PAPER – 1 : ADVANCED ACCOUNTING

Part I - Multiple Choice Questions

Case Scenario - I

PTU Limited has 6 segments namely P, Q, R, S, T & U. The total revenues (internal and external), profit and losses and assets are set out below:

₹ in Lakh

Segment	*P*	*Q*	*R*	*S*	*T*	*U*	*Total*
External Sales	*66*	*94*	*6*	*5*	*70*	*9*	*250*
Internal Sales	*10*	*5*	*10*	*10*	*10*	*5*	*50*
Result (P&L)	*22*	*4*	*(4)*	*3*	*20*	*1*	*46*
Total Assets	*112*	*147*	*28*	*28*	*21*	*14*	*350*

Based on the information given in above Case Scenario, answer the following Question Nos. 1-4 as per AS 17 'Segment Reporting':

1. *Which would be the Reportable Segment on the basis of Revenue Test?*

   (A) P, Q, S & T

   (B) P, Q & T

   (C) P & T

   (D) P & Q ***(2 Marks)***

2. *Which would be the Reportable Segment on the basis of Profitability Test?*

   (A) P, Q, S & T

   (B) P, Q & T

   (C) P & T

   (D) P & Q ***(2 Marks)***

3. *Which would be the Reportable Segment on the basis of Assets Test?*

   (A) P, Q, S & T

(B) P. Q & T

(C) P&T

(D) P & Q **(2 Marks)**

4. *Which would be the Reportable Segment on the basis of Overall Test?*

(A) P, Q, S & T

(B) P, Q & T

(C) P & T

(D) P & Q **(2 Marks)**

Case Scenario - II

On 3rd April 2022, ZYX Limited received a State Government grant of ₹ 150 lakhs for setting up a Manufacturing Unit in a notified backward area. A bank loan of ₹ 50 lakhs was also obtained on 1st April 2024. ZYX utilized the grant and loan as under:

Particulars	***₹ in Lakhs***	***Out of Grant ₹ in Lakhs***	***Out of Loan ₹ in Lakhs***
Construction of Factory building	*100.00*	*60.00*	*30.00*
Purchase of Machinery	*50.00*	*40.00*	*20.00*
Advance for purchases of loading vehicle	*30.00*	*30.00*	-
Working capital	*20.00*	*20.00*	-
	200.00	*150.00*	*50.00*

Construction of Factory Building and Installation of Machinery was completed on 31.03.2025. Delivery of loading vehicle was not received. Total interest charged by bank for the year ending 31.03.2025 was ₹ 5,50,000.

The State Government grant was credited to the Deferred Grant Account. Out of the Grant ₹ 30 lakhs used for the purchase of Machinery were refunded in March 2025, due to non-compliance with certain Government conditions. The estimated life of Machinery is 4 years with Nil residual value.

During the year 2024-2025, the Company also received a subsidy of ₹ 8 lakhs from the Central Government for setting up a unit in notified backward area. This subsidy is in the nature of promoters' contribution.

During the year 2024-2025, the Company incurred ₹ 18 lakhs on publicity and research for a new consumer product, which was marketed in the same year but proved to be a failure.

Based on the information given in above Case Scenario, answer the following Question Nos. 5-8:

5. *What is the amount of net borrowing cost to be capitaised?*

   (A) ₹ 5,50,000

   (B) ₹ 3,30,000

   (C) ₹ 1,65,000

   (D) ₹ 2,75,000 ***(2 Marks)***

6. *In March 2025, what will be the amount of the deferred grant debited when the grant received of ₹ 30 lakhs is refunded?*

   (A) ₹ 15 lakhs

   (B) ₹ 22.5 lakhs

   (C) ₹ 7.5 lakhs

   (D) ₹ 30 lakhs ***(2 Marks)***

7. *The following options have been suggested by the accountant of ZYX Limited for the accounting treatment of the subsidy received in the nature of promoters' contribution during the year 2024-2025:*

   (i) It is not considered as a deferred income.

   (ii) It is not distributable as a dividend.

   (iii) It is treated as a capital reserve.

   (iv) It is not distributable as a dividend but considered as deferred income.

   Considering the above, what is correct with reference to the subsidy received in the nature of promoters' contribution during the year 2024-2025?

   (A) (i), (ii) and (iii)

(B) (iii) and (iv)

(C) (ii) and (iii)

(D) (i) and (ii) ***(2 Marks)***

8. *As per AS-26 'Intangible Assets', what is the correct accounting treatment for ₹ 18 lakhs spent on publicity and research expenses during the year 2024-2025 ?*

   (A) ₹ 18 lakhs is treated as an intangible asset and amortised equally over 5 years.

   (B) ₹ 18 lakhs is treated as an intangible asset and amortised equally over 10 years.

   (C) ₹ 18 lakhs is treated as goodwill and appears as an asset in the Balance Sheet.

   (D) ₹ 18 lakhs is charged as an expense in the Statement of Profit and Loss.

   (2 Marks)

9. *KPK Limited is installing a new Plant at its production facility. It provides you the following information:*

Cost of the Plant (Cost as per Supplier's Invoice)	*₹ 45,00,000*
Estimated Dismantling Costs to be incurred after 5 years	*₹ 3,25,000*
Initial Operating Losses before commercial production	*₹ 4,00,000*
Interest paid to Supplier of Plant for deferred credit	*₹ 2,50,000*
Initial Delivery and Handling Costs	*₹ 1,85,000*
Cost of Site Preparation	*₹ 5,00,000*
Consultants used for advice on the acquisition of the Plant	*₹ 6,75,000*

   What will be cost that can be capitalized for Plant in accordance with AS 10 'Property, Plant & Equipment'?

   (A) ₹ 62,60,000

   (B) ₹ 61,85,000

   (C) ₹ 68,35,000

   (D) ₹ 58,60,000 ***(2 Marks)***

10. *The following data apply to SRS Limited's defined benefit pension plan for the year ended 31st March 2025:*

Particulars	***Amount (₹)***
Fair market value of plan assets as on 01.04.24	*10,00,000*
Fair market value of plan assets as on 31.03.25	*14,25,000*
Employer Contribution	*3,50,000*
Benefits paid	*2,50,000*

What is the actual return on plan assets as per AS-15 'Employee Benefits'?

