DEAR PRIME ACADEMY STUDENT,

1. FOR FINANCIAL INSTRUMENTS (PRACTICAL QUESTIONS), REFER TO ICAI BOOKLET ON THE SAME ONLY

2. REFER LATEST RTP AND TO THAT EXTENT QUESTIONS THAT WERE COMMON IN THIS PRACTICE BOOK AND RTP HAVE BEEN DELETED FROM THIS PRACTICE BOOK

3. IN CONSEQUENCE OF 1 AND 2 ABOVE, THIS PRACTICE BOOK HAS FEWER NUMBER OF SUMS THAN 70 WHICH IS SUFFICIENT.

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1. Practice Sums – with Solutions

VALUATION SUMS – SOLUTION (QUESTION REFER TEXTBOOK)

ACCOUNTING STANDARDS

Q1) Mega Ltd. issued Rs. 100,00,000 worth of 8% debentures of face value Rs. 100 each on par value basis on 1st January 2011. These debentures are redeemable at 12% premium at the end of 2014 or exchangeable for ordinary shares of Mega Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of debt portion of the above compound financial instrument. The PV of rupee at the end of years 1 to 4 at 8% and 12% are supplied to you as:

	8%	12%
End of year 1	0.926	0.893
End of year 2	0.857	0.797
End of year 3	0.794	0.712
End of year 4	0.735	0.636

Solution:-
PV of debentures redeemable (including premium) in 2014 (Rs. 100,00,000 x 1.12 x 0.636) = Rs. 71,23,200
PV of interest on debentures (Rs. 8,00,000 x 3.038 sum of 4 yrs disc fac @ 12%) = Rs. 24,30,400
Value of Debt portion of convertible debentures = Rs. 95,53,600
Therefore Value of Equity portion = Rs. 100,00,000 – Rs. 95,53,600 = Rs. 4,46,400

Q2) Value inventories as on 31/3/2015
Raw material has been purchased @ 125 per kg. Prices of raw material are on the decline. The finished goods being manufactured with the raw material is also being sold at below cost. The stock of raw material is of 15000 kg and the replacement cost of raw material is Rs. 100 per kg
Cost of finished goods per kg is as follows:-

	Rs. Per kg
Material cost	125
Direct labour cost	20
Direct variable production overhead	10

Fixed production overhead for the year for a normal capacity of 100000 kg of production is Rs. 10 lacs. At the year end, there were 2000 kgs of finished goods in stock. Net realizable value of finished goods Rs. 140 per kg

Solution:-
As per AS 2, materials and other supplies held for use in the production of inventories are not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost. However when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed NRV, materials are written down to NRV. In such circumstances the replacement cost of materials may be the best available measure of their NRV.

Cost per kg. of finished goods can be computed as follows:-

	Rs.
Material cost	125
Direct labour cost	20
Direct variable production overhead	10
Fixed production overhead (Rs. 10,00,000/1,00,000 kgs)	10
Cost of Finished Goods per Unit	165

NRV of finished goods = Rs.140/kg
Value of finished goods inventory = Cost of finished goods or NRV whichever is less
Thus, value of 2,000 kgs of finished goods held as inventory at the year-end will be = Rs. 2,80,000 (2,000 kgs. x Rs. 140)
Since cost of finished goods exceed its NRV, raw materials will be valued at Replacement Cost.
Value of raw materials held as inventory = 15,000 kgs × Rs. 100 = Rs. 15,00,000

Q3) Lovely Limited has advanced staff loan of Rs. 50 lacs to its employees on 1st July, 2014 at a concessional rate of 6% per annum, to be repaid in 5 semi-annual installments along with interest thereon. The prevailing rate is 8% per annum. Find out the value at which the loan should initially be recognised and its amortisation till closure thereof. Also give necessary journal entries with appropriate narration for financial year 2014-15. The discount values at 8% and 4% are as under:

Period	**1**	**2**	**3**	**4**	**5**
8%	0.9259	0.8573	0.7938	0.7350	0.6806
4%	0.9615	0.9246	0.8890	0.8548	0.8219

Solution:

(i) Calculation of initial recognition amount of loan to employees

Half year end	**Cash flow**		**Total**	**PV factor @ 4%**	**PV**
	Principal	**Interest @ 3%***			
1st	1000000	150000	1150000	0.9615	1105725
2nd	1000000	120000	1120000	0.9246	1035552
3rd	1000000	90000	1090000	0.8890	969010
4th	1000000	60000	1060000	0.8548	906088
5th	1000000	30000	1030000	0.8219	846557
PV					4862932

*Loan is repayable at semi-annual intervals, hence, annual interest rates of 6% & 8% are converted into semi-annual rates of 3% & 4% respectively, for computation.

(ii) Calculation of amortised cost of loan to employees

Half year ended	Amortised cost (Opening balance) (1)	Interest to be recognsied @ 4%* (2)	Repayment including interest (3)	Amortised cost (Closing balance) (1+2-3)
1st	4862932	194517	1150000	3907449
2nd	3907449	156298	1120000	2943747
3rd	2943747	117750	1090000	1971497
4th	1971497	78860	1060000	990357
5th	990357	39643	1030000	Nil

(iii) Journal Entries in the books of Lovely Ltd. for the financial year 2014-2015 (regarding loan to employees)

Staff loan A/c Dr. 50,00,000
To Bank A/c 50,00,000
(Being the disbursement of loans to staff)

Staff cost A/c (50,00,000 – 48,62,932) Dr. 1,37,068
To Staff loan A/c* 1,37,068
(Being the write off of excess of loan balance over present value thereof in order to reflect the loan at its PV)

Staff loan A/c Dr. 1,94,517
To Interest on staff loan A/c 1,94,517
(Being the charge of interest @ market rate of 8% p.a. on the loan for 6 months)

Bank A/c Dr. 11,50,000
To Staff loan A/c 11,50,000
(Being the repayment of first instalment with interest for the year)

Interest on staff loan A/c Dr. 1,94,517
To Profit and loss A/c 1,94,517
(Being transfer of balance of staff loan Interest account to profit and loss account)

Profit and loss A/c Dr. 1,37,068
To Staff cost A/c 1,37,068
(Being transfer of balance of staff cost account to profit and loss account)

Staff loan A/c (1,56,298/2) Dr. 78,149
To Accrued Interest A/c 78,149
(Being accrued interest for 6 months i.e 1 st January to 31st March, 2015 has been accounted for)

Q4) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs. 80 crores in the eligible investments. The company is eligible for the subsidy and has

received Rs. 20 crores from the government in February 2014. The company wants to recognize the said subsidy as its income to improve the bottom line of the company. Do you approve the action of the company in accordance with the Accounting Standard?

