# PAPER – 1 : ADVANCED ACCOUNTING

*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, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.*

*For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.*

*The company's other outstanding loans on 1st April, 2023 were as follows:*

| ***Amount of Loan*** | ***Rate of Interest per annum*** |
|---|---|
| *₹ 20,00,000* | *15%* |
| *₹ 30,00,000* | *8%* |

*The construction of building started on 1stApril, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:*

| ***Payment date*** | ***Amount in ₹*** |
|---|---|
| *1st Apirl,2023* | *4,00,000* |
| *1st August,2023* | *10,00,000* |
| *1st December,2023* | *25,00,000* |
| *31st January,2024* | *5,00,000* |

*The life of building is estimated to be 20 years and depreciation is calculated on straight line method.*

***You are required to:***

*(i) Calculate the amount of borrowing cost to be capitalized.*

*(ii) Pass initial journal entry to recognise the cost of building.*

*(iii) Depreciation on building for the year ending 31st March, 2024.*

*(iv) Carrying value of building as on 31st March, 2024.*

*(b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under:*

*Purchase of Raw Material for manufacturing process of*

| | |
|---|---|
| *30,000 units* | *₹ 3,50,000* |
| *Wages paid* | *₹ 1,60,000* |
| *Fixed overheads* | *₹ 1,20,000* |
| *Variable overheads* | *₹ 60,000* |
| ***Output:*** | |
| *Polyester (P)* | *12,500 Units* |
| *Nylon (N)* | *10,000 Units* |
| *Fiber (F)* | *3,200 Units* |
| ***Closing Inventory:*** | |
| *Polyester (P)* | *1,600 Units* |
| *Nylon(N)* | *400 Units* |

*Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold@ ₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.*

*On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon.* ***(7 + 7 = 14 Marks)***

**Answer**

**(a) (i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

| Date of incurrence of expenditure | Amount spent | Financed through | Calculation | ₹ |
|---|---|---|---|---|
| 1st April 2023 | 4,00,000 | Specific borrowing | 4,00,000 x 12% x 10/12 | 40,000 |
| 1st August 2023 | 10,00,000 | Specific borrowing | 10,00,000 x 12% x 10/12 | 1,00,000 |
| 1st December 2023 | 25,00,000 | General borrowing | 25,00,000 x 10.8% x 2/12 | 45,000 |
| 31st January 2024 | 5,00,000 | General borrowing | 5,00,000 x 10.8% x 0/12 | Nil |
| | | | | 1,85,000 |
| Less: interest income on borrowing | | | | (15,000) |
| Total amount borrowing cost to be capitalized | | | | 1,70,000 |

**(ii) Journal Entry**

| Date | Particulars | ₹ | ₹ |
|---|---|---|---|
| 31.1.2024 | Building account Dr. | 45,70,000 | |
| | To Bank account | | 44,00,000 |
| | To Interest payable (borrowing cost) | | 1,70,000 |
| | (Being expenditure incurred on construction of building and borrowing cost thereon capitalized) | | |

**Note:** In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

**Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:**

| Date | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| 31.1.2024 | Building account | Dr. | 45,70,000 | |
| | To Bank account | | | 45,70,000 |
| | (Being expenditure incurred on construction of building and borrowing cost thereon capitalized) | | | |

**(iii) Depreciation on building for the year ending 31.3.2024**

Cost of building 45,70,000

Life of building = 20 years

Depreciation = (45,70,000/20) x 2/12 = 38,083.33

**(iv) Carrying Value of Building on 31st March 2024:**

Carrying Value = Cost of Building - Accumulated Depreciation

= 45,70,000- 38,083.33

= 45,31,917

**Working Notes:**

**1. Calculation of capitalization rate on borrowings other than specific borrowings**

| Amount of loan (₹) | Rate of interest | | Amount of interest (₹) |
|---|---|---|---|
| 20,00,000 | 15% | = | 3,00,000 |
| 30,00,000 | 8% | = | 2,40,000 |
| 50,00,000 | | | **5,40,000** |
| Weighted average rate of interest $\left(\frac{5,40,000}{50,00,000} \times 100\right)$ | | = | **10.8%*** |

**2. Total expenses to be capitalized for building**

| | ₹ |
|---|---|
| Cost of building ₹ (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000) | 44,00,000 |
| *Add:* Amount of interest to be capitalized | 1,70,000 |
| | 45,70,000 |

**(b)** As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

Determination of value of closing inventory of Polyester and Nylon

| | Polyester | Nylon |
|---|---|---|
| Closing inventory in units | 1,600 units | 400 units |
| Cost per unit | ₹ 31.14 | ₹ 18.68 |
| Value of closing inventory | ₹ 49,824 | ₹ 7,472 |