(A) ₹ 5,25,000

(B) ₹ 2,50,000

(C) ₹ 3,25,000

(D) ₹ 3,50,000 ***(2 Marks)***

Case Scenario - III

Quick Limited is in business of production of life saving medicines. It has sufficient cash funds available with it. It decided to buy back shares to the maximum permissible limit on 4th July 2025. On 1st July 2025, the company has the following Capital Structure:

	Particular	***(₹ in lakhs)***
I	*Equity Share Capital*	
	(Shares of ₹ 100 each fully paid)	*45.00*
II	*Reserve and Surplus*	
	General Reserve	*74.00*
	Securities Premium Account	*30.00*
	Profit & Loss Account	*25.00*
	Revaluation Reserve	*4.00*
	Statutory Reserve	*6.50*
III	*Loan Funds*	*350.00*

Quick Limited is considering to reduce the Loan Fund amount to ₹ 300 Lakhs by paying the Loan Funds amounting to ₹ 50 Lakhs before 4th July 2025.

The current market value of the company's shares is ₹250 per share and to induce the existing shareholders to offer their shares for buy-back, it is decided to offer a price 20% over the market value.

Based on the information given in above Case Scenario, answer the following Question Nos. 11-14:

11. *What is the maximum permissible number of Equity Shares that can be bought back if the Loan Fund is ₹ 350 Lakhs?*

    (A) 11250 Shares

    (B) 14500 Shares

    (C) Nil Shares

    (D) 6000 Shares **(2 Marks)**

12. *What is the maximum permissible number of Equity Shares that can be bought back if the Loan Fund is ₹300 Lakhs?*

    (A) 11250 Shares

    (B) 14500 Shares

    (C) Nil Shares

    (D) 6000 Shares **(2 Marks)**

13. *What will be the maximum number of shares that can be bought back as per Companies Act, 2013 according to the decision made on basis of above two questions?*

    (A) 11250 Shares

    (B) 14500 Shares

    (C) Nil Shares

    (D) 6000 Shares **(2 Marks)**

14. *What will be Equity Share Capital after buy-back?*

    (A) ₹ 33,75,000

    (B) ₹ 30,50,000

    (C) ₹ 45,00,000

    (D) ₹ 39,00,000 **(2 Marks)**

15. *As per Rule 7 of the Companies (Declaration & Payment of Dividend) Rules, 2014, in the event of inadequacy or absence of profits in any year, a Company may declare dividend out of surplus subject to the fulfilment of the condition that total amount to be drawn from such accumulated profits shall not exceed __________as appearing in the latest audited financial statement.*

    (A) 1/10th of the total assets

    (B) 1/5th of the sum of its paid-up share capital

    (C) 1/10th of the sum of its paid-up share capital and free reserves

    (D) 1/5th of the sum of its paid-up share capital and free reserves

(2 Marks)

Answer Key

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

Part II - Descriptive Questions

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

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

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

Working Notes should form part of the answer.

Question 1

(a) *Amber Limited purchases a building at a cost of ₹ 20,00,000 on 1st April 2021 its useful life is four years and an expected scrap value is zero. Depreciation is allowed @ 50% in 1st year and rest balance in 2nd year for Tax purpose. Straight-line method is considered for accounting purpose. Amber Limited profit before depreciation and taxes are as follow:*

Year	Profit (in ₹)
2021-2022	18,00,000
2022-2023	22,00,000
2023-2024	25,00,000
2024-2025	30,00,000

The corporate tax rate is 30% in all 4 years.

You are required to calculate Current Tax, Deferred Tax Assets/Liability and Tax Expense for each year. ***(5 Marks)***

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

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

Particulars		**Units**	**₹**
Opening Inventory	MP	4,000	1,20,000
	RP	4,400	52,800
Purchase of RP		40,000	4,80,000
Labour			3,23,200
Overheads (Fixed)			3,15,000

Sales		*40,200*	*11,20,000*
Closing Inventory	*MP*	*4,200*	
	RP	*4,000*	

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

You are required to calculate the value of Closing Stock of 'MP' and 'RP' as on 31st March 2025. ***(5 Marks)***

(c) *Discuss whether the below treatment is as per relevant Accounting Standard.*

(i) *AB Limited purchase goods on credit from XY Limited for ₹ 150 lakhs for export. The export order of AB Limited was cancelled. AB Limited decided to sell the same goods in the local market with a price discount. XY Limited was requested to offer a price discount of 12%, which was accepted by XY Limited. The chief accountant of XY Limited wants to adjust the sales figure to the extent of the discount requested by AB Limited.*

(ii) *XY Limited has recognized dividend income of ₹ 10 lakhs on accrual basis on securities of face value of ₹ 100 lakhs held by it at the end of the financial year 31st March 2025. The dividend on securities was declared at the rate of 10% on 30th April 2025. The dividend was proposed on 30th March, 2025.*

(iii) *XY Limited sold goods of ₹ 1,50,000 on approval basis on 15th December 2024. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 60% goods upto 31st January 2025 and no approval or disapproval received for the remaining goods until 31st March, 2025. Accountant of XY Limited recognised ₹ 1,50,000 as revenue on 15th December, 2024.*

(iv) *In the year 2024-2025, XY Limited supplied goods of ₹ 80,000 on consignment basis to ABC (a retail outlet). ABC sold goods worth ₹ 60,000 during the year and rest of the goods are still lying in its store. XY Limited recognizes ₹ 60,000 revenue in its books for the year 2024-2025.* ***(4 Marks)***

Answer

(a) As per AS 22 "Accounting for Taxes on Income", computation of Current Tax, Deferred Tax Liability (DTL), and Total Tax Expense of Amber Limited is as under:

	2021-2022 (₹)	2022-2023 (₹)	2023-2024 (₹)	2024-2025 (₹)
Profit before depreciation and taxes	18,00,000	22,00,000	25,00,000	30,00,000
Less: Depreciation for accounting purposes	5,00,000	5,00,000	5,00,000	5,00,000
Profit before Taxes (i)	13,00,000	17,00,000	20,00,000	25,00,000
Less: Tax Expenses				
(a) Current tax for the year	2,40,000	3,60,000	7,50,000	9,00,000
(b) Deferred Tax Liability/ Asset(b)	1,50,000	1,50,000	(1,50,000)	(1,50,000)
Tax expense (a+b) (ii)	**3,90,000**	**5,10,000**	**6,00,000**	**7,50,000**
Profit after tax (i) – (ii)	9,10,000	11,90,000	14,00,000	17,50,000

Working notes:

1. Calculation of current tax at 30%

Year	Taxable Income	Current Tax (₹)
2021-22	8,00,000(18,00,000-10,00,000)	2,40,000
2022-23	12,00,000(22,00,000-10,00,000)	3,60,000
2023-24	25,00,000	7,50,000
2024-25	30,00,000	9,00,000

2. Calculation of Timing Difference and Deferred Tax Assets/Liability

Year	Timing Difference (Tax Depreciation-Accounting Depreciation)	DTL/(DTA) Deferred Tax = Timing Difference × 30%
2021-22	10,00,000 –5,00,000= 5,00,000	1,50,000

2022-23	10,00,000 –5,00,00=5,00,000	1,50,000
2023-24	0 – 5,00,000= (5,00,000)	(1,50,000)
2024-25	0- 5,00,000 = (5,00,000)	(1,50,000)

(b) Calculation of cost for closing inventory

Particulars	**Unit (₹)**	**Total (₹)**
Cost of Material Consumed (40,400 x 12)	12	4,84,800
Direct Labour	8	3,23,200
Fixed Overhead $\frac{3,15,000 \times 40,400}{45,000}$	7	2,82,800
Cost of Production	27	10,90,800
Cost of closing inventory per unit (10,90,800/ 40,400)		₹ 27
Net Realisable Value per unit		₹ 22

Since net realisable value is less than cost, closing inventory will be valued at ₹ 22.