Solution:
As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.
The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof. Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Q5) Finished Goods costing Rs. 10 lacs were damaged due to flood in July 2013. These goods were included in Closing Stock as on March 31, 2014 at an estimated realizable value of Rs. 4.00 lacs. These goods could be ultimately sold for Rs. 3 lacs only in August 2014. The difference of Rs. 1 lac was debited as 'prior period' expenditure in financial year 2014-15. As an auditor, please comment in the light of provisions of accounting standards.

Solution:-
AS 5 on "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".
Prior period items should be distinguished from changes in Accounting Estimates. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Accounting Estimates are approximations that may need revision. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
In the instant case, there is no error or omission in prior periods. It is a case of a change in an accounting estimate when the damaged goods are finally sold.
Thus, the difference of Rs. 1,00,000 should be treated as a change in accounting estimate and not prior period item. Therefore, the accounting treatment done i.e. difference of Rs. 1,00,000 debited as prior period expenditure in financial year 2014-15 is not correct. It should be debited to profit and loss account as a change in an accounting estimate in the financial year 2014-15.

Q6) Sunny Limited, is developing a new production process. During the financial year ended 31st March 2013, the company has incurred total expenditure of Rs. 40 lacs on the process. On 1st December, 2012, the process has met the norms to be recognized as 'intangible assets' and the

expenditure incurred till that date is Rs. 16 lacs. During the financial year ending on 31st March 2014, the company has further incurred Rs. 70 lacs. The recoverable amount as on 31st March 2014 of the process is estimated to be Rs. 62 lacs. You are required to work out:

(i) Expenditure to be charged to profit and loss account for the financial year ending on 31st March 2013 and 31st March 2014. (ignore depreciation)

(ii) Carrying amount of the 'Intangible asset' as at 31st March 2013 and 31st March 2014

Solution:-

Statement showing amount to be charged to Profit and Loss Account and Carrying Amount of an intangible asset

Rs. Lacs

	Details	For y/e on 31/3/13	For y/e 31/3/14
(i)	Expenditure to be charged to Profit and Loss account	16	32 (w/n 2)
(ii)	Carrying amount of an intangible asset	24 (w/n 1)	62

Working Notes:-

1. Carrying amount as on 31st March, 2013 will be the expenditure incurred after 1st December, 2012 till 31st March, 2013

	Rs. lacs
Total expenditure incurred	40
Less: Expenditure incurred till 1st December, 2012 to be expensed off	(16)
Expenditure incurred from 1.1.2012 to 31.3.2013 to be capitalised	24

2. Total cost of an intangible asset till 31.3.2014	Rs. lacs
Capitalised cost as on 31.3.2013	24
Add: Further capitalised cost till 31.3.14	70
Total book cost of an intangible asset till 31.3.2014	94

3. Impairment loss	Rs. lacs
Book cost as on 31.3.2014 (W.N.2)	94
Less: Recoverable amount as estimated on 31.3.2014	(62)
Difference to be charged to Profit and Loss account as impairment loss	32

Therefore, carrying amount as on 31.3.2014 = Rs. 94 lacs – Rs. 32 lacs = Rs. 62 lakhs.

Q7) AQ Ltd., an investment company is finalizing its account for the Financial Year ending 2013 in the month of August 2013.

How will the following incomes be accounted for in the books of AQ Ltd.?

(1) X Ltd., has declared interim dividend which has not been received till 31-3-2013 but received on 25-4-2013.

(2) Y Ltd., has declared dividend on 8th May 2013 for the year ending 31-3-2013 which has been approved by the shareholders of the company on 30th June 2013.

(3) Z Ltd., a subsidiary of AQ Ltd., has declared dividend for the year ended 31-3-2013 on 25th May 2013 the AGM for which is to be held on September 2013

Solution:-

As per para 8 of AS 9 "Revenue Recognition", dividends from investment in shares is recognized in the statement of Profit and Loss only when the owner's right to receive the payment is established.

(i) In the first case, it is clear that interim dividend was declared by X Ltd. before 31st March 2013 which implies that the dividend had been vested (accrued) to the shareholders of AQ Ltd. in the year 2012-13. Therefore, though it is received on 25.4.13 (before finalization of accounts) yet it should be recognized in the financial statements for the year ended 31st March, 2013.
(ii) Dividend declared by Y Ltd and approved by the shareholders of AQ Ltd. after balance sheet date but before finalization of accounts cannot be accounted for in the financial statements for the year ended 31st March, 2013. This will be accounted in 2013-14 as the right to receive dividend will arise when the AGM will approve the dividend i.e. on 30th June 2013. Since right to receive the dividend was not established on or before 31st March, 2013, it will not be accounted for in the books for the year ended 31st March, 2013.
(iii) In the given case, dividend declared by Z Ltd. will be approved in the AGM to be held on 30th September, 2013. Before that right to receive dividend cannot be established. Hence it will not be accounted for in the financial year ended on 31st March, 2013.

Q8) Comptech Ltd. having office at Chennai, acquired a sophisticated three dimensional (3D) computer printer having all inclusive MRP (Maximum Retail Price) of Rs. 50 lakhs from a supplier located at New Delhi. The terms of the purchase were as under:

(i) The supplier would buy back the existing unit with Comptech that has carrying amount of Rs. 10.20 lakhs. Prevailing CST rate is 2%.
(ii) The supplier would give a special discount of 10% on MRP to Comptech considering their long standing relationship.
(iii) A cash payment of Rs. 38.25 lakhs would be made by Comptech Ltd. to the supplier.
(iv) Accessories required to operate the machine costing Rs. 7.60 lakhs (inclusive of all taxes) will be purchased by Comptech.
(v) The supplier will deliver free of cost certain heavy duty cables etc. having MRP of Rs. 5.75 Iakhs, that are required to run the machine.
(vi) Transit insurance cost will be borne by Comptech @ 2% of MRP.
(vii) Freight and other incidentals amounting to Rs. 2.30 lakhs is borne by Comptech.

You are required to arrive at the cost of the new asset and show the profit/(loss) incurred by Comptech on the buyback arrangement and also draft the Journal Entries to record the above transaction.

Solution:

As per AS 10 ‘Accounting for Fixed Assets’, when a fixed asset is acquired in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment. In the given question the FMV of the new machine is its MRP net of special concession given to the buyer.