**Working Notes**

**1. Calculation of net realizable value of by-product, Fiber**

| | | ₹ |
|---|---|---|
| Selling price of by-product Fiber | (3,200 units x ₹ 40 per unit) | 1,28,000 |
| *Less:* Separate processing charges of by-product Fiber | | (10,000) |
| Packing charges | | (9,000) |
| Net realizable value of by-product Fiber | | 1,09,000 |

**2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon**

| | ₹ | ₹ |
|---|---|---|
| Raw material | | 3,50,000 |

| | | |
|---|---|---|
| Wages | | 1,60,000 |
| Fixed overhead | | 1,20,000 |
| Variable overhead | | 60,000 |
| | | 6,90,000 |
| *Less*: NRV of by-product Fiber (W.N. 1) | (1,09,000) | |
| Sale value of scrap | (5,000) | (1,14,000) |
| Joint cost to be allocated between Polyester and Nylon | | 5,76,000 |

**Determination of "basis for allocation" and allocation of joint cost to Polyester and Nylon**

| | Polyester | Nylon |
|---|---|---|
| Output in units (a) | 12,500 units | 10,000 units |
| Sales price per unit (b) | ₹ 100 | ₹ 60 |
| Sales value (a x b) | ₹ 12,50,000 | ₹ 6,00,000 |
| Total value (12,50,000 + 6,00,000) = 18,50,000 | | |
| Joint cost of ₹ 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000 | ₹ 3,89,189 | ₹ 1,86,811 |
| Cost per unit [c/a] | ₹ 31.14 | ₹ 18.68 |

**Question 2**

*Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024:*

| ***Particulars*** | ***(₹)*** |
|---|---|
| *EQUITY AND LIABILITIES:* | |
| *Share Capital* | |
| *Equity shares of ₹ 100 each* | *60,00,000* |
| *8% Preference shares of ₹ 100 each* | *21,00,000* |
| *10% Debentures of ₹ 100 each* | *18,00,000* |
| *Trade Payables* | *16,80,000* |
| ***Total*** | ***1,15,80,000*** |
| *ASSETS:* | |
| *Goodwill* | *81,000* |

| | |
|---|---:|
| *Property, Plant and Equipment* | *72,00,000* |
| *Trade Receivables* | *13,75,000* |
| *Inventories* | *9,80,000* |
| *Cash at Bank* | *1,33,000* |
| *Own Debentures (Nominal value of ₹ 6 lakhs)* | *5,76,000* |
| *Profit and Loss A/c* | *12,35,000* |
| ***Total*** | ***1,15,80,000*** |

*On 1st April, 2024, court approved the following reconstruction scheme for Z Limited:*

*(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.*

*(ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.*

*(iii) Own debentures of ₹ 2,40,000 (nominal value) were sold at 98 cum interest and remaining own debentures were cancelled.*

*(iv) Debenture holders of ₹ 6,00,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.*

*(v) Remaining Property, Plant and Equipment were valued at ₹ 60,00,000.*

*(vi) Trade Payables, Trade Receivables and Inventories were valued at ₹ 15,00,000, ₹ 13,00,000 and ₹ 9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.*

*(vii) Company paid ₹ 60,000 as penalty to avoid capital commitments of ₹ 12 lakhs.*

*(viii) Interest on 10% Debentures is paid every year on 31st March.*

***You are required to:***

*(1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.*

*(2) Prepare Capital Reduction Account.*

*(3) Prepare Bank Account* **(14 Marks)**

**Answer**

**1. Journal entries**

**In the Books of Z Ltd. as on 1st April 2024**

| | Particulars | | Dr. | Cr. |
|---|---|---|---|---|
| **01.04.2024** | | | **Amount (₹)** | **Amount (₹)** |
| 1. | Equity share capital A/c (₹ 100)<br>To Equity share capital A/c (₹ 10)<br>(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each) | Dr. | 60,00,000 | <br>60,00,000 |
| 2. | Equity share capital A/c (₹ 10)<br>To Capital reduction A/c<br>(Being reduction of Equity capital by 40%) | Dr. | 24,00,000 | <br>24,00,000 |
| 3. | Capital reduction A/c<br>To Bank A/c<br>(Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years | Dr. | 1,68,000 | <br>1,68,000 |
| 4. | Bank A/c<br>To Own debentures A/c<br>(5,76,000/6,00,000) x 2,40,000<br>To Capital reduction A/c<br>(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c) | Dr. | 2,35,200 | <br>2,30,400<br><br>4,800 |
| 5. | 10% Debentures A/c<br>(6,00,000 -2,40,000)<br>To Own debentures A/c<br>To Capital reduction A/c<br>(Being profit on cancellation of own debentures transferred to capital reduction A/c) | Dr. | 3,60,000 | <br><br>3,45,600<br>14,400 |