As NRV of the MP (finished goods) is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹11.50.

Therefore, value of closing inventory: MP (finished goods) (4,200 x 22) ₹ 92,400

Raw Materials RP (4,000 x 11.50) **₹ 46,000**

Working Notes:

1. Units produced (actual) Production = Sales + Closing FG − Opening FG

   = 40,200 + 4,200 − 4,000 = 40,400 units.

2. Raw material (RP) movement (units)

   Total RP available = Opening RP + Purchases = 4,400 + 40,000 = 44,400 units.

   RP consumed = 44,400 − Closing RP (4,000) = 40,400 units.

   (Thus 1 unit RP is used per 1 unit MP.)

3. Cost per unit of RP (weighted average)

   Total cost of RP = Opening value ₹ 52,800 + Purchases ₹ 4,80,000 = ₹ 5,32,800.

   Cost per unit RP = 5,32,800 ÷ 44,400 = ₹ 12.00 per unit.

(c) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

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

(i) Trade discounts given should be deducted in determining revenue. Thus 12% should be deducted from the amount of turnover for the purpose of recognition of revenue.

The adjustment of sale figure to the extent of discount is correct as per AS 9 'Revenue Recognition'.

(ii) Dividends from investments in securities are not recognized in the statement of profit and loss until a right to receive payment is established. In the given situation, the dividend is proposed on 30th March, 2025, while it is declared on 30th April, 2025. Thus, the right to receive the payment of dividend gets established on 30th April, 2025.

The recognition of ₹ 10 lakhs on accrual basis in the end of the financial year 31st March, 2025 is not correct as per AS 9 'Revenue Recognition'.

(iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed.

Therefore, revenue should be recognized for the ₹ 90,000 upon receipt of approval on 31st January, 2025 and for the balance ₹ 60,000 on

15th March, 2025 as the time period for rejecting the goods had expired.

(iv) 20,000 goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 60,000. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

The recognition of ₹ 60,000 revenues in the book for the year 2024-25 is correct as per AS 9 'Revenue Recognition'.

Question 2

On 31st March 2025, the following balances are extracted from the books of Chia Limited:

Particulars	***₹ in Lakhs***
40,000 Equity Shares of ₹ 100 each	*40.00*
Money received against share warrants	*2.70*
General Reserves	*6.90*
Capital Reserves (₹ 20,000 is Revaluation Reserve)	*12.50*
Profit and Loss account	*3.50*
Securities Premium	*0.75*
Deferred tax liabilities (Net)	*0.56*
10% Debentures (secured)	*5.00*
Loan from SSA Finance Corporation	*10.00*
Other Long Term Loans (unsecured)	*4.25*
Short-term borrowings	*6.95*
Trade Payables	*5.69*
Other current liabilities	*1.41*
Short-term Provisions	*1.36*
Total	*101.57*
Freehold Land	*30.88*
Plant & Machinery	*26.80*
Investment in Debentures of Gland Limited	*6.00*

Capital work in progress	*11.40*
Trade receivables	*11.57*
Inventories (finished goods) (as on 31st March 2025)	*4.67*
Goods-in transit (finished goods) (as on 31st March 2025)	*1.35*
Call in arrears	*0.64*
Cash in hand	*0.56*
Balances with banks	*7.70*
Total	*101.57*

The following additional information is also provided:

(i) The Authorised Share Capital consists of 50,000 Equity Shares of ₹ 100 each.

(ii) 5,000 fully paid equity shares were allotted as consideration other than cash.

(iii) Debentures of Glad Limited are acquired by the Company with the intention of holding them for more than two years.

(iv) The Cost of Plant and Machinery is ₹ 41,00,000.

(v) The balance in loan from SSA Finance Corporation includes ₹ 45,000 for interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery. Loan is repayable in June 2028.

(vi) Short-term borrowings include:

- *Loan from CDC Bank (secured) ₹ 4,50,000*
- *Loan from related parties (unsecured) ₹ 54,000*

(vii) Trade Receivables of ₹ 5,26,000 are due for more than 6 months.

(viii) Bills Receivable for ₹ 58,000, maturing on 6th May 2025, have been discounted on 15th March 2025.

(ix) The Company on the advice of an independent valuer revalued the freehold land at ₹ 40,50,000.

(x) Inventory of finished goods includes loose tools costing ₹ 1,02,000, which do not meet the definition of Property, Plant & Equipment as per AS 10.

(xi) Claims against the Company amounting to ₹ 4,15,000 have not been acknowledged as debt.

(xii) Balances with banks include ₹ 24,000 with Vihar Bank, which is not a Scheduled Bank.

You are required to prepare the Balance Sheet of Chia Limited as on 31st March 2025 as per Schedule III of the Companies Act, 2013 (Ignore previous year figures). ***(14 Marks)***

Answer

Chia Ltd.