1. Calculation of Cost of New Asset	Rs. in lakhs
MRP of Printer	50
Less: Special Discount 10% of MRP	5
Add: Accessories	7.6
Add: Transit Insurance Cost (2% of 50 lakh)	1
Add: Freight and other incidental amount	2.30
	55.09

2. Calculation of Profit /Loss incurred on buy-back arrangement	Rs. Lacs
Discounted price of new machine	45.00
Less: Cash portion thereof	38.25
FMV of old machine	6.75*
Less: Book Value thereof	10.20
Loss on Buy back	3.45

*This includes CST of 2%. Thus the CST will be 6.75 x 2/102 = 0.13 lakh

3. Journal entries

Particulars	Dr.	Cr.
3D Computer Printer A/c Dr.	49.15	
To Cash A/c		49.15

(Being the expenses incurred for purchase of 3D computer – cash payment 38.25 + accessory 7.6 + insurance 1 and freight 2.3)

Particulars	Dr.	Cr.
2. 3D Computer Printer A/c Dr.	6.75	
Loss on buy back of old machine A/c Dr.	3.45	
To Old Machine A/c		10.20

(Being the transfer of FMV of Rs. 6.75 lakhs of old machine to new printer under buy-back scheme and recognition of loss on buy back)

Note: It is assumed that the cash payment of Rs. 38.25 lakhs is the full and final payment to the supplier for the printer.

Q9) Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer plus employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24 ?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

Solution:-

Mere gradual phasing is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operation'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(1) Gradual or evolutionary phasing out of a product line or class of service.

(2) Shifting of some production or marketing activities for a particular line of business from one location to another and

(3) Closing of a facility to achieve productivity improvements or other cost savings.

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A Reportable business segment or geographical segment as defined in AS 17, would normally satisfy criteria (b) of the definition.

In view of the above the answers are:

(i) No. The companys' strategic plan has no final approval from the board through a resolution and no specific time bound activities like shifting of Assets and employees and above all the new segment commercial vehicle production line and factory has started.

(ii) No. The resolution is salient about stoppage of the Car segment in definite time period. Though, some assets sales and transfer proposal was passed through a resolution to the new factory, closure road map and new segment starting road map is missing. Hence, AS-24 will not be applicable.

(iii) Yes. Phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. Hence, this action will attract AS-24 compliance.

Q10) Grant Medicare Ltd. acquired 5 units of Brain Scan Equipment for US$ 5,00,000 in April 2010 incurring Rs. 20,00,000 on sea freight and US$ 12,000 per unit towards transit Insurance, bank charges etc. The purchase was partly funded out of the company's internal accruals and from Government Grant of Rs. 94 Lakhs. The prevailing exchange rate to the US$ was 50. The company estimated the useful life of the equipment at 4 years with an estimated salvage value of 13% (approx). The grant was considered as Deferred Income up to 2012-13 and in April 2013 the company had to return the entire grant received due to non fulfillment of certain conditions. You are required to show the deprecation and the grant that is to be recognized in the Profit & Loss accounts for the period commencing, 2010-11 onwards and also draw up the entry that is passed in April 2013 for the return of the Grant. The Company follows the written down value method for depreciating its assets.

Solution:-

Statement showing annual depreciation and amount of Grant to be recognized in P& L A/c

Rs. In lacs

Year	Value of asset	Depr @ 40%	Closing value	Deferred grant to be recognized (94) x depr for the year/total depreciation
2010-11	300	120	180	43.2
2011-12	180	72	108	25.92
2012-13	108	43.2	64.8	15.55
2013-14	64.8	25.92	38.88	9.33
		261.12		94

The entries for depreciation & recognition of the grant will be as per the above table for the year 2010-11, 2011-12 & 2012-13

The entry for the return of the Grant of Rs. 94 lakhs in April 2013 will be as under:

Deferred Grant Account Dr.	9.33
Profit & Loss Account(43.20+25.92+15.55) Dr.	84.67
To Bank	94.00

(Being the return of the Grant received in April 2010 due to non-fulfillment of conditions)

Working Note:
1. Calculation of Revised Book Value of Machine as on 1st April, 2010

Particulars	(Rs. in lakhs)
Acquisition of 5 units of brain scan units [US $ 5,00,000 x Rs. 50]	250
Add: Sea Freight on the above units	20
Add: Transit insurance, Bank charges etc. paid ($ 12,000 x Rs. 50 x 5)	30
Total landed cost as on 1st April, 2010	300

2. WDV rate of depreciation

WDV rate of depreciation = $(1 - (\text{Residual value/cost of asset})^{1/n}) \times 100$
$= (1 - (39/300)^{1/4}) \times 100$
$= (1 - 13^{1/4}) \times 100$
$= (1 - 0.6) \times 100 = 40\%$

CORPORATE RESTRUCTURING

Question 1

A Ltd. agreed to take over B Ltd. as on 1st October, 2014. No Balance Sheet of B was prepared on that date:

Summarised Balance Sheets of A and B as at 31st March, 2014 were as follows:

	A Rs.	B Rs.		A Rs.	B Rs.
Share Capital:			Fixed Assets	12,50,000	8,75,000
Equity shares of Rs. 10			Current Assets:		
each fully paid up	15,00,000	10,00,000	Inventory	2,37,500	1,87,500
Reserves and Surplus:			Trade receivables	3,90,000	2,56,000
Reserve	4,15,000	2,56,000	Bank	2,93,750	1,50,000
Profit and Loss	1,62,500	1,37,500			
Trade payables	93,750	75,000			
	21,71,250	14,68,500		21,71,250	14,68,500

Additional information available:

(i) For the six months period from 1st April, 2014, A made a profit of Rs. 4,20,000 after writing off depreciation at 10% per annum on its fixed assets.

(ii) For the same period, B made a net profit of Rs. 2,04,000 after writing off depreciation at 10% p.a. on its fixed assets.

(iii) Both the companies paid on 1st August, 2014, equity dividends of 15%. Tax at 10% on such payments was also paid by each of them.

(iv) Goodwill of B was valued at Rs. 1,20,000 on the date of take-over; inventory of B, subject to an abnormal item of Rs. 7,500 to be fully written off, would be appreciated by 25% for purpose of take-over:

(v) A to issue to B's shareholders fully paid equity shares of Rs. 10 each, on the basis of the comparative intrinsic values of the shares on the take-over date.

Draft the Balance Sheet of A after absorption of B. All workings are to form part of your answer.

Solution:-

Balance Sheet of A Ltd. (after absorption of B Ltd.)