| | | | | |
|---|---|---|---|---|
| 6. | 10% Debentures A/c | Dr. | 6,00,000 | |
| | Capital reduction A/c | Dr. | 3,00,000 | |
| | To Machinery or PPE A/c | | | 9,00,000 |
| | (Being machinery taken up by debenture holders for ₹ 6,00,000) | | | |
| 7. | Capital reduction A/c (balancing figure) | Dr. | 3,00,000 | |
| | To PPE A/c | | | 3,00,000 |
| | (72,00,000 - 9,00,000 - 60,00,000) | | | |
| | (Being PPE revalued) | | | |
| 8. | Trade payables A/c | Dr. | 1,80,000 | |
| | (16,80,000 -15,00,000) | | | |
| | To Trade receivables A/c | | | 75,000 |
| | (13,75,000-13,00,000) | | | |
| | To Inventory A/c | | | 36,000 |
| | (9,80,000-9,44,000) | | | |
| | To Capital Reduction A/c | | | 69,000 |
| | (Being assets and liabilities revalued) | | | |
| 9. | Capital reduction A/c | Dr. | 13,16,000 | |
| | To Goodwill A/c | | | 81,000 |
| | To Profit and Loss A/c | | | 12,35,000 |
| | (Being the above assets written off) | | | |
| 10. | Capital reduction A/c | Dr. | 60,000 | |
| | To Bank A/c | | | 60,000 |
| | (Being penalty paid for avoidance of capital commitments) | | | |
| 11. | Capital reduction A/c | Dr. | 3,44,200 | |
| | To Capital reserve A/c | | | 3,44,200 |
| | (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve) | | | |

**2. Capital Reduction Account**

| | (₹) | | (₹) |
|---|---|---|---|
| To Bank | 1,68,000 | By Equity Share Capital | 24,00,000 |
| To Property, Plant & Equipment | 3,00,000 | By Trade Payable | 1,80,000 |
| To Property, Plant & Equipment | 3,00,000 | By Bank A/c (Profit on Sale) | 4,800 |
| To Trade Receivables | 75,000 | By 10% debentures A/c (Profit on cancellation) | 14,400 |
| To Inventory | 36,000 | | |
| To Goodwill | 81,000 | | |
| To Profit and Loss A/c | 12,35,000 | | |
| To Cash/Bank A/c | 60,000 | | |
| To Capital Reserve | 3,44,200 | | |
| | 25,99,200 | | 25,99,200 |

**3. Bank Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To To balance b/d | 1,33,000 | By Capital Reduction | 1,68,000 |
| To Own Debenture | 2,35,200 | By Capital Reduction A/c | 60,000 |
| (2,30,400 +4,800) | | By balance c/d | 1,40,200 |
| | 3,68,200 | | 3,68,200 |

**Question 3**

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

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

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

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

*Year 1 ₹ 98.8 crores*

*Year 2 ₹ 202.4 crores*

*Year 3 ₹ 310 crores (including unused material of 3 crores)*

*Year 4 ₹ 382 crores*

***You are required to:***

*(1) Calculate stage of completion of contract for each year*

*(2) Profit to be recognised for each year.*

*(b) The following information is provided for Aarambh Limited:*

| *Particulars* | *31st March 2023 (₹)* | *31st March 2024 (₹)* |
|---|---|---|
| *Profit and Loss a/c* | *5,400 (Dr.)* | *37,800* |
| *Provision for Taxation* | *2,21,400* | *1,35,000* |
| *General Reserve* | *54,000* | *81,000* |
| *12% Debentures* | *1,18,800* | *2,91,600* |
| *Trade Payables* | *1,29,600* | *1,18,800* |
| *8% Current Investments* | *54,000* | *1,08,000* |
| *Property, plant and equipment (Gross)* | *3,99,600* | *3,99,600* |
| *Accumulated Depreciation* | *1,29,600* | *1,62,000* |
| *Trade Receivables (Gross)* | *81,000* | *2,61,360* |
| *Provision for Doubtful Debts* | *27,000* | *54,000* |
| *Inventories* | *1,35,000* | *81,000* |
| *Cash and Cash Equivalents* | *54,00* | *30,240* |

*Additional information:*

*(i) Income tax provided during the year ₹ 1,62,000.*

*(ii) New debentures have been issued at the end of current financial year.*

*(iii) New investments have been acquired at the end of the current financial year.*

*You are required to calculate net Cash Flow from Operating Activities.*

***(7 Marks + 7 Marks = 14 Marks)***

**Answer**

**(a) (a) Stage of completion = Costs incurred to date / Total estimated costs**

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

**(b) Profit to be recognized each year has been calculated as follows:**

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Contract Revenue (1) | 105.40 crore | 110.48 crore | 113.64 crore | 80.48 crore |
| | (400 crore x 26.35%) | (400 crore x 53.97% - 105.40 crore) | (410 crore x 80.37% - 105.40 crore -110.48 crore) | (410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore) |
| Contract Cost (2) | 98.8 crore | 103.60 crore | 104.60 crore | 75 crore |
| | | 202.40 - 98.80 crore) | (307 crore - 98.8 crore- 103.60 crore) | (382 crore - 98.8 crore- 103.6 crore – 104.6 crore) |
| Contract Profit (1) – (2) | 6.60 crore | 6.88 crore | 9.04 crore | 5.48 crore |