Balance Sheet as at 31st March, 2025

		Particulars	**Notes**	**₹ in lakhs**
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	39.36
	b	Reserves and Surplus	2	33.27
	c	Money received against share warrant		2.7
2		Non-current liabilities		
	a	Long-term borrowings	3	18.8
	b	Deferred tax liabilities (Net)		0.56
3		Current liabilities		
	a	Short-term borrowings	4	6.95
	b	Trade Payables		5.69
	c	Other Current Liabilities:	5	1.86
	d	Short-term provisions		1.36
		Total		110.55
		Assets		
1		Non-current assets		
	a (i)	Property, Plant and Equipment	6	67.3
	(ii)	Capital work in progress		11.4
	b	Non-current investments	7	6
2		Current assets		
	a	Inventories	8	6.02
	b	Trade receivables	9	11.57

	c	Cash and cash equivalents	10	8.26
		Total		110.55

Notes to accounts

			₹ in lakhs
1	Share Capital		
	Authorized share capital		
	50,000 Equity Shares of ₹ 100 each		50.00
	Equity share capital		
	Issued & subscribed & called up		
	40,000 Equity Shares of ₹ 100 each	40.00	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(0.64)	39.36
	Total		39.36
2	Reserves and Surplus		
	General Reserve		6.90
	Securities premium		0.75
	Capital reserve		12.3
	Revaluation (0.20+ 9.62)		9.82
	Profit & Loss		3.50
	Total		33.27
3	Long-term borrowings		
	Secured		
	10% debentures		5.00
	Loan from SSA Financial Corporation (10.00-0.45)		9.55
	(Secured by hypothecation of Plant and Machinery)		

	Unsecured Loan-others		4.25
	Total		18.80
4	Short term Borrowings		
	Secured-Loans CDC bank		4.50
	Unsecured		
	Loan from related parties	0.54	
	Others	1.91	2.45
	Total		6.95
5	Other current liabilities:		
	Interest accrued but not due	0.45	
	Others	1.41	1.86
6	Property, plant and equipment		
	Freehold Land	30.88	
	Add: Revaluation gain	9.62	40.50
	Plant & Machinery	41.00	
	Less: Depreciation	(14.20)	26.80
	Total		67.30
7	Non-current investment		
	Investment in debentures of Glad Ltd.		6.00
8	Inventories		
	Loose tools		1.02
	Goods in transit		1.35
	Finished goods		3.65
	Total		6.02
9	Trade receivables		
	Debts Outstanding for a period exceeding six months		5.26

	Other Amounts		6.31
	Total		11.57
	Cash and cash equivalents		
10	Cash at bank		
	with Scheduled Banks	7.46	
	with others	0.24	7.70
	Cash in hand		0.56
	Other bank balances		
	Total		8.26

Contingent Liabilities

1. Claims against the company of ₹ 4,15,000 have not been acknowledged as debt.
2. Bills receivable for ₹ 58,000 maturing on 6th May 2025 have been discounted. (Not matured)

Question 3

(a) The following are the summarised Balance Sheets of Magenta Limited:

Particulars	***31st March, 2024 (₹ in Lakhs)***	***31st March, 2025 (₹ in Lakhs)***
Equity Share Capital	*15.00*	*20.00*
12% Redeemable Preference Shares	*7.50*	*5.00*
Profit & Loss A/c	*1.50*	*2.40*
General Reserve	*4.10*	*6.00*
Outstanding Expenses	*1.00*	*0.80*
Trade Payables	*2.75*	*4.15*
Provision for Tax	*2.00*	*2.50*
Total	*33.85*	*40.85*
Goodwill	*5.75*	*4.50*

Land & Building	*10.00*	*9.00*
Plant & Machinery	*4.00*	*9.50*
Inventories	*4.85*	*4.35*
Trade Receivable	*8.00*	*12.60*
Cash and Bank	*0.50*	*0.40*
Marketable Securities	*0.75*	*0.50*
Total	*33.85*	*40.85*

(i) Depreciation charged on Plant & Machinery and Land & Building during the year was ₹ 50,000 and₹ ₹ 1,00,000 respectively.

(ii) Income Tax of ₹ 1,75,000 was paid during the year.

(iii) An Interim Dividend of ₹ 1,00,000 has been paid.

You are required to prepare Cash Flow Statement from Operating Activities for 31st March 2025. ***(7 Marks)***

(b) Grace Limited acquired business (cash-generating units) of Venus Limited on 31st March 2023 for ₹ 8,000 Lakhs. The details of acquisition are as under:

Fair value of identifiable asset : ₹ 6,000 Lakhs

Goodwill (to be amortized in 5 years) : ₹ 2,000 Lakhs

The anticipated useful life of acquired assets is 8 years with no residual value. Grace Limited uses straight-line method of depreciation. On 31st March 2025, Grace Limited estimated significant decline in production due to change in Government policies, the net selling price of identifiable asset is ₹ 3,000 lakhs. Grace Limited closes its books on 31st March of each year.

The cash flow forecast based on recent financial budget for next 6 years are:

Year	***Estimated cash flow (₹ in Lakhs)***
2025-2026	*1,000*
2026-2027	*800*
2027-2028	*700*
2028-2029	*800*

2029-2030	*600*
2030-2031	*500*

You are required to calculate:

(i) Value in use if discounting rate is 10% on 31 March 2025.

(ii) Impairment loss to be recognized for the year ended 31 March 2025.

(iii) Revised carrying amount of asset on 31 March 2025.

(P.V. factor @ 10% 0.909, 0.826, 0.751, 0.683, 0.621, 0.564) ***(7 Marks)***

Answer

(a) Assumption 1: There is no dividend on preference shares

Cash Flow Statement from Operating Activities

for the year ended 31st March, 2025

Particulars	**Amount (₹ in Lakhs)**
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00- 4.10)	1.90
Add: Interim Dividend Paid	1.00
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25
Provision for Income tax	2.25
Operating Profit before Working Capital Changes	8.80
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40
Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)
Cash Generated from Operations	5.90

Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	4.15

Working Note

1. Calculation of provision for taxation

	Amount (₹ in Lakhs)		Amount (₹ in Lakhs)
To Cash	1.75	By Income tax payable	2.00
To Income tax payable	2.50	By Profit & Loss A/c (Bal. fig.)	2.25
	4.25		4.25

Assumption 2: Preference Shares redeemed at the end of the year

Cash Flow Statement from Operating Activities

for the year ended 31st March, 2025

Particulars	Amount (₹ in Lakhs)
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00 -4.10)	1.90
Add: Interim Dividend Paid	1.00
Add: Preference dividend* (7.50 x 12%)	0.90
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25
Provision for Income tax	2.25
Operating Profit before Working Capital Changes	9.70
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40

Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)
Cash Generated from Operations	6.80
Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	5.05

*Assumption Preference shares are redeemed at the end of the year

Working Note:

1. Calculation of provision for taxation

		Amount (₹ in Lakhs)			Amount (₹ in Lakhs)
To	Cash	1.75	By	Income tax payable	2.00
To	Income tax payable	2.50	By	Profit & Loss A/c (Bal. fig.)	2.25
		4.25			4.25