Particulars	Note No.	`
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	25,60,000
(b) Reserves and Surplus	2	12,80,000
(2) **Current Liabilities**		
Trade payables		1,68,750
Total		40,08,750
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	3	20,18,750
ii. Intangible assets	4	1,20,000
(2) **Current assets**		
(a) Inventories (Rs. 2,37,500 + Rs. 2,25,000)		4,62,500
(b) Trade receivables (Rs. 3,90,000 + Rs. 2,56,000)		6,46,000
(c) Cash and cash equivalents (Rs. 5,28,750 + Rs. 2,32,750)		7,61,500
Total		40,08750

Notes to Accounts

		Rs.	Rs.
1.	Share Capital		
	2,56,000 Equity Shares of Rs. 10 each fully paid (1,06,000 shares allotted as fully paid without payment being received in cash)		25,60,000
2.	Reserves and surplus		
	Securities Premium	5,30,000	
	Reserves	4,15,000	
	Profit and Loss Account	3,35,000	12,80,000
3.	Tangible Assets		
	Other Fixed Assets (Rs. 12,50,000 + Rs. 8,75,000)	21,25,000	
	Less: Depreciation	(1,06,250)	20,18,750
4.	Intangible assets		
	Goodwill		1,20,000

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Working Notes:

(1) Bank Balance on 1.10.2014

	A Ltd. Rs.	B Ltd. Rs.
Bank Balance as on 31.3.2014	2,93,750	1,50,000
Add: Net Profit	4,20,000	2,04,000
Depreciation	62,500	43,750
	[12,50,000 × 10 % × 6/12]	[8,75,000 × 10 % × 6/12]
	7,76,250	3,97,750
Less: Dividend	(2,25,000)	(1,50,000)
	[15,00,000 × 15 %]	[10,00,000 × 15 %]
	5,51,250	2,47,750
Less: Dividend Tax @ 10 % on dividend	(22,500)	(15,000)
Bank Balance as on 1.10.2014	5,28,750	2,32,750

(2) Profit and Loss Account as on 1.10.2014

	A Ltd. Rs.	B Ltd. Rs.
Balance as on 31.3.2014	1,62,500	1,37,500
Add: 6 months' profit	4,20,000	2,04,000
	5,82,500	3,41,500
Less: Dividend	(2,25,000)	(1,50,000)
Dividend tax	(22,500)	(15,000)
Balance	3,35,000	1,76,500

(3) **Balance Sheets of A Ltd. and B Ltd.**

as on 1st October, 2014 (before absorption)

Particulars	Note no.	A Ltd. (Rs.)	B Ltd. (Rs.)
I. **Equity and Liabilities**			
(1) **Shareholder's Funds**			
(a) Share Capital		15,00,000	10,00,000
(b) Reserves and Surplus	1	7,50,000	4,32,500
(2) **Current Liabilities**			
Trade payables		93,750	75,000
Total		23,43,750	15,07,500
II. **Assets**			
(1) **Non-current assets**			
(a) Fixed assets			
Tangible assets	2	11,87,500	8,31,250
(2) **Current assets**			
(a) Inventories*		2,37,500	1,87,500
(b) Trade receivables*		3,90,000	2,56,000
(c) Cash and cash equivalents [WN 1]		5,28,750	2,32,750
Total		23,43,750	15,07,500

*It is assumed that these amounts as on 1st October, 2014 are same in the absence of any other information.

Notes to Accounts

		A Ltd.		B Ltd.	
		(Rs.)	(Rs.)	(Rs.)	(Rs.)
1.	Reserves and surplus				
	Reserves	4,15,000		2,56,000	
	Profit and Loss A/c	3,35,000	7,50,000	1,76,500	4,32,500
2.	Tangible Assets				
	Fixed Assets	12,50,000		8,75,000	
	Less: Depreciation	(62,500)		(43,750)	
	Net Fixed Assets		11,87,500		8,31,250

(4) **Purchase consideration**

	A Ltd. Rs.	B Ltd. Rs.
Goodwill	–	1,20,000
Fixed Assets	11,87,500	8,31,250
Inventory	2,37,500	2,25,000
		[1,87,500 – 7,500] × 125 %
Trade receivables	3,90,000	2,56,000
Bank Balance	5,28,750	2,32,750
	23,43,750	16,65,000
Less: Trade payables	(93,750)	(75,000)
Net Assets	22,50,000	15,90,000
Number of Shares	1,50,000	1,00,000
Intrinsic value	15.00	15.90

Purchase consideration Rs. 15,90,000 in the form of Share capital Rs. 10,60,000 and securities premium Rs. 5,30,000. i.e. 1,06,000 shares of A Ltd.

Question 2

Agni Ltd. and Bayu Ltd. both engaged in similar merchanting activities since 2012, decide to amalgamate their businesses. A holding company, Chandrama Ltd. would be formed on 1st January, 2015 to acquire the entire shares in both the companies.

From the information given below you are required to prepare:

(a) A statement of purchase consideration, supported by requisite working notes.

(b) Balance Sheet of Chandrama Ltd. after the transactions have been completed.

(i) The terms of the offer were:

- Rs. 100, 15 per cent debentures for every Rs. 100 of net assets owned by each company on 31st December, 2014.
- Rs. 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined by taking weighted average profits of 2013 and 2014, weights being 1 and 2 respectively.

(ii) It was agreed that the accounts of Bayu Ltd. for the two years ended 31st December, 2014 be adjusted, where necessary, to conform to the accounting policies followed by Agni Ltd.

(iii) The Pre-tax profits, including investment income, of the two companies were as follows:

	2013 Rs.	2014 Rs.
Agni Ltd.	16,38,000	18,36,000
Bayu Ltd.	17,88,300	25,74,000

(iv) Agni Ltd. values its inventory on FIFO basis while Bayu Ltd. used a different basis. To bring Bayu Ltd.'s values in line with those of Agni Ltd, value of its inventory will require to be reduced by Rs. 36,000 at the end of 2013 and Rs. 1,02,000 at the end of 2014.

(v) Both the companies use straight line method of depreciation.

(vi) Bayu Ltd. deducts 1 per cent from trade receivables as a general provision against doubtful debts.

(vii) Prepaid expenses in Bayu Ltd. include advertisement expenditure carried forward ofRs. 1,80,000 in 2013 and Rs. 90,000 in 2014, being part of initial advertising in 2013, which is being written off over three years. Similar expenditure in Agni Ltd. has been fully written off in 2013.

(viii) To bring Director's remuneration on to a comparative basis, the profits of Bayu Ltd. are to be reduced by Rs. 1,20,000 in 2013 and Rs. 1,80,000 in 2014 and the net assets are also to be adjusted accordingly.

Summarised Balance Sheets as at 31st December, 2013 and 2014 were as follows:

Agni Ltd.

Liabilities	2013 Rs.	2014 Rs.	Assets	2013 Rs.	2014 Rs.
Share capital issued and subscribed: 12,000shares of Rs. 100 each, fully paid	12,00,000	12,00,000	Fixed assets: Furniture and Fixtures: at cost	6,90,000	6,90,000
Reserves and Surplus			Less: depreciation	(69,000)	(1,38,000)
				6,21,000	5,52,000
Capital reserve	-	2,10,000	Investments: Quoted investments at market value	-	7,80,000
Revenue reserve	7,98,300	16,74,000	Current assets:		
Current Liabilities and provisions:			Inventory at cost	18,30,000	21,75,000
Trade payables	15,02,700	18,21,000	Trade receivables	18,00,000	22,20,000
Provision for taxation	8,40,000	9,60,000	Prepaid expenses	30,000	42,000
			Cash at bank	60,000	96,000
	43,41,000	58,65,000		43,41,000	58,65,000

Bayu Ltd.

