

(14 Marks)

Answer

(a) Journal Entries in the books of MA Limited

	Particulars		Debit (₹)	Credit (₹)
1.	Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 50) A/c (Being subdivision of 10,000 shares of ₹ 100 into 20,000 shares of ₹ 50 each)	Dr.	10,00,000	10,00,000

2.	Equity Share Capital (₹ 50) A/c To Surrendered Shares A/c (Being 60% of shares surrendered by shareholders)	Dr.	6,00,000	6,00,000
3.	8% Cumulative Preference Share Capital A/c To 9% Preference Share Capital A/c (Being conversion of 8% preference shares to 9% for waiving dividend arrears)	Dr.	4,00,000	4,00,000
4.	Trade Payables A/c To Reconstruction A/c (Being 60% claim waived by trade payables)	Dr.	2,46,000	2,46,000
5.	Surrendered Shares A/c To Equity Share Capital (₹ 50) A/c (Being issue of equity shares from pool to trade payables)	Dr.	1,50,000	1,50,000
6.	10% Debenture A/c Interest on Debenture A/c To Reconstruction A/c (Being 60% of total debenture liability transferred to Reconstruction account for reduction)	Dr. Dr.	1,20,000 36,000	1,56,000
7.	Surrendered Shares A/c To 9% Preference share capital A/c (Being preference shares issued to debenture holders from surrendered equity shares)	Dr.	1,00,000	1,00,000
8.	Unsecured Loans (Directors) A/c To Reconstruction A/c (Being amount waived by directors)	Dr.	80,000	80,000

9.	Surrendered Shares A/c To Reconstruction A/c (Being unutilized surrendered shares cancelled and transferred)	Dr.	3,50,000	3,50,000
10.	Bank A/c To Equity Share Capital A/c (Being issue of 8,000 fresh equity shares of ₹ 50 each)	Dr.	4,00,000	4,00,000
11.	Reconstruction A/c To Bank A/c (Being payment of reconstruction expenses)	Dr.	10,000	10,000
12.	Reconstruction A/c To Profit and Loss A/c To Property, Plant & Equipment A/c To Investments A/c To Stock A/c To Trade Receivables A/c (Being accumulated losses and overvalued assets written off)	Dr.	7,40,000	3,25,000 2,10,000 55,000 60,000 90,000
13.	Reconstruction A/c To Capital Reserve A/c (Balancing figure) (Being transfer of surplus in Reconstruction A/c to Capital Reserve)	Dr.	82,000	82,000

Reconstruction A/c

Particulars	₹	Particulars	₹
To PPE A/c	2,10,000	By Trade payables A/c	2,46,000
To Investment	55,000	By 10% Debenture A/c	1,20,000
To Trade receivable	90,000	By Interest on Debenture	36,000
To Stock A/c	60,000	By Unsecured loan	80,000
To Bank A/c	10,000	By Share surrender	350,000
To Profit & Loss A/c	3,25,000		

To Capital reserves A/c	82,000		
	8,32,000		8,32,000

(b) Share Capital Notes to Accounts

Particulars	₹
Equity share capital	
10,000 share @ ₹100 each	10,00,000
Sub divided	
20,000 share @ ₹ 50 each	10,00,000
(less) 60% share surrender i.e. 12,000 shares	(6,00,000)
8,000 share @ ₹ 50 each	4,00,000
3,000 share @ ₹ 50 each	1,50,000
(Issued other than consideration for cash)	
8,000 share @ ₹ 50 each	4,00,000
Issued & fully paid & subscribed	
19,000 share @ ₹ 50 each	9,50,000
Preference share capital	
40,000, 9% Preference share @ ₹ 10 each	4,00,000
10,000, 9% Preference share @ ₹ 10 each	1,00,000
(Issued other than consideration for cash)	5,00,000

Question 3

(a) Following is the Balance Sheet of P Limited as at 31st March, 2025:

Particulars	Notes	₹ (in lakhs)
EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	1,500
Reserves and Surplus	2	2,750

Non-current Liabilities		
Long Term Borrowings	3	3,450
Current Liabilities		
Short Term Borrowings (Current Maturities of Long Term Borrowings)		1,980
Trade Payables		<u>1,500</u>
Total		<u>11,180</u>
ASSETS		
Non-current Assets		
Property, Plant and Equipment		5,675
Current Assets		
Inventories		1,005
Trade Receivables		1,500
Cash and Cash Equivalents		<u>3,000</u>
Total		<u>11,180</u>

Notes to Accounts:

No.	Particulars	₹ (in lakhs)
1.	Share Capital	
	Authorized, issued and subscribed capital	
	Equity Share Capital	
	150 lakh Equity Shares of ₹ 10/- each fully paid up	1,500
2.	Reserves and Surplus	
	Capital Reserve	380
	Securities Premium	300
	Revaluation Reserve	120
	General Reserve	1,800
	Surplus (balance in Statement of Profit and Loss)	<u>150</u>
	Total	<u>2,750</u>
3.	Long Term Borrowings	
	12% Debentures	2,250