Assumption 3: Preference Shares redeemed at the beginning of the year

Cash Flow Statement from Operating Activities

for the year ended 31st March, 2025

Particulars	Amount (₹ in Lakhs)
Net Profit before Tax and Extraordinary Items (2.40 – 1.50)	0.90
Add: Transfer to General Reserve (6.00 - 4.10)	1.90
Add: Interim Dividend Paid	1.00
Add: Preference dividend* (5 x 12%)	0.60
Adjustments for:	
Add: Depreciation on Land & Building	1.00
Depreciation on Plant & Machinery	0.50
Goodwill Written Off (5.75 – 4.50)	1.25

Provision for Income tax	2.25
Operating Profit before Working Capital Changes	9.40
Changes in Working Capital:	
Add: Decrease in Inventories	0.50
Increase in Trade Payables	1.40
Less: Increase in Trade Receivables	(4.60)
Decrease in Outstanding Expenses	(0.20)
Cash Generated from Operations	6.50
Less: Income Tax Paid	(1.75)
Net Cash Flow from Operating Activities	4.75

***Assumption Preference shares are redeemed at the beginning of the year**

Working Note:

1. Calculation of provision for taxation

		Amount (₹ in Lakhs)			Amount (₹ in Lakhs)
To	Cash	1.75	By	Income tax payable	2.00
To	Income tax payable	2.50	By	Profit & Loss A/c (Bal. fig.)	2.25
		4.25			4.25

(b) (i) Calculation of Value in Use (VIU) as at 31-03-2025

Year	Cash flow (₹ in lakhs)	PV factor @10%	PV (₹ in lakhs)
2025-26	1,000	0.909	909.00
2026-27	800	0.826	660.80
2027-28	700	0.751	525.70
2028-29	800	0.683	546.40
2029-30	600	0.621	372.60
2030-31	500	0.564	282.00
Total VIU			3,296.50

Value in Use (rounded) = ₹ 3,297 lakhs

(ii) Impairment loss to be recognised for the year ended 31st March, 2025

Impairment loss required = Carrying amount − Recoverable amount
= ₹ 5,700 – ₹ 3,297 = 2,403 lakhs.

(iii) Revised carrying amount of identifiable asset

= ₹ 4,500 – ₹1,203

= ₹ 3,297 lakhs

Calculation of Impairment Loss and revised carrying amount

	Goodwill	**Identifiable Assets**	**CGU Total**
Acquisition cost on 31st March'2023	2,000 800	6,000 1500	
Less: Amortization- (Cost/5)*2 / Depreciation (Cost/8)*2 for 2 years	1,200	4,500	5,700 3,297 2,403
Recoverable Amount (See Note below)	1,200	1,203	
Impairment Loss to be recognised Allocation of impairment loss (See Note)	0	3,297	
Carrying amount after impairment			

Note:

1. Recoverable amount and impairment test

- Fair value less costs to sell for the identifiable asset given = ₹ 3,000 lakhs. *(Note: fair value less costs to sell of whole CGU not provided; value in use of CGU computed above.)*
- Recoverable amount of the CGU = higher of Value in Use (3,297) and Fair value less costs to sell (use value for comparison). → Recoverable amount = ₹ 3,297 lakhs (since 3,297 > 3,000).
- Carrying amount (pre-impairment) = 5,700 lakhs.
- Impairment loss required = Carrying amount − Recoverable amount = 5,700 − 3,297 = 2,403 lakhs.

2. Allocation of impairment loss

As per AS 28 impairment loss for a cash-generating unit is allocated first to reduce goodwill carrying amount to zero, and then to other assets of the unit pro-rata (or as required) so that carrying amount after allocation equals recoverable amount.

Question 4

The following are the summarized Balance Sheet of Blue Limited and Yellow Limited as at 31st March 2025:

Particulars	***Blue Limited (₹ in Lakhs)***	***Yellow Limited (₹ in Lakhs)***
Equity and liabilities		
Equity Shares of ₹ 100 each	*40.000*	*28.000*
10% Debentures of ₹ 100 each	*15.000*	*-*
8% Debentures of ₹ 100 each	*-*	*8.000*
General Reserves	*1.500*	*0.670*
Retirement Gratuity Fund (Long term)	*3.450*	*1.300*
Trade Payables	*7.400*	*4.250*
Other current liabilities	*1.240*	*0.880*
Short -term provisions	*0.710*	*0.320*
Total	*69.300*	*43.420*
Assets		
Goodwill	*8.750*	*1.795*
Property, Plant and Equipment	*35.650*	*31.260*
Inventories	*8.890*	*4.800*
Trade Receivables	*13.535*	*4.650*
Cash in hand	*0.485*	*0.315*
Balances with banks	*1.990*	*0.600*
Total	*69.300*	*43.420*

On 31st March 2025, Blue Limited absorbs the business of Yellow Limited on the following terms:

(i) *8% Debenture holders of Yellow Limited are to be paid at 10% discount by issue of 10% Debentures at par in Blue Limited.*

(ii) *There is an unrecorded current asset of ₹ 1,16,000 in the books of Yellow Limited, which is taken over by Blue Limited.*

(iii) *Trade payables of Yellow Limited included ₹ 1,50,000 payable to Blue Limited.*

(iv) *Inventory of Yellow Limited is taken over by Blue Limited at 10% more than its book value.*

(v) *Goodwill of Yellow Limited on absorption is to be computed based on two times of simple average profits of preceding three financial years (2021-2022: ₹ 4,50,000; 2022-2023: ₹ 3,90,000; and 2023-2024: ₹ 2,35,000). In the year 2022-2023, there was an embezzlement of cash by an employee amounting to ₹ 50,000, which has already been adjusted in the profit for the year 2022-2023.*

(vi) *Property, Plant and Equipment of Yellow Limited are taken over by Blue Limited at ₹ 36,44,500.*

(vii) *Remaining Assets and Liabilities of Yellow Limited are taken over by Blue Limited at their book value.*

(viii) *Equity Shareholders of Yellow Limited will be issued necessary equity shares in Blue Limited at 5% premium.*

You are required to:

(i) *Calculate the Purchase consideration.*

(ii) *Prepare Balance Sheet of Blue Limited after absorption as at 31st March 2025.*

(14 Marks)

Answer

(i) Calculation of Purchase Consideration

	₹ in Lakhs
Goodwill	7.500
PPE	36.445
Inventory	5.280
Trade receivables	4.650

Cash in hand		0.315
Cash at Bank		0.600
Unrecorded assets		1.160
	(i)	55.950
Less: Liabilities:		
10% debentures		7.200
Retirement Gratuity Fund		1.300
Trade payables		4.250
Other current liabilities		0.880
Short term provisions		0.320
	(ii)	13.950
Net Assets/ Purchase Consideration		42.000
To be satisfied as under:		
Equity Shareholders of Yellow Ltd. to be satisfied by issue of 40,000 (42 lakhs/105) Equity Shares of Blue Ltd. at 5% Premium (40,000 x 105)		