Liabilities	**2013** Rs.	**2014** Rs.	**Assets**	**2013** Rs.	**2014** Rs.
Share capital:			Fixed assets:		
Issued and subscribed			Furniture and fixture at cost	9,60,000	9,60,000
15,000 equity shares of Rs. 100 each, fully paid	15,00,000	15,00,000	Less: depreciation	(1,44,000)	(2,88,000)
Reserves and surplus:				8,16,000	6,72,000
Revenue reserve	8,58,000	21,42,000	Investments:		
Current liabilities and provisions:			Quoted investments		
Trade payables	14,70,000	14,82,000	(Market value Rs. 14,70,000)	-	12,00,000
Bank overdraft	-	5,10,000	Current assets:		
Provision for taxation	9,30,000	12,90,000	Inventory at cost	17,91,000	22,26,000
			Trade receivables		
			Less: provision	17,82,000	26,73,000
			Prepaid expenses	2,16,000	1,44,000
			Cash at bank	1,53,000	9,000
	47,58,000	69,24,000		47,58,000	69,24,000

Solution:-

(a) Statement of Purchase Consideration

	Agni Ltd.			**Bayu Ltd. (Refer W.N. 1)**		
Year	**PBT** (Rs.)	**Weight**	Rs.	**PBT** (Rs.)	**Weight**	Rs.
2013	16,38,000	1	16,38,000	15,18,300	1	15,18,300
2014	18,36,000	2	36,72,000	27,63,000	2	55,26,000
Total Profit			53,10,000			70,44,300
Weighted average profit (Divided by 3)			17,70,000			23,48,100
(i) Two years' purchase of average profits			35,40,000			46,96,200
(ii) Net assets (Refer working notes 3 and 4)			30,84,000			35,43,000
			66,24,000			82,39,200
(iii) Discharge of purchase consideration						

82,362 Shares will be issued for goodwill amounting Rs. 82,36,200 (Rs. 35,40,000 +Rs. 46,96,200)

66,27015%Debentureswillbeissuedfornetassetsamounting Rs. 66,27,000 (30,84,000 +35,43,000)

Total purchase consideration will amount to Rs. 148,63,200

PRIME ACADEMY

(b) Balance Sheet of Chandrama Ltd. as on 1st January, 2015

Particulars	Note No.	(Rs.)
I. **Equity and Liabilities**		
(1) **Shareholder's Fund**		
Share Capital	1	82,36,200
(2) **Non-Current Liabilities**		
Long-term borrowings	2	66,27,000
Total		1,48,63,200
II. **Assets**		
(1) **Non-current assets**		
Non-current investments	3	1,48,63,200
Total		1,48,63,200

Notes to Accounts

		(Rs.)	(Rs.)
1.	Share Capital		
	Issued and subscribed		
	82,362 shares of Rs. 100 each, fully paid up		
	(Issued for consideration other than cash)		82,36,200
2.	Long Term Borrowings		
	Secured Loans		
	66,270 15% Debentures of Rs.100 each, fully paid		66,27,000
3.	Non-current investments *		
	Shares in Agni Ltd.		
	Shares in Bayu Ltd.	66,24,000	
		82,39,200	1,48,63,200

* In this case, A holding company, Chandrama Ltd. is being formed on 1st January, 2015 to acquire the entire shares in both the companies. Hence, this will appear in the Non-current investments of Chandrama Ltd.

Working Notes:

1. Statement of adjusted Net Profits of Bayu Ltd.

	Year 2013		Year 2014	
	Rs.	Rs.	Rs.	Rs.
Net Profit as given		17,88,300	-	25,74,000
Add: ProvisionforBadDebts- W.N.2(a)	18,000		27,000	
Advertising (to the extent written off)	-		90,000	
Depreciation- [W.N.2(b)]	48,000		48,000	
Appreciation in Investment	-		2,70,000	
Value of Opening Inventory	-	66,000	36,000	4,71,000
		18,54,300		30,45,000
Less: Value of Closing Inventory	36,000		1,02,000	
Advertising (to be written off in				

one year only)	1,80,000		-	
Directors' Remuneration	1,20,000	(3,36,000)	1,80,000	(2,82,000)
		15,18,300		27,63,000

2

		(Rs.) Year 2012	(Rs.) Year 2013
(a)	Trade receivables as per Balance sheet	17,82,000	26,73,000
	Provision created		
	1% of (Rs. 17,82,000 /. 99)	18,000	
	1% of (Rs. 26,73,000 / .99)		27,000
(b)	Rate of depreciation under straight line method for Agni Ltd. is (Rs. 69,000 / 6,90,000) ×100 = 10%. Rate of depreciation under straightline method for Bayu Ltd. is (Rs. 1,44,000 / 9,60,000) ×100= 15% Difference of 5% in depreciation amount i.e. (5% of Rs. 9,60,000 = Rs.48,000) has been added back to ensure uniform accounting policies.		

3. Statement of Net Assets of Agni Ltd.

	Rs.	Rs.
Total Assets		58,65,000
Less: Trade payables	18,21,000	
Provision for Taxation	9,60,000	(27,81,000)
		30,84,000

4. Statement of Adjusted Net Assets of Bayu Ltd.

	Rs.	Rs.
Furniture and Fixtures	9,60,000	
Less: Depreciation at 10% p.a. for two years	(1,92,000)	7,68,000
Quoted investments at market value		14,70,000
Inventory (Rs. 22,26,000 – Rs. 1,02,000)		21,24,000
Trade receivables after Reversal of Provision		
(Rs. 26,73,000 + Rs. 27,000)		27,00,000
Prepaid Expenses (Rs. 1,44,000 – Rs. 90,000)		54,000
Cash at Bank		9,000
		71,25,000
Less: Trade payables	14,82,000	
Bank Overdraft	5,10,000	
Liability for Directors' Remuneration [1,20,000 + 1,80,000]	3,00,000	
Provision for Taxation	12,90,000	(35,82,000)
		35,43,000

PRIME ACADEMY

Question 3

The following are the summarized Balance Sheets of H Ltd. and S Ltd. as at 31.03.15:

	H Ltd. (Rs.)	S Ltd. (Rs.)		H Ltd. (Rs.)	S Ltd. (Rs.)
				Rs. **in lakhs**	
Share capital			Fixed assets	60	18
Share of Rs. 10 each	50	10	Investment in S Ltd. (60,000 shares)	6	-
General reserve	50	20	Trade receivables	35	5
Profit and Loss	20	15	Inventories	30	25
Secured loan	20	3	Cash at Bank	39	2
Current liabilities	30	2			
	170	50		170	50

H Ltd. holds 60% of the paid up capital of S Ltd. and balance is held by a foreign company. The foreign company agreed with H Ltd. as under:

(i) The shares held by the foreign company will be sold to H Ltd. at Rs. 50 above than nominal value of per share.