Unsecured Loans	1,200
Total	3,450

Considering the large surplus funds available at the disposal of the company, it decides to buy back 30 lakh Equity Shares on 1st April, 2025. The prevailing market value of the company's shares is ₹16/- 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 25% over market. Buy-back of shares is duly authorized by its Articles and necessary resolution has been passed by the company towards this. Comment with your calculations, whether buy-back of shares by the company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares. **(7 Marks)**

- (b) Mr. AB acquires 28,000 equity shares of ₹ 10 each in F Ltd. for ₹ 3,36,000 inclusive of brokerage and stamp duty on 1st April, 2024.

F Ltd. announces bonus and right issue as follows:

- (i) On 30th September, 2024 bonus was declared in the ratio of 2:7.
- (ii) On 30th November, 2024 Company made a right issue in the ratio of 3:8 on payment of ₹ 15 per share.

Mr. AB took up 2/3 of right shares and sold the remaining rights for ₹6 per share.

On 18 January, 2025, Mr. AB sold 40% of its shareholdings at ₹ 17 per share to a broker, who charged 2% brokerage.

You are required to prepare Investment Account of Mr. AB for the year ended 31st March, 2025 assuming that the shares are being valued at average cost.

(7 Marks)

Answer

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

1. Shares Outstanding Test

Particulars	Shares (in lakhs)
Number of shares outstanding	150
25% of the shares outstanding	37.5

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

Particulars	₹
Paid up capital (₹)	1,500
Free reserves (₹) (300 + 1800 + 150)	<u>2,250</u>
Shareholders' funds (₹)	<u>3750</u>
25% of Shareholders fund (₹)	937.5
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	46.875
Actual Number of shares for buy-back	30 Lakhs

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

	Particulars	₹ in Lakhs
(a)	Loan funds (3,450 + 1,980)	5,430
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (a/2)	2,715
(c)	Present equity/shareholders fund	3,750
(d)	Future equity/shareholders fund (see W.N.) (3750 – 345)	3,405
(e)	Maximum permitted buy-back of Equity[(d) – (b)]	690
(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	34.50 Lakhs shares
(g)	Actual Buy-Back Proposed	30 Lakh Shares

Alternative presentation of Debt-Equity Ratio Test

The alternative presentation of Debt Equity Ratio Test can also be as follows without using simultaneous equation method:

	Particulars	₹ in lakhs
(a)	Loan Fund (₹ 2,250 Lakhs + ₹ 1,200 Lakhs + ₹ 1,980 Lakhs)	5,430

(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (a/2)	2,715
(c)	Present Equity Shareholder's Funds	3,750
(d)	Total permissible reduction in Equity (c-b)	1,035
(e)	Reduction in Equity for 1 share bought back (Note)	₹ 30
(f)	Maximum permissible buy back of shares (d /e)	34.50 lakh shares

Note: If one share is bought back, the following reduction will be made from Equity:

- (1) Face value ₹ 10 will be reduced from share capital
- (2) Premium on buy back ₹ 10 will be reduced from Securities Premium (20-10)
- (3) Amount equal to the face value of ₹ 10/- will be transferred from free reserves to CRR, because CRR is not available for dividend distribution, it is not a free reserve. Hence, on buy back such amount should also be excluded from equity.

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

Particulars	Number of shares in Lakhs
Shares Outstanding Test	37.5
Resources Test	46.875
Debt Equity Ratio Test	34.50
Maximum number of shares that can be bought back [least of the above]	34.50

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 34.5 Lakhs shares on 1st April, 2025.

However, company wants to buy-back only 30 lakh equity shares @ ₹ 20.

Therefore, buy-back of 30 lakh shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR is "x" and maximum permitted buy back of equity is "y".

Equation 1 - (Present Equity – Nominal value of buy back transferred to CRR) - Minimum equity to be maintained = Maximum permitted buy -back of Equity

$$(3,750-x) \text{ lakh} - 2,715 \text{ lakh} = y \quad (1)$$

Equation 2 - Maximum permitted buy -back X Nominal value per share/ Offer price per Share

$$y/20 \times 10 = x \quad (2)$$

$$\text{or } y = 2x$$

By solving the above, we get

$$X = 345 \text{ lakh}$$

$$Y = 690 \text{ lakh}$$

Journal Entries for Buy-back of shares

	Particulars	Debit ₹ in lakhs	Credit ₹ in lakhs
(a)	Equity share capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	300 300	600
(b)	Equity shares buy-back account Dr. To Bank account (Being buy-back of 30 lakh equity shares of ₹ 10 each @ ₹ 20 per share)	600	600
(c)	Revenue reserve account Dr.	300	

To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	300
--	-----

(b) **Investment Account in Books of AB**
(Scrip: Equity Shares in F Ltd.)