**(b) Cash Flow from Operating Activities**

| | ₹ |
|---|---:|
| Difference between Profit and Loss Account ₹ (37,800 + 5,400) | 43,200 |
| *Add:* Transfer to General Reserve (81,000-54,000) | 27,000 |
| *Add:* Adjustment for Provision for taxation | 1,62,000 |
| Profit Before tax | 2,32,200 |
| *Add:* Adjustment for Depreciation (₹ 1,62,000 – ₹ 1,29,600) | 32,400 |
| *Add:* Adjustment for provision for doubtful debt (₹ 54,000 – ₹ 27,000) | 27,000 |
| *Add:* Debenture Interest Paid ₹ (1,18,800 × 12%) | 14,256 |
| *Less:* Income from Investments (54,000 × 8%) | (4,320) |
| Operating Profit before Working Capital changes | 3,01,536 |
| Decrease in Inventories ₹ (1,35,000-81,000) | 54,000 |
| Increase in Trade receivables ₹ (2,61,360-81,000) | (1,80,360) |
| Decrease in Trade payables ₹ (1,29,600-1,18,800) | (10,800) |
| Cash generated from operations | 1,64,376 |
| Income tax paid | (2,48,400) |
| Net Cash generated from Operating Activities | (84,024) |

**Working Note:**

**Provision for taxation account**

| | ₹ | | ₹ |
|---|---:|---|---:|
| To Cash (Paid) (Balancing figure) | 2,48,400 | By Balance b/d | 2,21,400 |
| To Balance c/d | 1,35,000 | By Profit and Loss A/c | 1,62,000 |
| | 3,83,400 | | 3,83,400 |

**Question 4**

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

| *Particulars* | *Intelligent Limited (₹)* | *Diligent Limited (₹)* |
|---|---|---|
| *Equity Shares Capital of ₹ 100 each* | *12,00,000* | *10,00,000* |
| *8% Preference shares of ₹ 100 each* | *3,00,000* | *2,00,000* |
| *Trade Payables* | *12,00,000* | *4,00,000* |
| *Retirement Gratuity Fund (Long Term)* | *3,00,000* | *2,00,000* |
| *Profit and Loss Account* | | |
| *Opening balance* | *4,50,000* | *2,50,000* |
| *Profit for the current year* | *2,50,000* | *1,50,000* |
| *Land and Buildings* | *10,00,000* | *8,00,000* |
| *Plant and Machinery* | *10,00,000* | *6,00,000* |
| *Inventories* | *7,00,000* | *4,00,000* |
| *Trade Receivables* | *6,00,000* | *3,00,000* |
| *Cash and Bank* | *4,00,000* | *1,00,000* |

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

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

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

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

*(2) Trade payables of Intelligent Limited includes ₹ 1,00,000 due to Diligent Ltd. and the Trade receivables of Diligent Limited shows ₹ 1,00,000 receivables from Intelligent Limited.*

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

*(i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.*

*(ii) Preference shareholders of both companies are issued equivalent number of 8% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.*

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

***You are required to:***

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

*(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.* ***(14 Marks)***

**Answer**

**Computation of shares and debentures to be issued**

| | | Intelligent Ltd. | Diligent Ltd. |
|---|---|---|---|
| (i) Equity shares | 22,000 x 7/11 = 14,000 (W.N.1) | 14,00,000 | |
| | 22,000 x 4/11 =8,000 (W.N.1) | | 8,00,000 |
| (ii)Preference shares | $(\frac{3,00,000}{100} \times 125)$ | 3,75,000 | |
| | $(\frac{2,00,000}{100} \times 125)$ | | 2,50,000 |
| (iii) Debentures | Refer (W.N.3) | 17,50,000 | 11,25,000 |
| Total Purchase Consideration (i + ii + iii) | | 35,25,000 | 21,75,000 |

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

| | | Notes no. | ₹ |
|---|---|---|---|
| **I.** | **Equity and Liabilities** | | |
| **(1)** | Shareholder's fund | | |
| **(a)** | Share Capital | 1 | 27,00,000 |
| **(b)** | Reserves & Surplus | 2 | 1,25,000 |

| | | | |
|---|---|---|---|
| (2) | Non-current Liabilities | | |
| (a) | Long term borrowings | 3 | 28,75,000 |
| (b) | Other non-current liabilities | 4 | 5,00,000 |
| (3) | Current Liabilities | | |
| (a) | Trade Payables (12,00,000 + 4,00,000 – 1,00,000) | | 15,00,000 |
| | Total | | 77,00,000 |
| **II.** | **Assets** | | |
| (1) | Non-current Assets | | |
| (a) | Property, Plant & Equipment | 5 | 32,50,000 |
| (b) | Intangible Assets | 6 | 22,50,000 |
| (2) | Current Assets | | |
| (a) | Inventories (6,00,000 + 3,00,000) | | 9,00,000 |
| (b) | Trade Receivables (6,00,000 + 3,00,000 - 1,00,000) | | 8,00,000 |
| (c) | Cash & Cash Equivalents | | 5,00,000 |
| | Total | | 77,00,000 |

**Notes to Accounts:**

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

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

**Working Notes:**

**1. Calculation of Ratio of Equity Shares**

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

*As the company has been in existence for two years, the opening balance of profit and loss account has been assumed to be the profit of the previous year.