Balance Sheet of Blue Ltd (after absorption)

as on 31/03/2025

	Particulars	Notes	₹ in lakhs
	Equity & Liabilities		
1	Shareholders' Fund		
a	Share Capital	1	80.000
b	Reserves & Surplus	2	3.500
2	Non -Current Liabilities		
a	Long-term Borrowings	3	22.200
b	Long-term Provisions	4	4.750
3	Current Liabilities		
a	Trade Payables	5	10.150
b	Other current liability	6	2.120
c	Short term provisions	7	1.030

		Total		123.750
		Assets		
1		Non-current assets		
	a	Property, Plant & Equipment	8	72.095
	b	Intangible assets	9	16.250
2		Current assets		
	a	Inventories	10	14.170
	b	Trade receivables	11	16.685
	c	Cash and cash equivalents	12	3.390
	d	Other current assets	13	1.160
		Total		123.750

Notes to Accounts

	Particulars	₹ in lakhs
1	Share Capital	
	Authorised share capital	
	Issued, Subscribed & Paid up	
	80,000 Equity Shares of ₹100 each	80.000
	(out of the above 40,000 shares have been issued for consideration other than cash)	
	Total	80.000
2	Reserves & Surplus	
	Securities Premium	2.000
	General Reserve	1.500
	Total	3.500
3	Long Term Borrowings	
	10% Debentures of ₹ 100 (15.000 + 7.200)	22.200
4	Long Term Provisions	
	Retirement Gratuity Fund (3.450 +1.300)	4.750
5	Trade Payables	
	(7.400 + 4.250 -1.500)	10.150

6	Other Current Liabilities		
		(1.240 + 0.880)	2.120
7	Short term provisions		
		(0.710 + 0.320)	1.030
8	Property, Plant and Equipment		
	PPE	(35.650+36.445)	72.095
9	Intangible Assets		
	Goodwill	(8.750+7.500)	16.250
10	Inventories		
		(8.890 + 5.280)	14.170
11	Trade Receivables		
		(13.530 + 4.650 – 1.500)	16.685
12	Cash & Cash equivalent		
	Cash in hand	(0.485+0.315)	0.800
	Balance with banks	(1.990+0.600)	2.590
13	Other Current Assets		3.390
			1.160

Working notes

1. Calculation of goodwill

Particulars		₹ In lakhs
Total profit		
Year:		
2021-22		4.50
2022-23 (3.90+0.50)		4.40
2023-24		2.35
	(i)	11.25
Average profit (i/3)	(ii)	3.75
No of years of purchase	(iii)	2 years
Goodwill (ii*iii)		7.5

Question 5

The following are the summarized Balance Sheets of Seva Limited and its subsidiary Meva Limited as at 31st March 2025:

Particulars	***Seva Limited (₹ in Lakh)***	***Meva Limited (₹ in Lakh)***
Equity Shares of ₹ 10 each, fully paid up	*6,000*	*4,000*
General Reserve	*1,500*	*1,200*
Profit and Loss Account	*2,000*	*1,500*
10% Debentures of ₹ 10 each	*1,180*	*820*
Trade Payable	*1,500*	*1,080*
Total	*12,180*	*8,600*
Land and Building	*4,000*	*4,150*
Plant & Machinery	*1,460*	*1,650*
Non-current investments	*3,000*	
(Shares in Meva Limited)		
Inventories	*1,400*	*1,100*
Trade Receivable	*1,420*	*1,000*
Cash at Bank	*550*	*600*
Cash in Hand	*350*	*100*
Total	*12,180*	*8,600*

The following information are provided:

(i) The Authorised Share Capital of Seva Limited is ₹ 9,000 Lakh divided into Equity Shares of ₹ 10 each and that of Meva Limited is ₹ 6,000 Lakh divided into Equity Shares of ₹ 10 each.

(ii) Seva Limited acquired 80% equity shares of Meva Limited on 1st April 2024. On that date, General Reserve and Profit & Loss Account of Meva Limited stood at ₹ 2,000 lakh and ₹ 800 lakh respectively.

(iii) On 1st November 2024 Meva Limited issued one fully paid up bonus share for every three shares held out of balances of its general reserve as on 31st March 2024.

(iv) On 31st March 2025 Seva Limited's inventory include goods which it has purchased for ₹ 125 lakh from Meva Limited, Meva Limited made a profit of ₹ 25 lakh.

You are required to prepare Consolidated Balance Sheet of Seva Limited and its subsidiary Meva Limited as on 31 March 2025 as per Schedule III of the Companies Act, 2013. ***(14 Marks)***

Answer

Consolidated Balance Sheet of Seva Ltd.

and its subsidiary Meva Ltd. as at 31st March, 2025

Particulars	**Note No.**	**(₹ in Lacs)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,000
(b) Reserves and Surplus	2	5,840
(2) Minority Interest [W.N.6]		1,335
(3) Non-current liabilities		
(a) Long term borrowings	3	2,000
(4) Current Liabilities		
(a) Trade payables	4	2,580
Total		17,755
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	11,260
(2) Current assets		
(a) Inventories	6	2,475
(b) Trade receivables	7	2,420
(c) Cash and cash equivalents	8	1,600
Total		17,755

Notes to Accounts

			(₹ in lacs)	(₹ in lacs)
1	Share Capital			
	Authorized share capital			
	900 Equity shares of ₹10 each, fully paid up			9,000
	Issued and Subscribed:			
	600 Equity shares of ₹ 10 each, fully paid up			6,000
	Total			6,000
2	Reserves and surplus			
	Capital Reserve (Note 5)		1,640	
	General Reserve (Note 8)		1,660	
	Profit and Loss Account (Note 8)		2,540	
	Total			5,840
	Long term Borrowings			
3	10% Debentures of ₹ 10 each (1,180 + 820)			2,000
4	Trade payables			
	Seva Ltd.		1,500	
	Meva Ltd.		1,080	2,580
5	Property, plant and equipment			
	Land and Buildings			
	Seva Ltd.	4,000		
	Meva Ltd.	4,150	8,150	
	Plant and Machinery			
	Seva Ltd.	1,460		
	Meva Ltd.	1,650	3,110	
	Total			11,260
6	Inventories			
	Seva Ltd.		1400	

	Meva Ltd.	1,100	
		2,500	
	Less: Unrealized profit	(25)	2,475
7	Trade receivables		
	Seva Ltd.	1,420	
	Meva Ltd.	1,000	2,420
8	Cash and cash equivalents		
	Cash at Bank (550 + 600)	1,150	
	Cash in hand (350+100)	450	1,600