Date		No.	₹	Date		No.	₹
1.4.24	To Bal b/d	28,000	3,36,000	01.01.25	By Bank (Sale of shares)	18,000	2,99,880
30.9.24	To Bonus	8,000	-				
30.11.24	To Bank (Rights Shares)	9,000	1,35,000				
01.01.25	To P&L A/c (Profit on sale of shares)		1,11,480	31.3.25	By Bal. c/d	27,000	2,82,600
		<u>45,000</u>	<u>5,82,480</u>			<u>45,000</u>	<u>5,82,480</u>

Working Notes:

(1) Bonus Shares = $(28,000 / 7) \times 2 = 8,000$ shares

(2) Right Shares = $\frac{(28,000 + 8,000)}{8} \times 3 = 13,500$ shares

(3) Rights shares sold = $13,500 \times 1/3 = 4,500$ shares

(4) Profit on sale of 18,000 shares [40% of shareholding (28,000 + 8,000 + 9,000)]

= Sales proceeds – Average cost

Sales proceeds = ₹ 2,99,880 [i.e. (18,000 × 17) – 2%]

Average cost = $\frac{(3,36,000 + 1,35,000)}{45,000} \times 18,000 = ₹ 1,88,400$

$$\text{Profit} = ₹ 2,99,880 - ₹ 1,88,400 = ₹ 1,11,480.$$

- (5) Cost of shares on 31.3.2025

$$\frac{(3,36,000 + 1,35,000)}{45,000} \times 27,000 = ₹ 2,82,600$$

- (6) Sale of rights amounting ₹ 27,000 (₹ 6 x 4,500 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Alternatively, if using per unit cost of the shares, then

1. Average cost of shares per unit

$$\begin{aligned} &= (\text{₹ } 3,36,000 + \text{₹ } 1,35,000) / (28,000 + 8,000 + 9,000) \\ &= \text{₹ } 4,71,000 / 45,000 \\ &= \text{₹ } 10.47 \text{ per unit (rounded off to 2-decimal)} \end{aligned}$$

2. Profit on sale of 18,000 shares

$$\begin{aligned} &= \text{Net Sales Proceeds} - \text{Average Cost of shares sold} \\ &= [(18,000 \times 17) - (18,000 \times 17 \times 2\%)] - (18,000 \times 10.47) \\ &= (\text{₹ } 3,06,000 - \text{₹ } 6,120) - \text{₹ } 1,88,460 \\ &= \text{₹ } 2,99,880 - \text{₹ } 1,88,460 \\ &= \text{₹ } 1,11,420 \end{aligned}$$

3. Cost of shares as on 31st March, 2025

$$\begin{aligned} &= 27,000 \times \text{₹ } 10.47 \\ &= \text{₹ } 2,82,690 \end{aligned}$$

Question 4

The following are the summarized Balance Sheets of B Ltd. and G Ltd. as at 31st March, 2025:

		Particulars	Notes	B Ltd. (₹)	G Ltd. (₹)
1.		EQUITY AND LIABILITIES			
		Shareholders' Funds			
	a.	Share Capital	1	46,30,000	14,20,000

	b.	Reserves and Surplus	2	17,50,000	-6,45,000
2.		Non-current Liabilities			
	a.	Long-term Borrowings	3	19,40,000	5,72,500
3.		Current Liabilities			
	a.	Trade Payables		14,72,000	2,64,000
	b.	Short-term Borrowings		<u>-</u>	<u>1,89,500</u>
		Total		<u>97,92,000</u>	<u>18,01,000</u>
		ASSETS			
1.		Non-current Assets			
	a.	Property, Plant and Equipment		63,00,000	14,53,000
	b.	Non-current Investments		23,50,000	-
2.		Current Assets			
	a.	Inventories		43,000	1,16,000
	b.	Trade Receivables		7,90,000	2,32,000
	c.	Cash and Cash Equivalents		<u>3,09,000</u>	<u>-</u>
		Total		97,92,000	18,01,000

Notes to Accounts:

		B Ltd. (₹)	G Ltd. (₹)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid-up capital		
	Equity Shares of ₹ 100 each	36,50,000	11,50,000
	Preference Share Capital		
	Issued, subscribed & paid-up capital		
	9% Preference Shares of ₹ 100 each	9,80,000	
	10% Preference Shares of ₹ 100 each		2,70,000
2.	Reserves and Surplus		
	Balance of Profit and Loss A/c	17,50,000	-6,45,000

3.	Long-term Borrowings		
	9% Debentures of ₹ 100 each	10,90,000	-
	10% Debentures of ₹ 100 each	-	1,80,000
	Loan from Banks	8,50,000	3,92,500

Details of Trade Receivables and Trade Payables are as under:

		B Ltd. (₹)	G Ltd. (₹)
1.	Trade Receivables		
	Debtors	7,30,000	1,75,000
	Bills Receivables	<u>60,000</u>	<u>57,000</u>
		7,90,000	2,32,000
2.	Trade Payables		
	Creditors	13,85,000	2,25,000
	Bills Payables	<u>87,000</u>	<u>39,000</u>
		14,72,000	2,64,000

On 31.03.2025, B Ltd. absorbs the business of G Ltd. on the following terms:

- (i) For every equity share held by the equity shareholders of G Ltd., they receive ₹ 10 in cash and one equity shares of ₹ 100 each at par in B Ltd.
- (ii) The 10% debenture-holders of G Ltd. were to be allotted such 9% debentures of ₹ 100 each in B Ltd. as would bring the same amount of interest.
- (iii) 10% Preference Shareholders of G Ltd. are to be paid at 15% premium by issue of 9% Preference Shares of ₹ 100 each in B Ltd., in such a way that the existing dividend quantum of the preference shareholders of G Limited will not get affected.
- (iv) A contingent liability of G Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.
- (v) Expenses of Liquidation of G Ltd. are to be reimbursed by B Ltd. ₹ 10,000.
- (vi) Inventory of G Ltd. is taken over at 10% more than their book value by B Ltd.
- (vii) Debtors of B Ltd. include ₹ 51,400 receivables from G Ltd.
- (viii) Property, Plant and Equipment of G Ltd. are revalued at 20% above their book value.

(ix) The remaining Assets and Liabilities of G Ltd. are taken over at book value by B Ltd.

You are required to:

- (a) Pass the Journal Entries to record the above in the books of B Ltd.
 (b) Prepare Balance Sheet of B Ltd. as at 31st March, 2025 after absorption.

(14 Marks)

Answer

Calculation of Purchase Consideration

	Particulars	Computation	B Ltd. (₹)
i	Amount Payable to Equity Shareholders In the form of 11,500 equity shares of ₹ 100 each Cash Subtotal (i)	 11,500 x 100 11,500 x 10	 11,50,000 1,15,000 12,65,000
ii	Amount payable to Preference shareholders In the form of 3,000 9% Preference Share of ₹ 100 each [27,000/9% = 30,000 shares] Premium on preference shares [₹ 3,10,500 - ₹ 3,00,000] [₹ 2,70,000 + 15% premium = 3,10,500] - (ii)	 3,000 x 100	 3,00,000 10,500 3,10,500
iii	Total Purchase Consideration (i + ii)		15,75,500

**In Books of B Ltd.
Journal Entries**

	Particulars		Debit ₹	Credit ₹
1	Business Purchase A/c To Liquidators of G Ltd (Being the purchase consideration payable for the business of G Ltd.	Dr.	15,75,500	15,75,500

2	Property, Plant and Equipment A/c (14,53,000 + 20%)	Dr.	17,43,600	
	Inventories A/c	Dr.	1,27,600	
	Trade Receivables	Dr.	2,32,000	
	Goodwill	Dr.	5,90,300	
	To 10% Debentures A/c			2,00,000
	To Loan from Bank A/c			3,92,500
3.	To Short term borrowings A/c			1,89,500
	To Trade payables A/c (2,64,000 + 72,000)			3,36,000
	To Business purchase A/c			15,75,500
	(Being the various assets and liabilities of G Ltd. taken over)			
	Liquidator of G Ltd. A/c	Dr.	15,75,500	
	To Equity Share Capital A/c			11,50,000
4.	To 9% Preference Share Capital A/c			3,00,000
	To Securities Premium A/c			10,500
	To Cash			1,15,000
	(Being the discharge of purchase consideration)			
	10% Debenture A/c	Dr.	2,00,000	
	To 9% Debentures A/c			2,00,000
5.	(Being the issue of 9% debentures to G Ltd.'s debenture holders)			
	Goodwill A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being the liquidation expenses of G Ltd. reimbursed by B Ltd.)			
	Trade Payables A/c	Dr.	51,400	
	To Trade Receivables A/c			51,400
6.	(Being the elimination of inter-company balances)			

**Balance Sheet of B Ltd (after absorption)
as on 31st March, 2025**

	Particulars	Note No	₹ in '000
I	Equity & Liabilities		
1.	Shareholders' Fund		
	Share Capital	1	6080.00
	Reserves & Surplus	2	1760.50
2.	Non-Current Liabilities		
3.	Long-term borrowings	3	2532.50
	Current Liabilities		
	Trade Payables	4	1756.60
	Short-term borrowings		189.50
	Total ₹		12319.10
II	Assets		
1.	Non-current assets		
	(a) Property, Plant & Equipment		8043.60
	(b) Intangible assets (goodwill)	5	600.30
2.	Non-current investment		2350.00
3.	Current assets		
	a) Inventories (₹ 43,000 + ₹ 1,27,600)		170.60
	b) Trade receivables	6	970.60
	(c) Cash and cash equivalents (₹ 3,09,000 - ₹ 1,15,000 - ₹ 10,000)		184.00
	Total ₹		12319.10

