PAPER – 1 : ADVANCED ACCOUNTING

PART – 1: Multiple Choice Questions

Case Scenario - I

Gray Ltd. is engaged in the business of constructing towers since 15 years. Alpha Ltd gave a contract to Gray Ltd. for construction of 2 towers.

Contract price for 2 towers is agreed at ₹ 160 crore. (each tower has contract price of ₹ 80 crore)

At the time of contract, Gray Ltd has estimated that the contract cost will be ₹ 141 crore. It is assumed that construction will be completed in 3 years.

At the end of year 1, Gray Ltd has revised the construction cost to ₹ 150 crore.

At the beginning of year 2, the customer has requested for a variation in the contract. Customer now wants construction of 3 towers instead of 2 towers. The term of the contract will not change, construction of all the towers will be completed simultaneously.

As a result of this variation, contract price will increase by ₹ 80 crore and contract costs will increase by ₹ 75 crore.

Gray Ltd has decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs.

Contract costs incurred at the end of each year is:

Year 1: ₹ 35.25 crore.

Year 2: ₹ 148.5 crore (including unused material of ₹ 2.25 crore) Year 3: Total Revised contract costs.

Based on the information given in above Case Scenario, answer the following Question 1 - 3:

1. *What is the stage of completion of contract on the basis of proportion of contract costs incurred to the total estimated contract costs at the end of year 1 and Year 2 respectively?*

   (A) Year 1: 23.5 % and Year 2: 66%

(B) Year 1: 23.5 % and Year 2: 65%

(C) Year 1: 25 % and Year 2: 66%

(D) Year 1: 25 % and Year 2: 65%

2. What is the amount of the profit to be recognized at the end of Year 1?

(A) ₹ 2.35 crore

(B) ₹ 44.75 crore

(C) ₹ 4.75 crore

(D) ₹ 21 crore

3. What is the amount of contract revenue recognized in each year of contract?

(A) Year 1: ₹ 80 crore, Year 2: ₹ 80 crore and Year 3: ₹ 80 crore

(B) Year 1: ₹ 40 crore, Year 2: ₹ 116 crore and Year 3: ₹ 84 crore

(C) Year 1: ₹ 37.60 crore, Year 2: ₹ 118.40 crore and Year 3: ₹ 84 crore

(D) Year 1: ₹ 37.60 crore, Year 2: ₹ 120.80 crore and Year 3: ₹ 81.60 crore

4. X Ltd. has entered into a binding agreement with Beta Ltd. to buy a custom-made machine for ₹ 2 lakhs. During the year 2024-25 X Ltd has to change its method of production due to changes in market trend. Before the delivery of the machine, X Ltd had already changed its method of production and the new method will not require the machine ordered. Now the company decides to scrap it after delivery. The expected scrap value is ₹ 25,000. Machine was received on 10^{th} October, 2024 and was scrapped on 15th October, 2024. The correct accounting treatment for above machine in the year 2024-25 is -

(A) Machine A/c to be debited with ₹ 2 lakhs and Bank A/c to be credited with ₹ 2 lakhs.

(B) Impairment A/c to be debited with ₹ 1.75 lakhs and Bank A/c to be credited with ₹ 1.75 lakhs.

(C) Profit and Loss A/c to be debited with ₹ 2 lakhs and Bank A/c to be credited with ₹ 2 lakhs.

(D) Profit and Loss A/c to be debited with ₹ 1.75 lakhs and Bank A/c to be credited with ₹ 1.75 lakhs.

5. *ABC Ltd. is in the business of creating contents for various OTT platforms. The company has developed a technical know-how (the asset) by incurring expenditure of ₹ 25 lakhs. The company started using the asset from 1st April 2019. The management of the company is of the view that the asset has infinite lifetime and therefore has not amortized the asset till date.*

   What should be the total amortization amount (including current as well as the previous years amortization) to be charged to Profit and loss account for the year ended March 31st 2024, with reference to AS 26?

   (A) Nil, as per the management the know how has infinite life and the management is correct.

   (B) ₹ 25 lakhs as the know how is an intangible asset as per AS 26.

   (C) ₹ 12.5 lakhs (including current year's amortization of ₹ 2.5 lakhs) to be charged to Profit and loss Account.

   (D) ₹ 15 lakhs (including current year's amortization of ₹ 2.5 lakhs) to be charged to Profit and Loss account.

Case Scenario - II

Health India Limited (HIL), incorporated under the Companies Act, 2013, is engaged in the production and distribution of medicines. It has manufacturing plants at Baddi (Himachal Pradesh) and Bhopal (Madhya Pradesh). It also imports medicines from Pharma Inc. New York (United States).

On 1st Jan 2024, HIL sold 2,00,000 strips of Medicine to Dee Limited for ₹ 50 Lakhs on 60 days of credit. Cost per strip of this medicine, was ₹ 20. (i.e.) total cost ₹ 40 Lakhs (2,00,000 strips@₹ 20). Dee Ltd. paid 20% of the amount due on 5th January, 2024. In March 2024, Dee Limited is having significant cash flow issues and is trying to raise funds through bank loan to run its operations. However, it is unable to do so and not able to release payment to HIL on due date. Subsequent to this, it has gone under liquidation on 15th March, 2024. At the time when medicine was sold by HIL to Dee Limited, there was no reason for HIL to believe that it will not be able to collect the sales proceeds from Dee Limited in future.

On 1st April,2023 HIL has made an investment of ₹ 200 Lakhs in the equity shares of Rose Limited of which 50% is made in the long-term category i.e. long-term investment and rest as temporary investment i.e. current investment. The realisable value of all such investments on 31st March, 2024 becomes ₹ 50 Lakhs as Rose Limited lost a copyright. From the given market conditions, it is apparent that the reduction in the value of investment is not temporary in nature.

HIL imported medicine from Pharma Inc. for a sum. of US $ 2,50,000 on 1st January, 2024. HIL released full payment on 17th April, 2024 to Medicine Ltd. The exchange rates are as follows:

	Exchange rate per $
1st April, 2023	*₹ 76*
1st January, 2024	*₹ 81*
31st March, 2024	*₹ 80*
17th April, 2024	*₹ 79*

HIL is working on a strategic plan to close the production unit of Bhopal due to change in technology. The board of directors approved the closure of Bhopal Plan on 1st March, 2024. The company did a formal announcement regarding closure to the affected parties on 10th March, 2024. The company entered into a binding-sale agreement on 21 April, 2024.