Working Notes:

1. Meva Ltd.'s General Reserve Account

	₹ in lakhs		₹ in lakhs
To Bonus to equity shareholders (WN-8)	1,000	By Balance b/d	2,000
To Balance c/d	1,200	By Profit and Loss A/c	200
	2,200		2,200

2. Meva Ltd.'s Profit and Loss Account

	₹ in lakhs		₹ in lakhs
To General Reserve [WN 1]	200	By Balance b/d	800
To Balance c/d	1,500	By Net Profit for the year (Balancing figure)	900
	1,700		1,700

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	900
Less: Share of Seva Ltd.	
Share in General Reserve (80% of 200) = 160	
Share in P&L A/c (80% of 700) = 560	(720)
Share of Minority Shareholders (20%)	180

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (2,000 – 1,000)	1,000
Profit and loss account on the date of acquisition	800
	1,800

Seva Ltd.'s share = 80% of ₹ 1,800 lakhs = ₹ 1,440 lakhs

Minority interest = ₹ 1,800 – ₹ 1,440 = ₹ 360 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (80% of ₹ 4,000)	3,200
Add: Share in capital profits [WN 4]	1,440
	4,640
Less: Cost of shares	(3,000)
Capital reserve	1,640

6. Calculation of Minority Interest

	₹ in lakhs
20% of share capital (20% of 4,000)	800
Add: Share in revenue profits [WN 3]	180
Share in capital profits [WN 4]	360
	1,340
Less: Unrealized profit (80% of 25)	5
Minority Interest	1,335

7. Unrealized profit in respect of inventory

₹ 25 lakhs (80% Related to Seva Ltd. and 20% related to Meva Ltd)

8. Calculation of Consolidated General Reserve and Profit & Loss A/c of Seva Ltd.

	General Reserve	P&L A/c
Balance on reporting date	1,500	2,000
Share in post-acquisition or revenue profits of Meva Ltd.	160	560
	1,660	2,560
Less: Unrealized profit	-	20
Closing Balance	1,660	2,540

9. Computation of bonus to equity shareholders

	₹ In lakhs
Shares as on 31 March 2025 including bonus share issued on 1 Nov. 2024	4,000
Or we can say these are 1 + 1/3 or 4/3	
i.e. Shares before bonus issue should have been $\frac{4,000}{4} \times 3 =$	3,000
Accordingly, bonus issue would be (4,000-3,000)	1,000

Question 6

(a) ***EITHER***

Sneha an employee of Omre Limited went on maternity leave with pay for 9 months on 1st January 2024 up to 30th September 2024. Her monthly pay was ₹ 1,50,000. While preparing the financial statements for the year ended 31st March 2024, the salary of Sneha for 3 months (1 January 2024 to 31st March 2024) was not provided due to omission. When Sneha joined on 1st October 2024 the whole salary for 9 months (1st January 2024 to 30th September 2024) was paid to her.

With reference to AS-5 'Net Profit or Loss for the period, Prior Period Items and Change in Accounting Policies' you are required to determine if this is an example of prior period item and are also required to pass journal entry for the F.Y. 2024-2025.

Suppose Sneha was terminated from service on 1st January 2024 and was re-instated in service by the Court on 30th September 2024 and on 1st October 2024 the Company paid the 9 months salary to Sneha. What will be the treatment with reference to AS-5 in this situation? Give journal entry. ***(4 Marks)***

OR

(a) *What are the key elements of financial statements? Explain.*

(b) *The following scheme of reconstruction has been approved for Megha Limited on 1st April 2025:*

(i) *Debenture holders of 9% Debentures of ₹ 5,00,000 accepted to receive 25% of their total in cash and take over the Plant and Machinery of ₹ 2,85,000 in full settlement of their dues.*

(ii) *Furniture and Fixtures which stood at the books of ₹ 5,50,000 to be written down to ₹ 4,45,000.*

(iii) *The Freehold Premises of book value of ₹ 9,25,000 showed an appreciation of ₹ 75,000.*

(iv) *There were capital commitments amounting to ₹ 4,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.*

(v) *Write off the profit and loss account debit balance of ₹ 1,15,000 which had been accumulated over the years.*

(vi) *In case of shortfall, the balance of the General reserve of ₹ 90,000 can be utilized to write off the losses under reconstruction scheme.*

You are required to pass necessary journal entries as a part of the reconstruction process as on 1st April 2025. ***(4 Marks)***

(c) *Shanti Limited situated at Chennai was incorporated on 1st April 2024. It opened two branches at Madurai and Tiruchi during the year. All goods sold to the Branches by Head Office are invoiced at Cost plus 25%. All expenses relating to branches are paid by the Head Office. Each Branch has its own Sales Ledger and sends weekly statements to Head Office. All cash collections are remitted daily to Head Office by the Branches. The following particulars relating to the year ended 31st March 2025 are extracted from the weekly statements sent by the Branches:*

Particulars	***Madurai (₹ in Lakhs)***	***Tiruchi (₹ in Lakhs)***
Credit Sales	*1,25,200*	*1,10,000*
Cash Sales	*78,600*	*85,200*
Sales Returns	*2,300*	*1,200*
Trade Receivable	*34,500*	*23,600*
Rent and Taxes	*3,200*	*4,500*
Bad Debts	*6,000*	*-*
Salaries	*16,000*	*18,000*
General Expenses	*2,600*	*1,500*
Goods Received from Head Office	*1,50,000*	*1,25,000*
Advertisement	*7,500*	*5,200*
Stock as on 31st March 2025	*45,000*	*35,000*

You are required to prepare the Branch Accounts, as they would appear in the Books of the Head Office following Debtor's method for the year ended 31st March 2025. ***(6 Marks)***

Answer

(a) **Either**

As per AS- 5 "Net Profit or Loss for the Period", Prior Period Items and Changes in Accounting Policies, the term 'prior period items', refers to 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. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss so that their impact on the current profit or loss can be perceived.

Hence, in this case salary paid to Sneha for 3 months i.e. 1.1.2024 to 31.3.2024 ₹4,50,000 (1,50,000 x 3) will be classified as prior period item in FY 2024 -25 and following journal entry shall be passed:

(i) Journal entry in FY 2024-25

Salary A/c (₹ 1,50,000 x 6)	Dr.	9,00,000	
Prior period item (₹ 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			13,50,000
(Being salary related to 9 months paid out of which 3 month's salary is prior period item)			

Alternative Entry

Prior Period Item (₹ 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			4,50,000
(Being Salary related to 3 month's salary is prior period item)			
Salary A/c (₹1,50,000 x 6)	Dr.	9,00,000	
To Bank A/c			9,00,000
(Being salary related to 6 month's salary)			

(ii) AS 5 inter alia states that the term 'prior period items' does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Accordingly, in the second case though Sneha was terminated on 1.1.2024 i.e. in 2023- 2024, yet she was reinstated due to court's order in 2024 -2025, with the instruction by the court to pay the salary for the intervening period i.e. with retrospective effect from January, 2024.