Notes to Accounts:

Notes	Particulars	₹ in '000
1	Share Capital	
	Authorized share capital	

	Issued, Subscribed & Fully Paid up share capital	
a	48,000 Equity Shares of ₹100 each (Out of the above 11,500 equity shares have been issued for consideration other than cash)	48,00.00
b	9%, 12,800 Pref. Shares of ₹100 each (Out of the above 3,000 pref. shares have been issued for consideration other than cash)	12,80.00
	Total	6080.00
2	Reserves & Surplus	
	Balance of P&L	1750.00
	Securities Premium	10.50
	Total	1760.50
3	Long Term Borrowings	
-	9% Debentures of ₹100 each (10,90,000 + 2,00,000)	1290.00
-	Loan from bank (8,50,000 + 3,92,500)	1242.50
	Total	2532.50
4	Trade Payables	
	Creditors (13,85,000 + 2,25,000 - 51,400)	1558.60
	Bills payable (87,000 + 39,000)	126.00
	Contingent liability	72.00
		1756.60
5	Intangible Assets	
	Goodwill (590300 + 10,000)	600.30
6	Trade receivables	
-	Debtor (7,30,000 + 1,75,000 - 51,400)	853.60
-	Bill receivable (60,000 + 57,000)	117.00
		970.60

Question 5

Prepare a consolidated balance sheet of MN Ltd. and its subsidiary RP Ltd. as on 31st March, 2025:

Balance Sheets as on 31st March, 2025

	Note No.	MN Ltd. (₹ in Lakh)	RP Ltd. (₹ in Lakh)
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	7,000	4,000
(b) Reserve and Surplus	2	4,000	3,500
(2) Non-current Liabilities			
(a) Long Term Borrowings		1,800	1,400
(3) Current Liabilities			
(a) Trade Payable		<u>2,280</u>	<u>1,600</u>
Total		<u>15,080</u>	<u>10,500</u>
II. Assets			
(1) Non-current Assets			
(a) Property, Plant and Equipment	3	6,800	5,500
(b) Non-current Investments	4	3,280	-
(2) Current Assets			
(a) Inventory		2,200	1,500
(b) Trade Receivables	5	1,800	1,200
(c) Cash and Bank		<u>1,000</u>	<u>2,300</u>
		15,080	10,500

Note to Accounts:

		MN Ltd. (₹ in Lakh)	RP Ltd. (₹ in Lakh)
1.	<i>Share Capital</i>		
	<i>Issued and Subscribed:</i>		
	<i>Equity shares of ₹ 10 each, fully paid up</i>	7,000	4,000
2.	<i>Reserve and Surplus</i>		
	<i>General Reserve</i>	2,600	2,000
	<i>Profit and Loss Account</i>	<u>1,400</u>	<u>1,500</u>
	<i>Total</i>	<u>4,000</u>	<u>3,500</u>
3.	<i>Property, Plant and Equipment</i>		
	<i>Land and Building</i>	4,000	3,500
	<i>Plant and Machinery</i>	<u>2,800</u>	<u>2,000</u>
	<i>Total</i>	<u>6,800</u>	<u>5,500</u>
4.	<i>Non-current Investment</i>		
	<i>Shares in RP Ltd.</i>	3,000	-
	<i>Debentures in RP Ltd.</i>	<u>280</u>	<u>-</u>
	<i>Total</i>	<u>3,280</u>	<u>-</u>
5.	<i>Trade Receivable</i>		
	<i>Debtors</i>	1,200	900
	<i>Bills Receivable</i>	<u>600</u>	<u>300</u>
	<i>Total</i>	<u>1,800</u>	<u>1,200</u>

Additional Information:

- MN Ltd. acquired 75% shares in RP Ltd. on 1st April, 2024. On the date of acquisition:

General Reserve of RP Ltd. - ₹ 1,600 lakh

Profit & Loss Account of RP Ltd. ₹ 1,200 lakh

2. On 1st April, 2024, RP Ltd. declared dividend @12% for the year ended 31st March, 2024. MN Ltd. credited the dividend received to its Profit & Loss Account.
3. RP Ltd. sold goods worth ₹ 160 lakh to MN Ltd. during the year and makes a profit of ₹ 40 lakh. MN Ltd.'s inventory includes goods worth ₹ 80 lakh that remained unsold as on 31st March, 2025.
4. MN Ltd. holds ₹ 280 lakh of RP Ltd.'s debentures, which are included in RP Ltd.'s long-term borrowings.