Reporting date of the company is 31st March,2024.

Based on the information given in the above Case Scenario, answer the following Question No. 6 to 9:

6. *How the recognition of revenue from sales of medicine to Dee Limited will be done by HIL under AS 9 and what would be the treatment of unrealized amount for the year ended 31st March, 2024?*

   (A) Revenue will be recognised for ₹ 50 Lakhs, subsequently unrealized amount ₹ 50 lakhs will be debited to bad debts A/c.

   (B) Revenue will be recognised for ₹ 40 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c.

(C) *Revenue will be recognised for ₹ 50 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c.*

(D) *Revenue will be recognised for ₹ 40 Lakhs, unrealised amount of ₹ 40 lakhs will be shown in Sundry Debtors list.*

7. *How will you recognize the reduction in the value of the investments in the financial statements for the year ended 31st March 2024 as per AS 13 (Revised)?*

(A) *The reduction of ₹ 50 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.*

(B) *The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.*

(C) *The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 Lakhs in the carrying value of long-term investment will also be charged to the profit and loss account.*

(D) *The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 Lakhs in the carrying value of long-term investment will also be charged to capital reserve account.*

8. *Ascertain the loss/gain due to change in foreign exchange rates to be recognised in the financial statements for the year ended 31st March, 2024 as per 11.*

(A) *₹ 2,50, 000 Exchange gain should be credited to profit and loss account.*

(B) *₹ 5,00,000 Exchange gain should be credited to profit and loss account.*

(c) *₹ 5,00,000 Exchange loss should be debited to profit and loss account.*

(D) *₹ 2,50,000 Exchange loss should be debited to profit and loss account.*

9. *What would be the date of "initial disclosure of event" be considered for Bhopal Plant?*

   (A) 31^{st} March, 2024

   (B) 1^{st} March, 2024

   (C) 21^{st} April, 2024

   (D) 10^{th} March, 2024

10. *X Ltd. sold Plant & Machinery having WDV of ₹ 60 lakhs to Y Ltd. for ₹ 75 lakhs (Fair value of ₹ 75 Lakhs) and the same plant was leased back by Y Ltd. to X Ltd. The lease back is in the nature of operating lease. The treatment will be:*

    (A) X Ltd. should amortize the profit of ₹ 15 lakhs over the lease term.

    (B) X Ltd. should recognize the Profit of ₹ 15 lakhs immediately.

    (C) No profit/loss, as fair value is equal to sale price.

    (D) Y Ltd. should recognize the profit of ₹ 15 lakhs immediately.

Case Scenario - III

Following information is given by Z Ltd as o 31^{st} March 2025:

	₹ in lakhs
Share Capital	
Equity shares of ₹ 10 each fully paid up	*800*
11% Redeemable Preference shares of ₹ 100 each fully paid up	*200*
Reserve and surplus	
Capital redemption Reserve	*50*
Securities Premium	*100*
General Reserve and profit and Loss (Combined balance)	*600*
Secured Loans	
9% Debentures	*250*
Current Liabilities	*10*
Fixed Assets	*1200*

Investments	*95*
Cash at bank	*320*
Other Current Assets	*840*

On 1st April, 2024 Z Ltd redeemed all its preference shares at a premium of 5%. Z Ltd. bought back 8,00,000 equity shares @ ₹ 20 per share.

Buy back is fully authorized by Z Ltd.'s articles and necessary resolution has been passed for this. The payment for buy back of shares will be made through available balance in bank account.

To finance Redemption of preference shares and buy back of shares, company has decided to sell its investments for ₹ 98 Lakhs.

Z Ltd had 80,000 Equity stock options outstanding on the above mentioned date, to the employees @ ₹ 15 per share when the market price was ₹ 20 per share. (This was included under the head current liabilities). On 1st April, 2024,·70% of the employees exercised their options.

Based on the information given in the above Case Scenario, answer the following Question No. 11 - 13:

11. *What will be the balance of capital redemption reserve as on 31st March 2025?*

    (A) ₹ 280 Lakhs

    (B) ₹ 330 Lakhs

    (C) ₹ 250 Lakhs

    (D) ₹ 130 Lakhs

12. *What will be the Cash and Bank Balance as on 31st March 2025?*

    (A) ₹ 56.40 Lakhs

    (B) ₹ 66.40 Lakhs

    (C) ₹ 59.20 Lakhs

    (D) ₹ 48 Lakhs

13. *What will be the Balance of Reserves as on 31st March 2025 excluding capital redemption Reserve?*

   (A) *General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 10 lakhs*

   (B) *General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 10 lakhs*

   (C) *General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 15.60 lakhs*

   (D) *General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 15.60 lakhs*

14. *Past Ltd. had the following items under the head "Reserves and Surplus" the Balance Sheet as on 31st March 2025:*

	(Amount ₹ in lakhs)
Securities Premium Account	*90*
Capital Reserve	*40*
Revaluation Reserve	*70*

   The company had an accumulated loss of ₹ 280 lakhs on the same date, which was disclosed under the head "Statement of Profit and Loss" as asset in Balance Sheet. What should be disclosed on the face of Balance Sheet as per Schedule III to the Companies Act, 2013?

   (A) *Reserve and Surplus-Securities premium 90 lakhs; others ₹ 110 lakh and Accumulated loss ₹ 280 lakhs in the Asset side.*

   (B) *Reserve and Surplus ₹ 200 lakhs; and Accumulated loss ₹ 280 lakhs in the Asset side.*

   (C) *Reserve and Surplus - ₹ 200 lakhs only*

   (D *Reserve and Surplus - ₹ 80 lakhs only*

15. *During the process of Internal Reconstruction, JAY Ltd has come across the following adjustment:*

There is a contingent liability for which no provision had been made. This contingent liability was settled at ₹ 7,500 and also ₹ 6,000 was recovered from the insurance company in this regard.