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

**2. Calculation of Net assets as on 31.3.2024**

| Particulars | Intelligent Ltd. | Diligent Ltd |
|---|---|---|
| **Assets (after revaluation)** | | |
| Land and Buildings | 11,00,000 | 8,50,000 |
| Plant & Machinery | 9,00,000 | 4,00,000 |
| Inventories | 6,00,000 | 3,00,000 |
| Trade Receivables | 6,00,000 | 3,00,000 |
| Cash & Cash Equivalents | 4,00,000 | 1,00,000 |
| Total (a) | 36,00,000 | 19,50,000 |
| Liabilities | | |
| Trade Payables | 12,00,000 | 4,00,000 |
| Gratuity Fund | 3,00,000 | 2,00,000 |
| Total (b) | 15,00,000 | 6,00,000 |
| Net Assets (a – b) | 21,00,000 | 13,50,000 |

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

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

**4. Calculation of Goodwill / Capital Reserve**

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

**Alternatively:**

**4. Calculation of Goodwill / Capital Reserve**

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

* Calculation of Net assets taken over

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

*₹ 3,00,000 - ₹ 1,00,000= ₹ 2,00,000

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

**Question 5**

*The Balance Sheets of Art Limited and Craft Limited as on 31 March 2024 are as below:*

| Particulars | Note No | Art Limited (₹) | Craft Limited (₹) |
|---|---|---|---|
| I. Equity and Liabilities | | | |
| a. Shareholder's Fund | | | |
| i. Share Capital | 1 | 6,50,000 | 4,00,000 |
| ii. Reserve & Surplus | 2 | 3,12,000 | 2,48,000 |
| b. Current Liabilities | | | |
| i. Trade Payables | | 1,45,000 | 92,000 |
| ii. Short term borrowings | 3 | 70,000 | - |
| | | 11,77,000 | 7,40,000 |
| II. Assets | | | |
| a. Non-current Assets | | | |
| i. Property, Plant & Equipment | 4 | 4,21,000 | 3,60,000 |
| ii. Non-current investment | 5 | 4,32,000 | - |
| b. Current Assets | | | |
| i. Inventories | | 1,66,000 | 2,05,000 |
| ii. Trade Receivables | 6 | 1,33,500 | 1,68,300 |
| iii. Cash & Cash equivalent | | 24,500 | 6,700 |
| | | 11,77,000 | 7,40,000 |

***Notes to Accounts:***

| | | Art Limited (₹) | Craft Limited (₹) |
|---|---|---|---|
| 1. | Share capital | | |
| | 6,500 shares of ₹ 100 each fully paid up | 6,50,000 | |
| | 4,000 shares of ₹ 100 each fully paid-up | - | 4,00,000 |
| | Total | 6,50,000 | 4,00,000 |
| 2. | Reserves and Surplus | | |

| | | | |
|---|---|---|---|
| | *General Reserve*<br>*Profit and Loss account* | *1,20,000*<br>*1,92,000* | *40,000*<br>*2,08,000* |
| | *Total* | *3,12,000* | *2,48,000* |
| *3.* | *Short term borrowings*<br>*Bank Overdraft* | *70,000* | *-* |
| *4.* | *Property Plant & Equipment*<br>*Land & Building*<br>*Plant & Machinery* | *1,90,000*<br>*2,31,000* | *1,35,000*<br>*2,25,000* |
| | *Total* | *4,21,000* | *3,60,000* |
| *5.* | *Non-current investments*<br>*Investment in Craft Limited (Cost)* | *4,32,000* | *-* |
| *6.* | *Cash & Cash equivalents*<br>*Cash* | *24,500* | *6,700* |

***Additional information:***

*(i)* *Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of ₹ 40,000 and ₹ 58,700 respectively as on 1st April, 2023.*

*(ii)* *The Plant & Machinery of Craft Limited which stood at ₹ 2,50,000 as on 1st April, 2023 was considered worth ₹ 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.*

*(iii)* *Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.*

*(iv)* *On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.*

*You are required to prepare a consolidated Balance Sheet as on 31st March 2024.*