(14 Marks)**Answer**

**Consolidated Balance Sheet of MN Ltd.
and its subsidiary RP Ltd. as at 31st March, 2025**

Particulars	Note No.	(₹ in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,000
(b) Reserves and Surplus	2	6,610
(2) Minority Interest [W.N.4]		1,870
(3) Non-Current Liability		
Long term borrowings (₹ 1,800 Lakhs + ₹ 1,400 Lakhs - ₹ 280 Lakhs)		2,920
(4) Current Liabilities		
Trade payables (₹ 2,280 Lakhs + ₹ 1,600 Lakhs)		3,880
Total		22,280
II. Assets		
(1) Non-current assets		
Property, Plant and Equipment	3	12,300
(2) Current assets		
(a) Inventories		3,680
(b) Trade receivables	4	3,000
(c) Cash and cash equivalents		3,300
Total		22,280

Notes to Accounts

		(₹ in Lakhs)	(₹ in Lakhs)
1.	Share Capital		
	Authorized share capital		
	Equity shares of ₹ 10 each, fully paid up		
	Issued and Subscribed:		
	700 Lakhs Equity shares of ₹ 10 each, fully paid up		7,000
	Total		7,000
2.	Reserves and surplus		
	Capital Reserve	2,100	
	General Reserve	2,900	
	Profit and Loss Account:	1,610	
	Total		6,610
3.	Property, plant and equipment		
	Land and Buildings		
	MN Ltd. ₹ 4,000 Lakhs		
	RP Ltd. ₹ 3,500 Lakhs	7,500	
	Plant and Machinery		
	MN Ltd. ₹ 2,800 Lakhs		
	RP Ltd. ₹ <u>2,000 Lakhs</u>	4,800	12,300
4.	Trade receivables		
	Debtors		
	MN Ltd. ₹ 1,200 Lakhs		
	RP Ltd. ₹ <u>900 Lakhs</u>	2,100	
	Bills Receivable		
	MN Ltd. ₹ 600 Lakhs		
	RP Ltd. ₹ <u>300 Lakhs</u>	<u>900</u>	3,000

Working Notes:**1. RP Ltd.'s General Reserve Account**

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To Balance c/d	2,000	By Balance b/d	1600
		By Profit and Loss A/c (Balancing figure)	400
	2,000		2,000

2. RP Ltd.'s Profit and Loss Account

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To General Reserve [WN 1]	400	By Balance b/d	1,200
To Dividend paid (12% on ₹ 4,000 lakhs)	480	By Net Profit for the Year (Balancing figure)	1,180
To Balance c/d	1,500		
	2,380		2,380

3. Calculation of Minority Interest

Particulars	₹ in lakhs
Equity share capital (₹ 4,000 Lakhs *25%)	1,000
Pre acquisition Profit	580
Share in Revenue Profit (100+190)	290
Total	1,870

4. Analysis of Profit

Particulars	Capital Profit	Revenue Profit	
	Pre Acq.	General Reserve	Profit & Loss
	₹ in lakhs	₹ in lakhs	₹ in lakhs
Opening Balance in General Reserve	1,600		

Add: Transfer from Profit & Loss		400	
Opening Bal in Profit & Loss	1,200		
Add: Profit earned in C.Y.			1,180
Less: Dividend paid	(480)		
Less: Transfer to General Reserve			(400)
Less: Unrealised profit ($\frac{80 \times 40}{160}$)			(20)
Total	2,320	400	760
MN Ltd. (75%)	1,740	300	570
Minority interest (25%)	580	100	190

5. Calculation of Cost of Control

Particulars	Computation	₹ in Lakhs
Cost of Investment	Given	3,000
(-) Dividend received out of Pre acquisition Profit	$4,000 \times 12\% \times 75\%$	(360)
Subtotal (A)		2,640
Share in Net Assets of RP Ltd		
Share Capital	$4,000 \times 75\%$	3,000
Pre Acq. Profit	W.N.2	1,740
Subtotal (B)		4,740
Goodwill/(CR)	(A – B)	(2,100)

6. Profit & Loss & General Reserve of MN Ltd.

Particulars	General Reserve	Profit & Loss
	₹ in Lakhs	₹ in Lakhs
Balance as per Balance Sheet	2,600	1,400
Share in Post Acq. Profit of RP Ltd	300	570
(-) Dividend ($4,000 \times 12\% \times 75\%$)		(360)
Total	<u>2,900</u>	<u>1,610</u>

Question 6

EITHER

- (a) What is the initial disclosure information of AS-24 for discontinuing operations? **(4 Marks)**

OR

- (a) S Limited took an equipment on lease from R Limited, the fair value being 9,50,000/-. The economic life of the equipment as well as the lease term is 3 years. At the end of each year, the lessee pays ₹ 4,00,000/- to the lessor. S Limited has guaranteed a residual value of ₹ 35,000/- on the expiry of the lease to R Limited. However, R Limited estimates that residual value of the equipment will be only 25,000/-. The implicit rate of return is 15% per annum and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

You are required to ascertain the value at which the equipment would be considered by S Limited and the finance charges in each year. **(4 Marks)**

- (b) The following figures have been extracted from the financial statements of MC Limited for the year ended 31st March, 2025:

Particulars	Amount (₹)
Issued, Subscribed and Paid-up Share Capital	
8,00,000 Equity Shares of ₹ 5/- each	40,00,000
1,25,000, 8% Preference Shares of ₹ 10/- each	12,50,000
Reserves and Surplus	
Securities Premium Reserve	5,00,000
Capital Reserve	3,00,000
Capital Redemption Reserve	2,50,000
General Reserve	11,75,000
Net Profit for the year ended 31 st March, 2025	2,25,000

The company has an impeccable record of paying dividend to its shareholders since 2019-20 and has declared equity dividend as under:

Year	2019-20	2020-21	2021-22	2022-23	2023-24
Equity Dividend paid	10%	11%	12%	13%	14%

Constrained by inadequate profits during 2024-25, the management of the company proposes to declare a dividend of 12.5% out of its reserves.

You are required to ascertain the amount that can be utilized by the company out of its reserves in accordance with the Companies (Declaration of dividend out of Reserves) Rules, 2014. **(4 Marks)**

- (c) Mr. GOKU, with its head office at Ahmedabad, has a branch at Nagpur. Goods are invoiced to the branch at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from head office and the branch has to remit all the cash received into head office's bank account at Ahmedabad.

The following information pertaining to the year ended 31st March, 2025, in respect of the Nagpur Branch is made available to you:

Particulars	₹
Goods sent to branch (at Invoice Price)	67,50,000
Goods returned by the branch during the year (at Invoice Price)	2,40,000
Cash sales effected by the branch	18,50,000
Discount allowed to customers	25,000
Amount received from branch debtors	32,50,000
Cheques of customers returned unpaid by the bank	80,000
Branch expenses met in cash	7,25,000
Sales return at Nagpur branch	1,00,000
Bad debts	55,000

	31 st March, 2025	31 st March, 2024
Branch debtors	10,50,000	5,00,000
Stock at branch (at Invoice Price)	23,60,000	15,00,000

Applying the Stock and Debtors System, you are required to prepare the following Ledger Accounts in the books of Head Office for the year ended 31st March, 2025:

- (i) Nagpur Branch Stock A/c;
- (ii) Nagpur Branch Debtors A/c;
- (iii) Nagpur Branch Adjustment A/c; and
- (iv) Nagpur Branch Profit and Loss A/c.

(6 Marks)

Answer

- (a)** An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:
- (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 if known or determinable
 - (e) The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.
 - (f) The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.
 - (g) 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.
 - (h) The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

OR

- (a) As per para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Computation of Value of machinery:

Present value of minimum lease payment = ₹ 9,35,795

(See working note below)

Fair value of leased asset = ₹ 9,50,000

Therefore, the recognition will be at the lower of the two i.e. ₹ 9,35,795

Working Note - Present value of minimum lease payments:

Annual lease rental × PVIF + Present value of guaranteed residual value

= ₹ 4,00,000 × (0.869 + 0.756 + 0.657) + ₹ 35,000 × 0.657

= ₹ 9,12,800 + ₹ 22,995 = ₹ 9,35,795

Computation of finance charges:

(Amount in ₹) Year	Opening Balance (A)	Finance Charge @ 15% (B)	Annual Payment (C)	Principal Repaid (D=C-B)	Closing Balance (E=A-D)
1	9,35,795	1,40,369	4,00,000	2,59,631	6,76,164
2	6,76,164	1,01,425	4,00,000	2,98,575	3,77,589
3	3,77,589	56,638	4,00,000	3,43,362	34,227*

*The closing balance of ₹ 34,227 is approximately the guaranteed residual value of ₹ 35,000. The slight difference is due to rounding in the provided PV factors.

(b) When the current year's profit is not included in free reserves

	₹	₹
Amount that can be drawn from reserves for 12.5% Dividend		
12.5% Dividend on ₹ 40,00,000/-		5,00,000
Profits available		
Current year Profit	2,25,000	
Less: Preference Dividend 8% on ₹ 12,50,000/-	(1,00,000)	
Amount which can be utilized from reserves		<u>1,25,000</u>
		3,75,000

Conditions as per Companies (Declaration of Dividend out of Reserves) Rules, 2014:

1. The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year. Since 12.5% is lower than the average rate of dividend (13%), 12.5% dividend can be declared.
2. Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of the paid up capital and free reserves i.e., ₹ 6,42,500 (10% of [40,00,000+12,50,000+11,75,000])
3. The balance of reserves after drawl of ₹ 8,00,000 (₹ 11,75,000 - ₹ 3,75,000) should not fall below 15% of its paid up capital i.e., ₹ 7,87,500 [15% of ₹ 52,50,000].

Since all the three conditions are satisfied, the company can withdraw ₹ 5,00,000/- from its free reserves (i.e. ₹ 1,25,000/- from current year of profit and ₹ 3,75,000/- from accumulated profits) as per Companies (Declaration of Dividend out of Reserves) Rules, 2014

Alternatively, when the current year's profit is included in free reserves.