Which of the following is the correct treatment for the above adjustment?

(A) Reconstruction A/c Dr ₹ 1,500 and Bank A/c Cr ₹ 1,500

(B) Reconstruction A/c Dr ₹ 7,500 and Bank A/c Cr ₹ 7,500

(C) Contingent Liability A/c Dr ₹ 1,500 and Bank A/c Cr ₹ 1,500

(D) Profit and Loss A/c Dr 1,500 and Bank A/c Cr ₹ 1,500

Answer Key

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

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) Hardy Ltd. intends to extend the factory set up on the adjacent plot with disintegrated old premises. It acquired the land having an area of 250 hectares at a cost of ₹ 25,000 per hectare.

Hardy Ltd. incurred Stamp duty and registration charges of 5% of land value. Legal fees were paid ₹ 4,75,000 for land acquisition.

Hardy Ltd. incurred ₹ 37,85,000 for demolishing old premises thereon. A sum of ₹ 12,60,000 (including 5% GST thereon) was realized from the sale of material salvaged from the site.

Till the new site with extended factory premises is ready, the company needs to move the present production facilities to another (temporary) site. The following incremental costs will be incurred.

(1) Set up costs of ₹ 7,50,000 to install machinery in the new location.

(2) Rent of ₹ 12,00,000.

(3) Removal costs of ₹ 2,50,000 to transport the machinery from the old location to the temporary location.

(i) Management is of the opinion that the cost of moving the production facilities to another temporary location can be capitalised.

You are required to advise.

(ii) You are also required to compute the cost of land acquired.

(7 Marks)

(b) Ms. Neha had 20,000 Equity shares in Nexus Ltd. at a book value of ₹ 2,40,000 on 01.04.2024. Face value of shares is ₹ 10 per share.

The Directors of Nexus Ltd. announced a bonus of equity shares in the ratio of one share for every 5 shares held on 30/04/2024.

On 31/07/2024 the company made a right issue in the ratio of three shares for every 4 shares held, on payment of ₹ 14 per share. The due date for payment was 31/08/2024. Ms. Neha opted to subscribe 50% of the right shares and sold the remaining of her entitlement to Ms. Rewa for a consideration of ₹ 3 per share.

On 08/10/2024, Ms. Neha received dividend from Nexus Ltd. @ 15% for the year ended 31/03/2024.

On 01/11/2024, Neha sold 11500 shares at a premium of ₹ 16 per share.

You are required to prepare Investment A/c as per AS -13 in the books of Ms. Neha for the year ended 31/03/2025 assuming that the shares are being valued at average cost. ***(7 Marks)***

Answer

(a) (i) (i) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.

(ii) These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(iii) The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised)

(iv) Therefore, these costs cannot be capitalized.

(ii) Computation of cost of land

Particulars		₹	₹
Purchase Price	250 hectares x ₹ 25,000 per hectares		62,50,000
Stamp Duty and Registration Charges	5% of ₹ 62,50,000		3,12,500

Legal and Consultancy Fees			4,75,000
Demolition Expenses (Net of Salvage Income)	₹ 12,60,000 x (100/105)	37,85,000 (12,00,000)	25,85,000
Cost of Land			96,22,500

(b) Alternative -1

Considering the Examinee has calculated Average Cost directly for shares sold and for Closing Balance of Shares:

Investment Account in Books of Ms. Neha

(Scrip: Equity Shares in Nexus Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.2024	To Bal b/d	20,000	2,40,000	1.11.2024	By Bank (Sale of shares)	11,500	2,99,000
30.4.2024	To Bonus	4,000	–				
31.8.2024	To Bank (Rights Shares)	9,000	1,26,000	31.3.2025	By Bal. c/d	21,500	2,38,455
1.11.2024	To P&L A/c (Profit on sale of shares)		1,71,455				
		33,000	5,37,455			33,000	5,37,455

Working Notes:

(1) Bonus Shares = (20,000) /5 = **4,000** shares

(2) **Right Shares** = $\frac{(20,000 + 4,000)}{4} \times 3$ = 18,000 shares

(3) **Rights shares sold** = 18,000×50% = 9,000 shares

(4) **Dividend received** = 20,000×10×15% = ₹ 30,000 will be taken to P&L statement

(5) **Average Cost of shares sold:**

$$\text{Average Cost} = \frac{(2,40,000 + 1,26,000)}{33,000} \text{ x } 11,500$$

$$= ₹\ 1,27,545$$

(6) **Profit on sale of 11,500 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 2,99,000

Profit = ₹ 2,99,000– ₹ 1,27,545= **₹ 1,71,455**.

(7) **Cost of shares on 31.3.2025**

$$\frac{(2,40,000 + 1,26,000)}{33,000} \text{ x } 21,500 = 2,38,455$$

(8) Sale of rights amounting ₹ 27,000 (₹ 3 x 9,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Alternative - 2

Calculate Average Cost per Unit first and then worked out the cost of shares sold and closing balance of shares using average unit cost:

Investment Account in Books of Ms. Neha

(Scrip: Equity Shares in Nexus Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.2024	To Bal b/d	20,000	2,40,000	1.11.2024	By Bank (Sale of shares)	11,500	2,99,000
30.4.2024	To Bonus	4,000	_				
31.8.2024	To Bank (Rights Shares)	9,000	1,26,000	31.3.2025	By Bal. c/d	21,500	2,38,435
1.11.2024	To P&L A/c (Profit on sale of shares)		1,71,435(*)				
		33,000	5,37,435			33,000	5,37,435

(*) rounding off difference of ₹ 30 adjusted i.e. 1,71,465 – 30 = 1,71,435

Working Notes:

(1) **Bonus Shares** = (20,000) /5 = 4,000 shares

(2) **Right Shares** = $\frac{(20,000+4,000)}{4}$ x 3 = 18,000 shares

(3) **Rights shares sold** = 18,000×50% = 9,000 shares

(4) **Dividend received =** 20,000×10×15% = ₹ 30,000 will be taken to P&L statement

(5) **Average Cost per Share:**

= (2,40,000 + 1,26,000) / (20,000 + 4,000 + 9,000)

= (3,66,000 / 33,000)

= 11.09 per share (rounded off to 2-decimal places)

Average Cost = (11,500 × 11.09) = ₹ 1,27,535

(6) **Profit on sale of 11,500 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 2,99,000

Profit = ₹ 2,99,000 – ₹ 1,27,535 = ₹ 1,71,465.