(ii) The actual cost per share to the Foreign Company was Rs. 11, gain accruing to Foreign Company is taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by H Ltd. 50% of the consideration (after payment of tax) will be remitted to Foreign Company by H Ltd. and also any cash for fractional shares allotted.

(iii) For the Balance of consideration H Ltd. would issue its shares at their intrinsic value.

It was also decided that H Ltd. would also absorb S Ltd. simultaneously by writing down the fixed assets of S Ltd. by 10%. The Balance Sheet figure included a sum of Rs. 1 lakh due by S Ltd. to H Ltd, included inventory of Rs. 1.5 lakhs purchased from S Ltd. who sold them at cost plus 20%.

Pass Journal entries in the books of H Ltd. to record the above arrangement on 31.03.15

Workings should form part of your answer

Solution:-

Journal Entries in the books of H Ltd.

			Rs.	Rs.
1.	Business Purchase A/c	Dr.	24,00,000	
	To Foreign Company			24,00,000
	(Being business purchased WN 1)			
2.	Foreign Company	Dr.	24,00,000	
	To Tax Payable A/c			3,92,000
	To Bank A/c (Rs. 10,04,000 + Rs. 20)			10,04,020*
	To Equity Share Capital A/c			3,34,660
	To Securities Premium A/c			6,69,320
	(Being payment made to foreign company)			
3.	Fixed Assets A/c [18,00,000 – 10%]	Dr.	16,20,000	
	Trade receivables A/c	Dr.	5,00,000	
	Inventories A/c	Dr.	25,00,000	

	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Cash at Bank A/c	Dr.	2,00,000	
	To Current Liabilities A/c			2,00,000
	To Secured Loan A/c			3,00,000
	To Investment in S Ltd. A/c			6,00,000
	To Business Purchase A/c			24,00,000
	To Capital Reserve A/c (B.F.)			13,20,000
	(Being various assets and liabilities taken over)			
4.	Profit and Loss A/c	Dr.	25,000	
	To Inventories A/c			25,000
	(Being elimination of unrealized profit i.e. $\frac{1,50,000}{(100+20)} \times 20 = $ Rs. 25,000)			
5.	Current Liabilities A/c	Dr.	1,00,000	
	To Trade receivables A/c			1,00,000
	(Being elimination of mutual owing)			
6.	Tax Payable A/c	Dr.	3,92,000	
	To Bank A/c			3,92,000
	(Being tax paid to Government)			

* It is assumed payment of fractional shares has also been routed through bank a/c along with 50% payment remitted to Foreign company.

Balance Sheet of H Ltd. (After Absorption)

Particulars	Note No.	(`)
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
(a) Share Capital	1	53,34,660
(b) Reserves and Surplus	2	89,64,320
(2) **Non-Current Liabilities**		
Long-term borrowings	3	23,00,000
(3) **Current Liabilities** Rs. (30,00,000 + 2,00,000 -1,00,000)		31,00,000
Total		1,96,98,980
II. Assets		
(1) **Non-current assets**		
(a) Fixed assets		
Tangible assets	4	76,20,000
(2) **Current assets**		
(a) Inventories (Rs. 30,00,000 - Rs. 25,000 + Rs. 25,00,000)		54,75,000
(b) Trade receivables (Rs. 35,00,000 – Rs. 1,00,000 + Rs. 5,00,000)		39,00,000
(c) Cash and cash equivalents	5	27,03,980
Total		1,96,98,980

Notes to Accounts

		(Rs.)	(Rs.)
1.	Share Capital 5,34,466 Shares of Rs. 10 each (out of above, 33,466 shares issued for consideration other than cash)		53,34,660
2.	Reserves and surplus		
	General Reserve	50,00,000	
	Profit & Loss (Rs. 20,00,000 – Rs. 25,000)		
	Capital Reserve	19,75,000	
	Securities Premium	13,20,000	
3.	Long Term Borrowings	6,69,320	89,64,320
	Secured Loan (Rs. 20,00,000+ Rs. 3,00,000)		
4.	Tangible Assets		23,00,000
	Fixed Assets (Rs. 60,00,000+ Rs. 16,20,000)		
5.	Cash and cash equivalents		
	Cash at Bank (Rs. 39,00,000 + Rs. 2,00,000 –Rs. 10,04,020 – Rs. 3,92,000)		76,20,000
			27,03,980

Working Notes:

1. Amount payable to foreign company & Capital Gain of Foreign Company

Price per share of S Ltd.= Rs. 50 + Rs. 10 (Nominal value) = Rs. 60

Value of 40% shares held by foreign company = $10,00,000 \times 40\% \times \frac{60}{10}$ = Rs. 24,00,000

Capital gain = Rs. $24,00,000 - \left(4,00,000 \times \frac{11}{10}\right)$ = Rs. 19,60,000

Tax on capital gain = Rs. 19,60,000 × 20% = Rs. 3,92,000

Amount payable to Foreign Company after tax = Rs. 24,00,000 – Rs. 3,92,000

= Rs. 20,08,000

50% of Rs. 20,08,000 = Rs. 10,04,000 to be remitted to foreign company.

2. Intrinsic value of shares of H Ltd. and balance payment to foreign company

	Rs.	Rs.
Total assets (Excluding Investment in S Ltd.)		1,64,00,000
Add: Investment in S Ltd. (60,000 shares × Rs. 60)		
(Since they have been purchased from Foreign Co.)		36,00,000
		2,00,00,000
Less: Liabilities:		
Secured Loan	20,00,000	
Current Liability	30,00,000	(50,00,000)
Net Assets		1,50,00,000
No. of equity shares		5,00,000
Intrinsic value per share		Rs. 30

Numberofsharestobeissuedforpaymentof50%balanceamount $\frac{₹\ 10,04,000}{30}$ = 33,46 shares

Cash for fractional shares = Rs. 10,04,000 – (33,466 ×Rs. 30) = Rs. 20

Question 4

The following are the summarized Balance Sheets of X Ltd. and Y Ltd. as on 31st March, 2015:

		Amount in Rs.
	X Ltd.	**Y Ltd.**
Assets		
Fixed Assets	7,00,000	2,50,000
Inventory	2,40,000	3,20,000
Trade receivables	4,20,000	2,10,000
Cash at Bank	1,10,000	40,000
Investments in :		
6,000 shares of Y Ltd.	80,000	
5,000 shares of X Ltd.		80,000
	15,50,000	9,00,000
Liabilities		
Share Capital:		
Equity shares of Rs. 10 each	6,00,000	3,00,000
10% preference shares of Rs. 10 each	2,00,000	1,00,000
Reserve and Surplus	3,00,000	2,00,000
12% Debentures	2,00,000	1,50,000
Trade payables	2,50,000	1,50,000
	15,50,000	9,00,000

Details of Trade payables and Trade receivables:

	X Ltd.	**Y Ltd.**
Trade payables		
Bills Payable	30,000	25,000
Sundry creditors	2,20,000	1,25,000
	2,50,000	1,50,000
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivables	60,000	20,000
	4,20,000	2,10,000

Fixed assets of both the companies are to be revalued at 15% above book values and inventory and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been paid already.