***(14 Marks)***

**Answer**

**Consolidated Balance Sheet of Art and Craft Ltd**
**As on 31$^{st}$ March, 2024**

| | Particulars | Note no. | ₹ |
|---|---|---|---|
| **I.** | **Equity & Liabilities** | | |
| **(1)** | Shareholders' fund | | |
| **(a)** | Share Capital | 1 | 6,50,000 |
| **(b)** | Reserves & Surplus | 2 | 3,73,460 |
| **(2)** | Minority Interest | 3 | 1,26,740 |
| **(3)** | Current Liabilities | | |
| **(a)** | Short term borrowings | 4 | 70,000 |
| **(b)** | Trade Payables (1,45,000 + 92,000) | | 2,37,000 |
| | Total | | 14,57,200 |
| **II.** | **Assets** | | |
| **(1)** | Non-current Assets | | |
| **(a)** | Property, Plant & Equipment | 5 | 7,65,000 |
| **(2)** | Current Assets | | |
| **(a)** | Inventories | 6 | 3,57,500 |
| **(b)** | Trade Receivables | 7 | 3,03,500 |
| **(c)** | Cash & Cash Equivalents | 8 | 31,200 |
| | Total | | 14,57,200 |

**Notes to Accounts**

| Sr. No. | Particulars | ₹ |
|---|---|---|
| **1.** | Share Capital | |
| | Issued, Subscribed & Paid-up Capital | |
| | **a)** Equity Share Capital | |
| | 6,500 Equity Shares of ₹ 100 each | 6,50,000 |

| | | | |
|---|---|---|---|
| **2.** | Reserves & Surplus | | |
| | Profit & Loss A/c (WN 5) | | 2,40,100 |
| | General Reserve (WN 5) | | 1,20,000 |
| | Capital Reserve (W.N. 3) | | 13,360 |
| | | | 3,73,460 |
| **3.** | Minority interest in Craft Ltd. (W.N.4) | | 1,26,740 |
| **4.** | Short-term borrowings | | |
| | Bank Overdraft | | 70,000 |
| **5.** | Property, Plant & Equipment | | |
| | Land & Building | | |
| | Art Ltd. | 1,90,000 | |
| | Craft Ltd. | 1,35,000 | 3,25,000 |
| | Plant & Machinery | | |
| | Art Ltd. | 2,31,000 | |
| | Craft Ltd. (2,25,000-17,500+1,500) | 2,09,000 | 4,40,000 |
| | | | 7,65,000 |
| **6.** | Inventories | | |
| | Art Ltd. | 1,66,000 | |
| | Craft Ltd. | 2,05,000 | |
| | Less: unrealized profit | (13,500) | 3,57,500 |
| **7.** | Trade Receivables | | |
| | Art Ltd. | 1,33,500 | |
| | Craft Ltd. | 1,70,000 | 3,03,500 |
| **8.** | Cash & Cash Equivalents | | |
| | Art Ltd. | 24,500 | |
| | Craft Ltd. | 6,700 | 31,200 |

**Working Notes:**

**1. Shareholding Pattern**

| Total 4,000 shares | |
|---|---|
| 3,200 shares | 800 shares |
| Art Ltd (80%) | 20% Minority Interest |

**2. Analysis of Profit**

| | **General reserve** | **Profit and loss account** |
|---|---|---|
| Opening balance | 40,000 | 58,700 |
| Closing balance | 40,000 | 2,08,000 |
| Changes during the year | | 1,49,300 |

**Analysis of Profit**

| **Particulars** | **Pre acquisition profit (6 months) (₹)** | **Post acquisition profit (6 months) (₹)** |
|---|---|---|
| Opening Balances (40,000 + 58,700) | 98,700 | |
| Profit for 6 months (1,49,300 x 6/12) | 74,650 | 74,650 |
| Provision reversed (1,700) (W.N. 8) | 850 | 850 |
| Revaluation Loss (W.N. 6) | (17,500) | - |
| Savings in depreciation (W.N. 6) | - | 1,500 |
| Total | 1,56,700 | 77,000 |
| Holding (80%) | 1,25,360 | 61,600 |
| Minority Interest (20%) | 31,340 | 15,400 |

**3. Cost of Control**

| **Particulars** | ₹ | ₹ |
|---|---|---|
| Cost of Investment (Given) | | 4,32,000 |

| | | |
|---|---|---|
| Less: Share in Net Assets: | | |
| **a)** Share Capital (3,200 shares × ₹100) | 3,20,000 | |
| **b)** Capital Profit (W.N. 2) | 1,25,360 | (4,45,360) |
| Capital Reserve | | 13,360 |

**4. Minority Interest**

| **Particulars** | ₹ |
|---|---|
| Share Capital (800 shares × 100) | 80,000 |
| Capital Profit (W.N. 2) | 31,340 |
| Revenue Profit (W.N. 2) | 15,400 |
| Total | 1,26,740 |