(7) **Cost of shares on 31.3.2025**

21,500 x 11.09 = ₹ 2,38,435

(8) Sale of rights amounting ₹ 27,000 (₹ 3 x 9,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Question 2

Following particulars are furnished by Bela Ltd for the year ended 31st March 2025.

Particulars	***Debit ₹***	***Credit ₹***
Equity Share Capital (Face Value 100)		*6,00,000*
8% Preference Share Capital (Face Value 100)		*3,00,000*
Factory Building	*6,20,000*	
Plant & Machinery	*4,98,000*	
Furniture & Fittings	*1,52,000*	

General Reserve		*88,000*
Term Loan from Public Financial Corp.		*3,40,000*
Inventory		
Raw Material	*1,35,000*	
Finished Goods	*66,000*	
Provision for taxation		*12,000*
Dividend Payable		*10,000*
Preliminary Expenses	*21,000*	
Profit & Loss A/c		*99,000*
Cash in hand	*16,000*	
Cash at Bank	*39,000*	
Trade Receivables	*2,38,000*	
Unsecured Loan		*85,000*
Trade Payables		*2,45,000*
Outstanding Expenses		*6,000*
	17,85,000	*17,85,000*

Other Information:

(1) The cost of assets was:

Factory Building	*₹ 6,94,000*
Plant & Machinery	*₹ 5,35,000*
Furniture & Fittings	*₹ 1,76,000*

(2) The Equity Capital on 01/04/2024 stood at 5,000 shares fully paid up and 1,000 shares ₹ 70 paid up. The directors made final call of ₹ 30 per share on 01/10/2024.

A shareholder could not pay the call on 75 shares and his shares were forfeited. They were reissued @ ₹ 70 per share as fully paid.

(3) Profit on reissue of forfeited equity shares was included in profit and loss account.

(4) Bills discounted but not yet matured ₹ 15,000

(5) The balance of Term Loan from Public Finance Corporation includes ₹ 8,000 for interest accrued but not due. The loan is secured against hypothecation of Plant and Machinery.

(6) The directors declared a dividend of 5% on Equity shares on 10/04/2025.

You are required to prepare the Balance sheet as at 31st March, 2025 as required under Part-1 of the schedule III of the Companies Act.

Workings should form part of the answer. ***(14 Marks)***

Answer

Balance Sheet of Bela Ltd. as at 31st March, 2025

Particulars			Note No	₹
Equity and Liabilities				
1	**Shareholders' funds**			
	a	Share capital	1	9,00,000
	b	Reserves and Surplus	2	1,66,000
2	**Non-current liabilities**			
	a	Long-term borrowings	3	4,17,000
3	**Current liabilities**			
	a	Trade Payables	4	2,45,000
	b	Other current liabilities	5	24,000
	c	Short-term provisions	6	12,000
		Total		17,64,000
ASSETS				
1	**Non-current assets**			
	a	PPE	7	12,70,000
2	**Current assets**			
	a	Inventories	8	2,01,000
	b	Trade receivables	9	2,38,000
	c	Cash and cash equivalents	10	55,000
		Total		17,64,000

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued, Subscribed and paid up		
	6,000 Equity Shares of ₹100 each	(A)	6,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	3,000 8% Preference shares of ₹ 100 each	(B)	3,00,000
		Total (A + B)	9,00,000
2	**Reserves and Surplus**		
	Capital reserve (W.N.)		3,000
	General reserve		88,000
	Add: Profit and Loss Account	99,000	
	Less: Preliminary expenses	(21,000)	
	Less: profit on reissue (75x 40)	(3,000)	75,000
		Total	1,66,000
3	**Long-term borrowings**		
	Secured- Term Loans		
	Loan from Public Financial Corporation (3,40,000 – 8,000)		3,32,000
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured loan		85,000
		Total	4,17,000
4	**Trade Payables**		2,45,000
5	**Other current liabilities**		
	Interest accrued but not due on loans (PFC)		8,000
	Dividend Payable		10,000
	Outstanding expenses		6,000
		Total	24,000
6	**Short-term provisions**		
	Provision for taxation		12,000

7	**PPE**		
	Factory Buildings	6,94,000	
	Less: Depreciation	(74,000)	6,20,000
	Plant & Machinery	5,35,000	
	Less: Depreciation	(37,000)	4,98,000
	Furniture & Fittings	1,76,000	
	Less: Depreciation	(24,000)	1,52,000
	Total		12,70,000
8	**Inventories**		
	Raw Material		1,35,000
	Finished goods		66,000
		Total	2,01,000
9	**Trade receivables**		2,38,000
10	**Cash and cash equivalents**		
	Cash at bank		39,000
	Cash in hand		16,000
		Total	55,000

Working Note:

Calculation of Capital Reserve on reissue of forfeited equity shares:

Balance in forfeiture Account = ₹ 5,250

Discount on reissue of shares = ₹ 2,250

Amount to be transferred to capital reserve = ₹ 5,250 - ₹ 2,250 = ₹ 3,000

Note:

1. The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2025. Such dividends will be disclosed in notes only.
2. There is a Contingent Liability for bills discounted but not yet matured amounting to ₹ 15,000

Question 3

(a) *The Balance Sheet of Moon Ltd. as on 31st March 2025 and 2024 were given as:*

Particulars	Notes	31st March, 2025	31st March, 2025
		₹	₹
Equity and Liabilities			
1. Shareholder Funds			
(a) Share Capital	1	8,00,000	6,00,000
(b) Reserves and Surplus	2	80,000	50,000
2. Non-Current Liabilities			
(a) Deferred Tax Liability		6,000	-
3. Current liabilities			
(a) Trade payable		40,000	25,000
(b) Short term provisions (Provision for tax)		15,000	10,000
Total		**9,41,000**	**6,85,000**
Assets			
1. Non-Current Assets			
(a) Property Plant and Equipment	3	3,95,000	2,90,000
2. Current Assets			
(a) Trade Receivable		20,000	10,000
(b) Inventories		2,50,000	2,00,000
(c) Cash and cash equivalent	4	2,76,000	1,85,000
Total		**9,41,000**	**6,85,000**