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

(i) 8 equity shares of Rs. 10 each will be issued by X Ltd. at par against 6 shares of Y Ltd.

(ii) 10% preference shares of Y Ltd. will be paid off at 10% discount by issue of 10% preference shares of Rs. 100 each of X Ltd. at par.

(iii) 12% Debenture holders of Y Ltd. are to be paid off at a 8% premium by 12% debentures in X Ltd. issued at a discount of 10%.

(iv) Rs. 30,000 to be paid by X Ltd. to Y Ltd. for liquidation expenses.

(v) Creditors of Y Ltd. include Rs. 10,000 due to X Ltd.

Prepare: (a) A statement of purchase consideration payable by X Ltd.

(b) A Balance Sheet of X Ltd. after its absorption of Y Ltd.

Solution:-

Total No. of shares of X Ltd. = 6,00,000/10	= 60,000shares
X Ltd's shares held by Y Ltd.	= 5,000 shares
Total No. of shares of Y Ltd. = 3,00,000/10	= 30,000 shares
Y Ltd's shares held by X Ltd.	= 6,000 shares
Hence, X Ltd. hold's 1/5th(6,000/30,000) of Y Ltd.'s total shares	

(a) Statement of Purchase Consideration payable by X Ltd.

(i) **For Equity Shareholders**

8 Equity Shares of X Ltd. for every 6 Equity Shares of Y Ltd.

30,000 shares $\times \frac{8}{6}$ = 40,000 shares

Less: 1/5th Shares of X Ltd.		(8,000) shares
	Balance for outsiders	32,000 shares
Less: 5,000 Shares of X Ltd. already with Y Ltd.		(5,000) shares
	Shares to be issued	27,000 shares
Value of 27,000 equity shares at Rs. 10		Rs. 2,70,000

(ii) **For Preference Shareholders**

Preference Share Capital of Y Ltd.	Rs. 1,00,000
Less : 10 % Discount	Rs. 10,000
X Ltd.'s Preference to be issued	Rs. 90,000

Total Purchase Consideration

Particulars	Numbers	Amount
Equity Shares @ Rs. 10 each	27,000	Rs. 2,70,000
Preference Shares @ Rs. 100 each		Rs.90,000
Total Purchase Consideration	900	Rs. 3,60,000

(b) Balance Sheet of X Ltd. after its absorption of Y Ltd.

Particulars	Note No.	Rs.
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	11,60,000
(b) Reserves and Surplus	2	3,76,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	3,80,000
(3) **Current Liabilities**		
Trade payables	4	3,90,000
Total		23,06,000
II. **Assets**		

(1) **Non-current assets**		
(a) Fixed assets [7,00,000 × 115 % + 2,87,500]		10,92,500
(b) Other non-current assets	5	18,000
(2) **Current assets**		
(a) Inventories (2,40,000 + 3,04,000)		5,44,000
(b) Trade receivables	6	6,10,500
(c) Cash and cash equivalents	7	41,000
Total		23,06,000

Notes to Accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	87,000 (60,000 + 27,000) Equity shares of Rs.10 each,		
	fully paid up	8,70,000	
	(Out of the above, 27,000 equity shares have been issued		
	for consideration other than cash)		
	20,000 10% Preference shares of Rs.10 each		
	900 10% Preference shares of Rs.100 each	2,00,000	
	Reserves and Surplus	90,000	11,60,000
	Revaluation Reserve [15 % of Rs. 7,00,000]		
2.	Capital Reserve (W. N.1)		
	Other Reserves (W.N.4)	1,05,000	
	Long Term Borrowings	25,000	
	Secured (assumed)	2,46,000	3,76,000
3.	12% Debentures Existing		
	Add : Issued to Y Ltd. [W.N. 5, Calculation (B)]		
	Trade payables	2,00,000	
	Creditors (2,20,000 + 1,25,000 – 10,000)	1,80,000	3,80,000
4.	Bills Payable (30,000 + 25,000)		
	Other non-current assets	3,35,000	
	Discount on issue of Debentures [W.N. 5, Calculation (C)]	55,000	3,90,000
5.	Trade receivables		
	Debtors (3,60,000 + 1,80,500 – 10,000)		18,000
6.	Bills Receivable (60,000 + 20,000)		
	Cash & cash equivalents	5,30,500	
	Cash at Bank (W.N. 3)	80,000	6,10,500
7.			
			41,000

Working Notes:

1. Calculation of Capital Reserve

Net Assets taken over from Y Ltd.	Rs.
Fixed Assets (Rs. 2,50,000 ×115%)	2,87,500
Inventory (Rs. 3,20,000 × 95%)	
	3,04,000

Debtors (Rs. 1,90,000 × 95%)	1,80,500
Bills Receivable	20,000
Cash at Bank (W.N. 2)	15,000
Total Assets (A)	8,07,000
Liabilities taken over:	
Debentures [W.N. 5, Calculation (A)]	1,62,000
Creditors	1,25,000
Bills Payable	25,000
Total Liabilities (B)	3,12,000
Net Asset taken over (A – B)	4,95,000
Less: Investment cancelled (i.e. 5,000 shares held in ×Ltd.)	(80,000)
	4,15,000
Purchase Consideration	(3,60,000)
Capital Reserve	55,000
Less: Liquidation expenses reimbursed to Y Ltd.	(30,000)
Capital Reserve	25,000

2. Cash taken over from Y Ltd.

	Rs.
Cash balance given in Balance Sheet of Y Ltd.	40,000
Add: Dividend received from X Ltd.(5,000 shares ×Rs. 1)	5,000
	45,000
Less: Dividend paid (30,000 shares ×Rs. 1)	(30,000)
	15,000