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

1. Dividend Rate < Average Rate of last 3 years (Condition 1)

Calculate the average dividend rate

The average dividend rate for the immediately preceding three financial years (2021-22, 2022-23, 2023-24)

$$\text{Average Rate} = (12\% + 13\% + 14\%) / 3 = 13\%$$

The proposed dividend rate of 12.5% is lower than the average rate of 13%, thus satisfying the first condition of the Rules.

2. Determine total paid-up capital and free reserves

Only free reserves are considered for withdrawal. Securities Premium Reserve and Capital Redemption Reserve are not free reserves.

$$\text{Paid-up Share Capital (Equity + Preference): ₹ 40,00,000 + ₹ 12,50,000} \\ = ₹ 52,50,000$$

$$\text{Free Reserves (General Reserve + Net Profit for the year): ₹ 11,75,000} \\ + ₹ 2,25,000 = ₹ 14,00,000$$

$$\text{Total Paid-up Capital and Free Reserves: ₹ 52,50,000 + ₹ 14,00,000} \\ = ₹ 66,50,000$$

Calculate the maximum permissible withdrawal amount (Condition 2)

The maximum amount that can be drawn shall not exceed 10% of the total of paid-up capital and free reserves. Maximum Withdrawal Limit (10%) of ₹ 66,50,000 = ₹ 6,65,000

3. Calculate the minimum required reserve balance (Condition 3)

The balance of reserves after withdrawal must not fall below 15% of the paid-up share capital. Minimum Reserve Balance (15%) of ₹ 52,50,000 = ₹ 7,87,500.

Determine the maximum usable amount from reserves

The company has a total of ₹ 14,00,000 in free reserves. After maintaining the minimum balance of ₹ 7,87,500, the maximum amount that can be utilized is: Maximum Usable Amount = ₹ 14,00,000 – ₹ 7,87,500 = ₹ 6,12,500

The management proposes a 12.5% dividend on equity shares only (typically dividends on preference shares are paid first from profit, but

the problem implies the need to use reserves for the equity dividend).
Total Equity Share Capital = ₹ 40,00,000

Proposed Equity Dividend Amount = 12.5% of ₹ 40,00,000 = ₹ 5,00,000.
Since the proposed dividend amount (₹ 5,00,000) is less than the maximum usable amount from reserves (₹ 6,12,500), the company can declare the proposed dividend.

The company can utilize the lower of the amount from Condition 2 (₹ 6,65,000) and the amount from Condition 3 (₹ 6,12,500), which is ₹ 6,12,500

The amount that can be utilized by the company out of its reserves in accordance with the Companies (Declaration of dividend out of Reserves) Rules, 2014 is ₹ 5,00,000.

(c) **Nagpur Branch Stock Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	15,00,000	By Goods sent to branch A/c (Returns)	2,40,000
To Goods sent to branch A/c	67,50,000	By Bank A/c (Cash sales)	18,50,000
To Branch debtors A/c (Returns)	1,00,000	By Branch debtors A/c (credit sales)	39,00,000
		By Balance c/d	23,60,000
	83,50,000		83,50,000

Nagpur Branch Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Sent to Branch A/c (Goods returned to HO) (20% of ₹ 2,40,000)	48,000	By Stock reserve - 20% of ₹ 15,00,000 (Opening stock)	3,00,000
To Branch profit & loss A/c (Gross profit)	11,30,000	By Goods sent to branch A/c - 20% of ₹ 67,50,000	13,50,000
To Stock reserve - 20% of ₹ 23,60,000 (Closing stock)	4,72,000		
	16,50,000		16,50,000

Branch Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch expenses A/c	7,25,000	By Branch adjustment A/c (Gross Profit)	11,30,000
To Branch debtors A/c (Discount)	25,000		
To Branch Debtors A/c (Bad debts)	55,000		
To Net profit (transferred to Profit & Loss A/c)	3,25,000		
	11,30,000		11,30,000

Branch Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,00,000	By Bank A/c	32,50,000
To Branch stock A/c (W.N)	39,00,000	By Branch profit and loss A/c (Bad debts and discount)	80,000
To Bank A/c (Cheques dishonoured)	80,000	By Branch stock A/c (Sales returns)	1,00,000
		By Balance c/d	10,50,000
	44,80,000		44,80,000

Working note

1. Calculation of Credit sales

$$\begin{aligned}
 &= \text{Closing Balance} + \text{Collections} + \text{Discount} + \text{Bad Debts} + \text{Sales Return} \\
 &- \text{Opening Balance} - \text{Cheque Return (reinstatement)} = \text{Credit Sales} \\
 &= ₹ 10,50,000 + ₹ 32,50,000 + ₹ 25,000 + ₹ 55,000 + ₹ 1,00,000 - \\
 &₹ 5,00,000 - ₹ 80,000 = ₹ 39,00,000
 \end{aligned}$$