**5. Consolidated Profit and General Reserve of Art Ltd**

| **Particulars** | **Profit and loss account ₹** | **General reserve ₹** |
|---|---|---|
| Balance as per Balance Sheet | 1,92,000 | 1,20,000 |
| Revenue Profit | 61,600 | - |
| Unrealized Profit (Downstream) | (13,500) | |
| Total | 2,40,100 | 1,20,000 |

**6. Calculation of Revaluation Profit /Loss**

| **Particulars** | ₹ |
|---|---|
| Balance as on 01.04.2023 (given) | 2,50,000 |
| Depreciation for 6 months (2,50,000 × 10% × 6/12) | (12,500) |
| WDV as on date of acquisition | 2,37,500 |
| Revalued amount | 2,20,000 |
| Revaluation Loss | 17,500 |

**7. Savings in Depreciation**

= Depreciation Provided for 6 months – Depreciation Should be

= 12,500 – (2,20,000 × 10% × 6/12)

= 1,500

**8. Calculation of provision reversed**

Trade Receivable (Given) =1,68,300 it is after provision i.e 99%

So, 100% will be 1,70,000 therefor provision will be **1,700**

**As per para 20 and 21 of AS 21, Consolidated financial statements:** Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

**Question 6**

*(a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:*

| | |
|---|---|
| *Cost of the machine* | *₹ 18,00,000* |
| *Lease term* | *3 Years* |
| *Fair market value of the machine* | *₹ 18,00,000* |
| *Unguaranteed residual value as on 31.3.2024* | *₹ 2,00,000* |
| *Internal rate of return* | *12%* |

*Other information:*

*The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.*

*The present value of ₹ 1 due at the end of 3$^{rd}$ year at 12% rate of interest is ₹ 0.7118. The present value of annuity of at ₹ 1 due at the end of 3$^{rd}$ year at 12% IRR is ₹ 2.4018.*

*You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.*

***OR***

*(a) On 1 April 2023, ABC Limited has given the following information:*

| | ₹ |
|---|---|
| *50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)* | *40,00,000* |
| *2,00,000 8% Preference shares of ₹ 10 each* | *20,00,000* |
| *10,000, 12% Debentures of ₹ 100 each* | *10,00,000* |
| *(Each debenture is convertible into 3 equity shares of ₹ 100 each)* | |

*On 1" July 2023, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of ₹ 3,44,000.*

*Tax rate is 30%.*

*You are required to compute Basic and Diluted EPS.* ***(4 Marks)***

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

1. *Equity shares of ₹ 100 each* — *₹ 500 lakhs*
2. *General Reserve* — *₹ 100 lakhs*
3. *Loss for the year ending 31st March, 2024* — *₹ 5 lakhs*

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

*The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:*

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

*As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend.* ***(4 Marks)***

(c) *Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:*

*(i) Debit Balances (in USD)*

| | | |
|---|---|---|
| *Expenditure (excluding Depreciation)* | : | *1,03,095* |
| *Cash & bank balances* | : | *2,175* |
| *Debtors* | : | *7,365* |
| *Fixed Assets (Gross)* | : | *34,200* |
| *(Rate of Depreciation on Fixed Assets: 20%)* | | |
| *Inventory-Stock 'P'* | : | *5,520* |
| *Inventory- Stock 'Q'* | : | *1,035* |

*(ii) Credit Balances (in USD)*

| | | |
|---|---|---|
| *Incomes* | : | *1,32,000* |
| *Creditors* | : | *15,570* |
| *HO Control a/c* | : | *5,820* |

*The following additional information is provided:*

*(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.*

*(2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.*

*(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.*

*(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.*

*(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.*

*(6) Branch Control Account as per HO books was ₹ 2,66,265.*

*You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation.* ***(6 Marks)***

**Answer**

**(a) Computation of Annual Lease Payment**

| **Particulars** | **Amount** |
|---|---|
| Cost of Equipment | 18,00,000 |
| Unguaranteed Residual Value | 2,00,000 |
| Present Value of unguaranteed residual value<br>(₹ 200,000 x 0.7118) | 1,42,360 |
| Present Value of Lease Payments<br>(₹ 18,00,000 – ₹ 1,42,360) | 16,57,640 |
| Present Value of Annuity for three years is 2.4018<br>Annual Lease Payment (16,57,640 / 2.4018) | 6,90,165.71 |

**Classification of Lease:**

**Parameter 1:**

The present value of lease payment i.e. ₹ 16,57,649 which equals 92.09% of the fair market value i.e., ₹ 18,00,000.