The adjustment of salary of ₹ 4,50,000 (for January 2024 to March, 2024) would not be considered as prior period item and will be accounted for in the books as current year expense.

Thus, the entire amount of Salary of ₹ 13,50,000 for January, 2024 to September, 2024 is a current year expense only.

Salary A/c (1,50,000 x 9)	Dr.	13,50,000	
To Bank A/c			13,50,000
(Being 9 month's salary paid during the year)			

(a) **Or**

Key Elements of Financial Statements

1. **Assets:** An asset is a resource controlled by the enterprise from past events, expected to bring future economic benefits (e.g., plant, patents, receivables).
2. **Liabilities:** A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits. (e.g., borrowings, provisions).
3. **Equity:** Equity is defined as residual interest in the assets of an enterprise after deducting all its liabilities. It is important to avoid mixing up liabilities with equity. Equity is the excess of aggregate assets of an enterprise over its aggregate liabilities. In other words, *equity represents owners' claim consisting of items like capital and reserves*, which are clearly distinct from liabilities, i.e. claims of parties other than owners. The value of equity may change either through contribution from/distribution to equity participants or due to income earned/ expenses incurred (capital, reserves).
4. **Income/Gain:** Income is Increases in economic benefits through inflow of assets or reduction of liabilities, leading to increase in equity (includes revenue & gains).
5. **Expenses/Loss:** An expense is decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants. The definition of expenses encompasses expenses that arise in the ordinary course of activities of the enterprise, e.g. wages paid. Losses may or may not arise in the ordinary course of activity of the enterprise, e.g. loss on disposal of Property, Plant and Equipment. Losses are separately shown in the statement of profit and loss because this knowledge is useful in assessing performance of the enterprise.

(b) Journal entries in the books of Megha Ltd.

			₹	₹
i	9% Debentures A/c	Dr.	5,00,000	
	To Bank A/c			1,25,000
	To Plant & Machinery A/c			2,85,000
	To Reconstruction A/c			90,000
	(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
ii	Reconstruction A/c	Dr.	1,05,000	
	To Furniture and Fixtures, A/c			1,05,000
	(Writing off overvalued assets as per reconstruction Scheme)			
iii	Freehold premises A/c	Dr.	75,000	
	To Reconstruction A/c			75,000
	(Being the increase in the value of premises credited to reconstruction account as per reconstruction scheme)			
iv	Reconstruction A/c	Dr.	22,500	
	To Bank A/c			22,500
	(Being payment for cancellation of capital commitment.)			
v	Reconstruction A/c	Dr.	1,15,000	
	To Profit and loss A/c			1,15,000
	(Being the loss written off as per reconstruction scheme)			
vi	General reserve A/c	Dr.	77,500	
	To Reconstruction A/c			77,500
	(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

(c) 1. When Goods are sent and recorded at Invoice price:

In the Books of Head Office

Branch Account (For the year ended 31st March, 2025)

Particulars	Madurai	Tiruchi	Particulars	Madurai	Tiruchi
	₹ In Lakhs	₹ In Lakhs		₹ In Lakhs	₹ In Lakhs
To Goods sent to Branch A/c (at invoice price)	1,50,000	1,25,000	By Cash Account		
			- Cash Sales	78,600	85,200
			- Collection from Debtors (W.N.-1)	82,400	85,200
To Rent & Taxes A/c	3,200	4,500	By Debtors	34,500	23,600
To Salaries A/c	16,000	18,000	By Closing Stock (at invoice price)	45,000	35,000
To General Expenses A/c	2,600	1,500	By Goods sent to Branch (Stock reserve)	30,000	25,000
To Advertisement A/c	7,500	5,200			
To Stock reserve A/c	9,000	7,000			
To Net profit transferred to General P&L A/c	82,200	92,800			
Total	2,70,500	2,54,000	Total	2,70,500	2,54,000

Note: Head Office invoices goods to the Branch at cost + 25% (i.e., 1/4th of the cost).

Thus, loading = 1/4th on cost, which equivalent to 1/5th on invoice price.

Working Note

Memorandum Branch Debtors Account

Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs	Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs
To sales	1,25,200	1,10,000	By sales return	2,300	1,200
			By bad debt	6,000	--

			By Cash sales	82,400	85,200
			By balance C/d	34,500	23,600
	1,25,200	1,10,000		1,25,200	1,10,000

Note: As per the information provided in the question, the weekly statements sent by the branches show the stock as on 31st March 2025 at ₹ 45,000 and ₹ 35,000, respectively. This indicates that the closing stock figures are stated at the invoiced price.

Alternative Solution

1. When Goods are sent and recorded at Cost Price:

In the Books of Head Office

Branch Account (For the year ended 31st March, 2025)

Particulars	**Madurai** ₹ **In Lakhs**	**Tiruchi** ₹ **In Lakhs**	**Particulars**	**Madurai** ₹ **In Lakhs**	**Tiruchi** ₹ **In Lakhs**
To Goods sent to Branch A/c (at cost price)	1,20,000	1,00,000	By Cash Account		
			- Cash Sales	78,600	85,200
			- Collection from Debtors (W.N.-1)	82,400	85,200
To Rent & Taxes A/c	3,200	4,500	By Debtors	34,500	23,600
To Salaries A/c	16,000	18,000	By Closing Stock (at cost price)	36,000	28,000
To General Expenses A/c	2,600	1,500			
To Advertisement A/c	7,500	5,200			
To net profit transferred to General P&L A/c	82,200	92,800			
Total	2,31,500	2,22,000	Total	2,31,500	2,22,000

Note: Head Office invoices goods to the Branch at cost + 25% (i.e., 1/4th of the cost).

Thus, loading = 1/4th on cost, which equivalent to 1/5th on invoice price.

Working Note

Memorandum Branch Debtors Account

Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs	Particulars	Madurai ₹ In Lakhs	Tiruchi ₹ In Lakhs
To Sales	1,25,200	1,10,000	By sales return	2,300	1,200
			By bad debt	6,000	--
			By Cash sales	82,400	85,200
			By balance C/d	34,500	23,600
	1,25,200	1,10,000		1,25,200	1,10,000