Notes to Accounts

Notes	***Particulars***	***2025 (₹)***	***2024(₹)***
1.	*Share Capital*		
	Equity Shares of ₹ 10 each	*8,00,000*	*6,00,000*
2.	*Reserve & Surplus*		
	Profit and loss Account	*80,000*	*50,000*
3.	*Property, Plant and Equipment (at WDV)*		
	Building	*1,00,000*	*1,00,000*
	Furniture and fixtures	*2,95,000*	*1,90,000*
	Total	*3,95,000*	*2,90,000*
4.	*Cash & Cash equivalents*	*2,76,000*	*1,85,000*

Further information related to Profit and loss A/c for the year ended March, 2025 is as under:

(i) Profit before tax is ₹ 45,000

(ii) Tax expense during the year ₹ 15,000 (it includes deferred tax liability of ₹ 6,000 created during the year)

(iii) Depreciation charged on furniture and fixture for the year was ₹ 35,000. One old furniture item was sold for ₹ 17,000 and the profit on such disposal amounting to current year ₹ 8,000 was booked in the current year.

Prepare a Cash Flow Statement for the year ended 31st March, 2025. ***(7 Marks)***

(b) XY Limited reported a Profit Before Tax (PBT) of ₹ 18 lakhs for the third quarter ending 31st December 2024. Following observations are noted;

(i) Dividend income of ₹ 8 lakhs received during the quarter has been recognized to the extent of ₹ 2 lakh only.

(ii) Sales promotion expenses ₹ 15 lakhs incurred in the third quarter, 70% has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 4 lakhs. The

entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 1 lakhs.

(iv) ₹ 3 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 5 lakhs. Out of this loss ₹ 2 lakhs relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of ₹ 30 lakhs. The company had apportioned this equally to the four quarters.

Calculate the result of the third quarter as per AS 25 and also comment on the company's view on each observation. ***(7 Marks)***

Answer

(a) **Moon Ltd.**

Cash Flow Statement for the year ended 31st March, 2025

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	45,000	
Adjustments for:		
Depreciation	35,000	
Profit on sale of Furniture & Fixtures	(8,000)	
Operating profit before working capital changes	72,000	
Increase in Trade receivables	(10,000)	
Increase in inventories	(50,000)	
Increase in Trade payables	15,000	
Cash generated from operations	27,000	
Income taxes paid (W.N.1)	(4,000)	
Net cash generated from operating activities		23,000
Cash flows from investing activities		
Sale of Furniture & Fixtures	17,000	
Purchase of Furniture & Fixtures (W.N.2)	(1,49,000)	

Net cash used in investing activities		(1,32,000)
Cash flows from financing activities		
Issue of shares for cash	2,00,000	
Net cash generated from financing activities		2,00,000
Net decrease in cash and cash equivalents		91,000
Cash and cash equivalents at beginning of period (31.3.2024)		1,85,000
Cash and cash equivalents at end of period (31.3.2025)		2,76,000

Working Notes:

		₹
1.	Income taxes paid	
	Income tax expense for the year	15,000
	Add: Income tax liability at the beginning of the year	10,000
		25,000
	Less: Income tax liability at the end of the year	(15,000)
	Less: DTL	(6,000)
		4,000
2	Property, plant and equipment acquisitions	
	Furniture & Fixtures	₹
	W.D.V. at 31.3.2025	2,95,000
	Add back:	
	Depreciation for the year	35,000
	Disposals (17,000 -8,000)	9,000
		3,39,000
	Less: W.D.V. at 31.12.2024	(1,90,000)
	Acquisitions during 2024-2025	1,49,000

(b) As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year.

Comments on observations:

(i) Dividend income received during 3rd quarter should be recognised in the 3rd quarter only.

(ii) Sales promotion expenses cannot be deferred on the basis that fourth quarter has more sales. This expense should be recognized in 3rd quarter only.

(iii) Further, as per AS 10, Property, Plant and Equipment, if there is change in the depreciation method, such a change should be accounted for as a change in accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, and applied prospectively. Therefore, no adjustment would be required due to change in the method of depreciation.

(iv) Extra ordinary gain of ₹ 3 lakhs should be wholly recognized in 3rd quarter only.

(v) Loss of ₹ 2 lakhs belong to previous quarters and not 3rd quarter, so it should not be deducted from the profit of 3rd quarter.

(vi) Gain on sale of investment is in the nature of occasional gain, so it cannot be deferred and hence the amount of ₹ 7.5 lakhs considered as income of 1st quarter, will be reversed from the profit of the 3rd quarter.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the third quarter

	(₹)
Profit before tax (as reported)	18,00,000
Add: Dividend income ₹ (8,00,000 - 2,00,000)	6,00,000
Excess depreciation charged in the 3rd quarter, due to change in the method	-
Extra ordinary gain ₹ (3,00,000-1,50,000)	1,50,000
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (5,00,000-3,00,000)	2,00,000
	27,50,000

Less: Sales promotion expenses (70% of ₹ 15 lakhs)	(10,50,000)
Gain on sale of investment (occasional gain should not be deferred)	(7,50,000)
Adjusted Profit before tax for the third quarter	9,50,000

Question 4

The following is summarized Balance Sheet of Pickles Ltd. as on 31/03/2025.