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

**Parameter 2:**

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

**Computation of unearned Finance Income:**

| **Particulars** | **Amount** |
|---|---|
| Total Lease Payments (₹ 6,90,165 x 3) | ₹ 20,70,495 |
| *Add:* Unguaranteed residual value | ₹ 2,00,000 |
| | ₹ 22,70,495 |

| | |
|---|---|
| Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640) | ₹ 18,00,000 |
| Unearned Finance Income | ₹ 4,70,495 |

**OR**

**(a)** Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{1,84,000}{46,000 \text{ Shares (as per working note)}} = ₹\ 4 \text{ per share}$$

**Diluted earnings per share**

| | |
|---|---|
| Net profit for the current year | ₹ 3,44,000 |
| No. of equity shares outstanding | 50,000 |
| Basic earnings per share | ₹ 4 |
| No. of 12% convertible debentures of ₹ 100 each<br>Each debenture is convertible into 3 equity shares | 10,000 |
| Interest expense for the current year | ₹ 1,20,000 |
| Tax relating to interest expense (30%) | ₹ 36,000 |
| Adjusted net profit for the current year | ₹ (1,84,000 + 1,20,000 - 36,000) = ₹ 2,68,000 |
| No. of equity shares resulting from conversion of debentures | 30,000 |
| No. of equity shares used to compute diluted earnings per share | 46,000 + 30,000 = 76,000 |
| Diluted earnings per share | 2,68,000 / 76,000 = ₹ 3.53 |

**Working Note:**

1. **Net profit attributable to equity share holders = Net profit less preference dividends**

   Total earnings – preference shares dividend

₹ 3,44,000 – ₹ (8% x 20,00,000)

₹ 3,44,000 - ₹ 1,60,000

= ₹ 1,84,000

2. **Calculation of weighted average number of equity shares**

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

| ***Date*** | ***No. of equity shares*** | ***Amount paid per share*** | ***Weighted average no. of equity shares*** |
|---|---|---|---|
| | ₹ | ₹ | ₹ |
| 01.04.2023 | 50,000 | 80 | 50,000x 80/100x 3/12 = 10,000 |
| 01.07.2023 | 40,000 | 100 | 40,000 x 9/12 = 30,000 |
| 01.07.2023 | 10,000 | 80 | 10,000x 80/100x 9/12 = **6,000** |
| Total weighted average equity shares | | | **<u>46,000</u>** |

**(b) In case of declaration of dividend out of free reserves, there are 3 conditions:**

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

10% < 12% [(12+14+10)/3]

Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus

50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]

Condition is Satisfied

(3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)

Condition is Not Satisfied

(4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)

Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

**Alternatively**

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

(1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12%

(i.e.) (12+14+10) /5 =12 %.

Hence, this condition is satisfied.

(2) Condition II

Amount to be withdrawn.

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

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

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

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

(3) Condition III

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

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

Maximum withdrawal of Reserve if condition II is satisfied.

| | |
|---|---|
| Opening balance of Reserves in the beginning of the year | = ₹ 1,00,00,000 |
| - Closing balance of reserves being 15% of paid-up capital | = ₹ 75,00,000 |
| Reserves available = | ₹ 25,00,000 |

Maximum permissible Divisible Profits

| | |
|---|---|
| Permissible withdrawal as above | = ₹ 25,00,000 |
| Less: Current Year's Loss | = ₹ 5,00,000 |
| Maximum permissible Divisible profit | = ₹ 20,00,000 |

Actual permissible rate of Dividend =

(₹ 20,00,000 / ₹ 5,00,00,000) x 100 = 4%

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

**(c) Converted branch trail balance (in the books of head office)**

| **Particular** | **Dr. $** | **Cr. $** | **Rate per $** | **₹ Dr.** | **₹ Cr.** |
|---|---|---|---|---|---|
| Expenditure | 1,03,095 | | 56 | 57,73,320 | |
| Cash & bank balance | 2,175 | | 58 | 1,26,150 | |
| Debtors | 7,365 | | 58 | 4,27,170 | |
| Fixed assets | 27,360 | | 55 | 15,04,800 | |
| Depreciation 20% | 6,840 | | 55 | 3,76,200 | |
| Inventory P | 5,520 | | Direct | 2,85,000 | |
| Inventory Q | 1,065 | | 53 | 56,445 | |
| Income | | 1,32,000 | 56 | | 73,92,000 |
| Creditors | | 15,570 | 58 | | 9,03,060 |

| | | | | | |
|---|---|---|---|---|---|
| HO control A/c | | 5,820 | | | 2,66,265 |
| Exchange difference | | | | 12,240 | |
| | | | | 85,61,325 | 85,61,325 |

**Working Note:**

| **Inventory P** | **$ 5,520** | **Inventory Q** | **$ 1,065** |
|---|---|---|---|
| Purchased Cost rate | 56.50 | NRV | $ 1,035 |
| NRV | ₹ 2,85,000 | Closing rate | 58 |
| Cost | ₹ 3,11,880 | Purchased Cost rate | 53 |
| Value at cost or NRV whichever is less | ₹ 2,85,000 | Value at cost or NRV whichever is less | $ 1,035 @ ₹ 58 or $1,065 @ ₹ 53 = 56,445 or 60,030 |