3. Cash balance in Balance Sheet (after absorption)

		Rs.
Cash balance given in Balance Sheet of X Ltd.		1,10,000
Add: Cash taken over from Y Ltd. (W.N. 2)		15,000
		1,25,000
Less: Dividend paid	Rs. 60,000	
Expenses on liquidation	Rs.30,000	(90,000)
		35,000
Add: Dividend from Y Ltd.		6,000
		41,000

4. Other Reserves in the Balance Sheet (after absorption)

	Rs.
Reserves given in the Balance Sheet of X Ltd.	3,00,000
Add: Dividend from Y Ltd.[6,000 shares ×Rs. 1)	6,000
	3,06,000
Less: Dividend declared [60,000 shares ×Rs. 1)	(60,000)
	2,46,000

5. Debenture Holders Payment

Debenture Holders of Y Ltd.	Rs. 1,50,000
Add: Premium @ 8 %	Rs.12,000
	Rs. 1,62,000

Value of Debenture Holder Liability taken over by X Ltd.	(A)	
Issue Price of X Ltd. Debentures @ 10 % discount [(A) / 90 %]	(B)	Rs. 1,80,000
		Rs.18,000
Discount on Issue of Debentures	(C)	

6. Inter company transactions

   Creditors of Y Ltd. include Rs. 10,000 due to X Ltd.

   Therefore journal entry in the books of X Ltd. will be

Creditors A/c	Dr.	10,000	
To Debtors A/c			10,000

Question 5

The shareholders of Sunrise Ltd. decided on a corporate restructuring exercise necessitated due to economic recession and a slump in business. From the audited statements as on 31-3-2015 and the information supplied, you are requested to prepare:

(i) Balance Sheet after the completion of the restructuring exercise,

(ii) The capital reduction account,

(iii) The cash account of the entity.

Balance Sheet of Sunrise Ltd. as on 31.3.2015

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

Note: Preference dividends are in arrears for 4 years.

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

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

(2) The preference shares are to be reduced to Rs.5 each and equity shares reduced by Rs. 3 per share.Post reduction, both classes of shares to be re-consolidated intoRs. 10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of Rs. 10 to be issued for every Rs. 40 of preference dividends in arrears (ignore taxation).

(5) The securities premium is to be fully utilized to meet the reconstruction programme.

(6) The debenture holders took over freehold land at Rs. 2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500 on condition that claim will be immediately settled.

(8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.

(9) Expenses for the scheme were Rs. 10,000.

(10) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(11) The Equity shareholders agree that they will bring in cash to liquidate the balance outstanding on the overdraft account and also agree that sufficient funds will be bought in to bring up the net working capital, after completing the re-structuring exercise, toRs. 2 lakhs. The equity shares will be issued at par for this purpose.

Answer

Balance Sheet (as reduced) as on 31.3.2015

Particulars	Note No.	(Rs.)
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	7,64,000
(2) **Non-Current Liabilities**		
Deferred vat payable		50,000
(3) **Current Liabilities**		
Trade payables		1,20,000
Total		9,34,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	2	5,64,000
(2) **Current assets**		
(a) Inventories	3	1,74,000
(b) Cash and cash equivalents		1,96,000
Total		9,34,000

Notes to Accounts

		Rs.	Rs.
1.	Share Capital		
	Authorised share capital:		
	70,000 Equity shares of Rs. 10 each	7,00,000	
	30,000 Preference shares of Rs.10 each		

		3,00,000	
	Issued share capital:	10,00,000	
	56,400 Equity shares of Rs. 10 each (W.N.1)		
	20,000 Preference shares of Rs.10 each (W.N.1)	5,64,000	
		2,00,000	7,64,000
2.	Tangible Assets		
	Freehold premises	2,44,000	
	Plant & equipment	3,20,000	5,64,000
3.	Inventories:		
	Raw materials and packing materials (60,000 – 10,000)	50,000	
	Finished goods	16,000	
	Trade receivables (1,20,000-12,000)	1,08,000	1,74,000

Capital Reduction Account

	Particulars	Rs.		Particulars	Rs.
To	Equity share capital	32,000	By	Preference share capital	2,00,000
To	Cash (contingent liability settled)	54,000	By	Equity share capital	90,000
To	Trademarks and Patents	1,10,000	By	Freehold land(2,10,000-1,20,000)	90,000
To	Goodwill	36,100	By	Cash (insurance claim)	12,500
To	Raw material and Packing materials	10,000			
To	Trade receivables	12,000			
To	Profit and loss account	1,38,400			
		3,92,500			3,92,500

Cash Account

	Particulars	Rs.		Particulars	Rs.
To	Investment	64,000	By	Capital reduction (Contingent liability)	54,000
To	9% Debenture holders (2,10,000-1,25,400)	84,600	By	Securities Premium – Expenses (See Note)	10,000
To	Capital reduction (insurance claim)	12,500	By	Temporary bank overdraft (64,000+84,600+12,500-54,000-10,000) 97,100	
		12,500	By	Temporary bank overdraft (2,23,100 – 97,100) 1,26,000	2,23,100
To	Equity share capital	3,22,000	By	Balance c/d (W.N.1)	1,96,000
		4,83,100			4,83,100

Working Notes:

1. **Calculation of cash brought in by Equity shareholders:**

Net working capital:		Rs.
Raw Materials & Packing materials		50,000

Finished goods		16,000
Trade Receivables		1,08,000
		1,74,000
Less: Trade payables	1,20,000	
Deferred VAT payable	50,000	(1,70,000)
		4,000
Add : Cash brought in to maintain net working		
capital of Rs. 2,00,000 (Bal.fig.)		1,96,000
Desired net working capital		2,00,000

2. Determination of number of shares issued

	Equity shares		Preference shares	
	Rs.	No. of shares	Rs.	No. of shares
Share capital as per balance sheet before reconstruction	3,00,000		4,00,000	
Less: Capital reduction	(90,000)		(2,00,000)	
Share capital of Rs. 7 each	2,10,000			
Share capital of Rs. 5 each			2,00,000	
Consolidated value per share	10		10	
		21,000		20,000
Add: Shares issued against arrears of preference dividend (Rs. 4,00,000 × 8%× 4 years) / Rs. 40		3,200		
Add: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft(1,26,000/10)		12,600		
Add: Shares issued to existing equity shareholders for bringing cash for maintaining net working capital of Rs. 2,00,000 (1,96,000/10)		19,600		
		56,400		20,000

Note: As per section 52 of the Companies Act, 2013*, securities premium can be utilized only for limited purpose. Since, the question requires utilization of securities premium to meet the reconstruction programme, it is assumed that 'Expenses for the scheme Rs. 10,000' has been incurred on account of issue of shares to existing shareholders which is an eligible expense to be set off against securities premium amount.