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' Funds***		
	A	*Share Capital*	*1*	*11,00,000*
	B	*Reserves and Surplus*	*2*	*2,10,000*
2		***Non-Current liabilities***		
	A	***Long term borrowings***	*3*	*1,00,000*
	B	***Long term Provisions***	*4*	*60,000*
3		***Current liabilities***		
	A	*Trade Payables*		*1,75,000*
	B	*Other Current Liabilities*		*65,000*
		Total		***17,10,000***
		Assets		
1		***Non-current Assets***		
	A	*Property, Plant and Equipment*	*5*	*7,50,000*
	B	*Intangible assets*	*6*	*75,000*
2		***Current Assets***		
	A	*Inventories*		*5,25,000*
	B	*Trade receivables*		*3,00,000*
	C	*Cash and Cash equivalents*		*60,000*
		Total		***17,10,000***

Notes to Accounts

			₹
1	***Share Capital***		
	6,000 Equity Shares of ₹ 100 each		*6,00,000*
	5,000 6% Preference Shares of ₹ 100 each		*5,00,000*
			11,00,000
2	***Reserves and Surplus***		
	General reserve		*1,00,000*
	Profit and Loss account		*1,10,000*
			2,10,000
3	***Long term borrowings***		
	8% Debentures		*1,00,000*
4	***Long term Provisions***		
	Retirement Gratuity Fund		*60,000*
5	***Property, Plant and Equipment***		
	Land and Building		*3,50,000*
	Plant and Machinery		*3,00,000*
	Furniture and Fittings		*1,00,000*
			7,50,000
6	***Intangible Assets***		
	Patents		*75,000*

On 31/03/2025, Foods Ltd. acquires the business of Pickles Ltd. on the following terms:

- *Foods Ltd. to take over all assets (except cash) and liabilities at their book values.*
- *Part of the Furniture and Fixtures is disposed off by Pickles Ltd. for ₹ 55,000 at cost.*
- *The retirement of employees was due on 31/03/2025. A portion of ₹ 35,000 from Retirement Gratuity Fund was earmarked towards the payment due to them.*

- *Foods Ltd. decided to pay for each Preference share in Pickles Ltd., ₹ 27 in cash and one 8% Preference share of ₹ 100 in Foods Ltd.*
- *For each Equity share in Pickles Ltd., it was decided to pay ₹ 30 in cash and one Equity share of Foods Ltd. for ₹ 145. (Face value of each share of Foods Ltd. is ₹ 100)*
- *Liquidation expenses of ₹ 22,500 paid by Pickles Ltd. were subsequently reimbursed by Foods Ltd.*
- *The fixed assets of Pickles Ltd were not revalued for the purpose of amalgamation.*

You are required to pass the necessary Journal entries and also prepare Realisation Account and cash account in the books of Pickles Ltd. ***(14 Marks)***

Answer

Journal Entries in the Books of Pickles Ltd.

		Debit (₹)	***Credit (₹)***
Realisation A/c	Dr.	16,50,000	
To Land & Building A/c			3,50,000
To Plant & Machinery A/c			3,00,000
To Furniture & Fixtures A/c			1,00,000
To Patent A/c			75,000
To Inventories A/c			5,25,000
To Trade Receivables A/c			3,00,000
(Being assets transferred to Realisation A/c)			
8% Debentures A/c	Dr.	1,00,000	
Trade Payables A/c	Dr.	1,75,000	
Other Current Liabilities A/c	Dr.	65,000	
Retirement Gratuity Fund A/c	Dr.	35,000	
To Realisation A/c			3,75,000
(Being liabilities transferred to Realisation A/c)			

Cash A/c To Realisation A/c (Being part of furniture sold)	Dr.	55,000	 55,000
Foods Ltd. A/c To Realisation A/c (Being purchase consideration receivable)	Dr.	16,85,000	 16,85,000
Cash A/c Equity Shares in Foods Ltd A/c Preference Shares in Foods Ltd A/c To Foods Ltd. A/c (Being consideration received)	Dr. Dr. Dr.	3,15,000 8,70,000 5,00,000	 16,85,000
6% Preference Share Capital A/c Realization A/c To Preference Shareholders A/c (Being amount due to preference shareholders for capital and extra amount payable under the scheme of acquisition)	Dr. Dr.	5,00,000 1,35,000	 6,35,000
Preference Shareholders A/c To Cash A/c To Pref. Shares in Foods Ltd A/c (Being payment made to preference shareholders)	Dr.	6,35,000	 1,35,000 5,00,000
Equity Share Capital A/c General Reserve A/c Profit & Loss A/c Retirement Gratuity fund To Equity Shareholders A/c (Being various accounts representing capital, reserve, profit and loss account and others transferred to equity shareholder account)	Dr. Dr. Dr. Dr.	6,00,000 1,00,000 1,10,000 25,000	 8,35,000

Equity Shareholders A/c To Cash A/c To Equity Shares in Foods Ltd A/c (Being payment made to equity shareholders)		11,65,000	 2,95,000 8,70,000
Foods Ltd A/c To Cash A/c (Being liquidation expenses paid)	Dr.	22,500	 22,500
Cash A/c To Foods Ltd A/c (Being reimbursement by Foods Ltd.)	Dr.	22,500	 22,500
Realisation A/c To Equity Shareholders A/c (Being Profit on realization is transferred to equity shareholders)	Dr.	3,30,000	 3,30,000

Realisation Account

(Journal Entries

	Particulars	Amount (₹)		Particulars	Amount (₹)
To	Land & Building	3,50,000	By	Debentures	1,00,000
To	Plant & Machinery	3,00,000	By	Trade Payables	1,75,000
To	Furniture & Fixtures	1,00,000	By	Other Current Liabilities	65,000
To	Patent	75,000	By	Ret. Gratuity Fund	35,000
To	Inventories	5,25,000	By	Cash (Sale of Furniture)	55,000
To	Trade Receivables	3,00,000	By	Foods Ltd (PC)	16,85,000
To	Preference shareholder	1,35,000			
To	Equity Shareholder A/c (Profit on realization)	3, 30,000			
		21,15,000			21,15, 000

Cash Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
To	Balance b/d	60,000	By	Foods Ltd. A/c (Expenses)	22,500
To	Realisation A/c (Furniture Sale)	55,000	By	Pref. Shareholders A/c	1,35,000
To	Foods Ltd. A/c (Reimbursement)	22,500	By	Equity Shareholders A/c	2,95,000
To	Foods Ltd (Cash Part of PC) (1,35,000 + 1,80,000)	3,15,000			
		4,52,500			4,52,500

Working Notes:

1. Purchase Consideration

		₹	₹	Form
(i)	Preference Shares: ₹ 27 per share	1,35,000		Cash
	Preference shares	5,00,000	6,35,000	Preference shares
(ii)	Equity shares: ₹ 30 per share	1,80,000		Cash
	6,000 equity shares in Food Ltd. @ ₹ 145	8,70,000	10,50,000	Equity shares
			16,85,000	

Question 5

(a) *Birds Ltd. and its subsidiary Rooster Ltd provided the following information for the year ended 31/03/2025.*

Particulars	***Birds Ltd. (₹)***	***Rooster Ltd. (₹)***
Equity Share Capital	*10,00,000*	*3,00,000*
Sales	*28,40,000*	*10,40,000*

Purchases (Finished Goods)	*9,15,000*	*1,75,000*
Salaries	*7,75,000*	*3,78,000*
Rent received	*5,40,000*	
General and Administration expenses	*2,81,500*	*1,98,000*
Selling and Distribution Expenses	*2,21,000*	*90,000*
Dividend Income	*1,35,000*	*28,000*
Finished Goods Inventory on 01/04/2024	*3,35,000*	*1,20,000*
Finished Goods Inventory on 31/03/2025	*7,85,000*	*2,90,000*
Other Non-operating Income	*2,38,000*	*57,000*

Other Information:

- *On 1st April 2022 Birds Ltd. acquired 2,500 shares of ₹ 100 each fully paid up in Rooster Ltd.*
- *Rooster Ltd. paid a dividend of 12% for the year ended 31/03/2024.*

  The dividend was correctly accounted for by Birds Ltd.
- *Rooster Ltd. pays ₹ 11,250 per month to Birds Ltd. towards rent for the portion of premises occupied.*

Selling and Distribution Expenses of Rooster Ltd. include ₹ 15,000 received from Birds Ltd.

Prepare Consolidated Profit and Loss Account of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended 31/03/2025. ***(10 Marks)***

(b) Rubber Ltd. purchased 70% of shares of Tyre Ltd. on 31/03/2024 for ₹ 4,05,000. The following is the position of Tyre Ltd. as on that date:

Particulars	***Amount (₹)***
Issued share capital of Tyre Ltd. on 31/03/2024	*5,00,000*
Balance in Profit and Loss A/c of Tyre Ltd. on 31/03/2024	*70,000*
Profit earned during the year 2024-25	*45,000*
5% Dividend declared and paid by Tyre Ltd. for 2023-24	*25,000*

You are required to calculate:

- *The capital reserve / goodwill at the date of acquisition.*

The calculations are to be made under the following assumptions:

Case (i) It is assumed that the dividend is paid out of post-acquisition profits.

Case (ii) It is assumed that the dividend is received for pre-acquisition period.

(4 Marks)

Answer

(a) Consolidated statement of profit and loss of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended on 31st March, 2025

Particulars	Note No.	₹
Revenue from operations	1	38,80,000
Other Income	2	8,33,000
Total revenue (I)		47,13,000
Expenses:		
Cost of material purchased/consumed	3	10,90,000
Changes (Increase) in inventories of finished goods	4	(6,20,000)
Employee benefit expense	5	11,53,000
Other expenses	6	6,55,500
Total expenses (II)		22,78,500
Profit before tax (II-III)		24,34,500

Notes to Accounts

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Birds Ltd.		28,40,000	
	Rooster Ltd.		10,40,000	38,80,000
2.	Other Income			
	Dividend income:			
	Birds Ltd.	1,35,000		

	Less: Dividend received from Rooster Ltd. (2,50,000 × 12%)	(30,000)		
	Rooster Ltd.	28,000	1,33,000	
	Other Non-operating Income			
	Birds Ltd.	2,38,000		
	Rooster Ltd.	57,000	2,95,000	
	Rent received			
	Birds Ltd.	5,40,000		
	Less: Rent received by Birds Ltd. from Rooster Ltd. (11,250 x 12)	(1,35,000)	4,05,000	8,33,000
3.	Cost of material purchased/ consumed			
	Birds Ltd.	9,15,000		
	Rooster Ltd.	1,75,000		10,90,000
4.	Changes (Increase) in inventories of finished goods			
	Birds Ltd. (7,85,000 - 3,35,000)		4,50,000	
	Rooster Ltd. (2,90,000 -1,20,000)		1,70,000	6,20,000
5.	Employee benefits and expenses			
	Salaries:			
	Birds Ltd.		7,75,000	
	Rooster Ltd.		3,78,000	11,53,000
6.	Other expenses			
	General & Administrative expenses:			
	Birds Ltd.	2,81,500		
	Rooster Ltd.	1,98,000		
	Less: Rent paid to Birds Ltd.	(1,35,000)	3,44,500	
	Selling and distribution Expenses:			
	Birds Ltd.	2,21,000		

	Less: paid to Rooster Ltd	(15,000)		
	Rooster Ltd.	90,000		
	Add: Received from Birds Ltd.	15,000	3,11,000	6,55,500

Note:

An amount of ₹ 15,000 was added under Selling and Distribution Expenses of Rooster Ltd. due to a rectification entry, while ₹ 15,000 was deducted from Birds Ltd. under the same head to account for the set-off of inter-company transactions.

(b) Calculation of capital reserve/goodwill at the date of acquisition

Case (i) it is assumed Dividend is paid out of post-acquisition profits

Total dividend paid is ₹ 25,000 hence dividend received by Rubber will be credited to P & L.

Rubber Ltd.'s share of dividend = ₹ 25,000 X 70% = ₹ 17,500

Goodwill on consolidation (at the date of acquisition):	₹	₹
Cost of shares		4,05,000
Less: Face value of capital i.e. 70% of capital 5,00,000	3,50,000	
Add: Share of capital profits [70,000X 70%]	49,000	(3,99,000)
Goodwill		6,000

Case (ii) it is assumed Dividend is received out of pre-acquisition profits.

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

Goodwill on consolidation (at the date of acquisition):	₹	₹
Cost of shares		4,05,000
Less: dividend received		(17,500)
		3,87,500
Less: Face value of capital i.e. 70% of capital 5,00,000	3,50,000	
Add: Share of capital profits [70,000 X 70%]	49,000	(3,99,000)
Capital reserve		11,500

Question 6

EITHER

(a) *What are Accounting Standards? Explain the objectives of "Accounting Standards" in brief, also state the advantages of setting Accounting Standards.* ***(4 Marks)***

OR

(a) *A machine was acquired by Zest Ltd. on 01/04/2019 for ₹ 60 lakhs. It had a useful life of 6 years. The machine is depreciated on straight line basis and does not carry any residual value. On 01/04/2022, the carrying value of the machine was reassessed at ₹ 36 lakhs.*

The surplus arising out of the revaluation being credited to revaluation reserve.

For the year ended March 2024, conditions indicating an impairment of the existed machine and the amount recoverable ascertained to be ₹ 9 lakhs.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Zest Ltd. The company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation. ***(4 Marks)***

(b) *Due to inadequacy of profits during the year ended 31st March, 2025, DAY Ltd proposes to declare 9% dividend out of General reserves.*

From the following particulars, ascertain the amount that can be utilized from the General reserves according to the Companies (Declaration of dividend) rules, 2014.

	₹
9,50,000, Equity Shares of ₹ 10 each fully paid up	*95,00,000*
General reserves as on 1st Apirl,2024	*18,50,000*
Revaluation Reserve as on 1st April,2024	*4,25,000*
Net profit for the year ended 31st March,2025	*3,75,000*
Average rate of dividend during the last 3 years has been	*12.5%*

(4 Marks)

(c) *M/s Marena, having head office at Chennai has a branch at Hyderabad. The head office does wholesale trade only at cost plus 60%. The goods are sent* *to branch at the wholesale price i.e. cost plus 60%. The branch at Hyderabad is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 80%.*

Following details are furnished for the year ended 31st March, 2025:

	***Chennai office* ₹**	***Hyderabad office* ₹**
Opening Stock	*75,000*	-
Purchases	*9,25,000*	-
Goods sent to branch (Cost plus 60%)	*3,60,000*	-
Sales	*10,25,000*	*2,70,000*
Office expenses	*9,000*	*3,000*
Staff Salary	*13,700*	*2,500*

Prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2025. ***(6 Marks)***

Answer

(a) Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.

b. Accounting Standards facilitates the preparation of financial statements and make them comparable.

c. Accounting Standards give a sense of faith and reliability to the users.

The main advantage of setting accounting standards are as follows:

a. Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.

b. Accounting Standards prevent any misleading accounting treatment.

c. Accounting Standards prevent manipulation of data by the management.

OR

(a) Statement Showing Impairment Loss

	(₹ in lakhs)
Carrying amount of the machine as on 1st April, 2019	60
Depreciation for 3 years i.e. 2019-2020 to 2021-2022	
$[\frac{60 \text{ Lakh}}{6 \text{ years}} \text{ x 3 years}]$	(30)
Carrying amount as on 31.03.2022	30
Add: Upward Revaluation (credited to Revaluation Reserve account)	6
Carrying amount of the machine as on 1st April, 2022 (revalued)	36
Less: Depreciation for 2 years i.e. 2022-2023 & 2023-2024	
$[\frac{36 \text{ Lakh}}{3 \text{ years}} \text{ x 2 years}]$	(24)
Carrying amount as on 31.03.2024	12
Less: Recoverable amount	(9)
Impairment loss	3
Less: Balance in revaluation reserve as on 31.03.2024: 6	
Less: Enhanced depreciation met from revaluation reserve	
2022-2023 & 2023-2024 = [(12 – 10) x 2 years] (4)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"	(2)
Impairment Loss to be debited to profit and loss account	1

(b)

Amount that can be drawn from reserves for 9% dividend	
9% dividend on ₹ 95,00,000	₹ 8,55,000
Profits available	
Current year profit	(3,75,000)
Amount which can be utilised from reserves	**4,80,000**

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

Condition I

Since 9% is lower than the average rate of dividend (12.5%), 9% dividend can be declared.

Thus, this condition is satisfied.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves i.e. ₹ 11,35,000 [10% of (95,00,000+18,50,000)].

Thus, this condition too is satisfied.

Condition III

The balance of reserves after drawl ₹ 13,70,000 (₹ 18,50,000 - ₹ 4,80,000) should not fall below 15.

% of its paid up capital i.e. ₹ 14,25,000 (15% of ₹ 95,00,000]

Thus, this condition is not satisfied, the company cannot withdraw ₹ 4,80,000 from accumulated reserves.

Conclusion:

Since condition-III is not satisfied, the Day Ltd cannot declare dividend @ 9%. However, all three conditions to be satisfied, Day Ltd. can MAXIMUM utilize ₹ 4,25,000 and pay dividend to that extent.

(c) **Trading and Profit and Loss A/c**

for the year ended 31st March 2025

	Head office ₹	Branch ₹		Head office ₹	Branch ₹
To Opening stock	75,000	-	By Sales	10,25,000	2,70,000
To Purchases	9,25,000	-	By Goods sent to branch	3,60,000	–
To Goods received from head office	-	3,60,000	By Closing stock (W.N. 1 & 2)	1,34,375	1,20,000

To Gross profit c/d	5,19,375	30,000			
	15,19,375	3,90,000		15,19,375	3,90,000
To Office expenses	9,000	3,000	By Gross profit b/d	5,19,375	30,000
To Staff salaries	13,700	2,500			
To Branch Stock Reserve (W.N.3)	45,000	–			
To Net Profit	4,51,675	24,500			
	5,19,375	30,000		5,19,375	30,000

Working Notes

(1)	Calculation of closing stock of head office:	₹
	Opening Stock of head office	75,000
	Goods purchased by head office	9,25,000
		10,00,000
	Less: Cost of goods sold [(10,25,000 + 3,60,000 x 100/160]	(8,65,625)
		1,34,375
(2)	Calculation of closing stock of branch:	₹
	Goods received from head office [At invoice value]	3,60,000
	Less: Invoice value of goods sold [2,70,000 x 160/180]	(2,40,000)
		1,20,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock ₹ 1,20,000	
	Profit included 60% of cost	
	Hence, unrealized profit would be = ₹ 1,20,000 x 60/160	₹ 45,000