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NOTES

Newly Added Questions in Study Material for May 2025 or Later Exams

01. ACCOUNTING STANDARD 2 VALUATION OF INVENTORY

QUESTION :

Alpha Ltd. sells flavored milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

Keeping this in view:

Decide whether the inventory of empty bottles is an asset of the company;

If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

ANSWER :

As per the 'Framework on Presentation and Preparation of Financial

Statements':

Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets.

Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale.

Therefore, empty bottles are assets for the company.

As per AS 2, inventories are assets held for sale in the ordinary course of business.

Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality.

Thus, inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

02. ACCOUNTING STANDARD 3 CASH FLOW STATEMENT

QUESTION :

Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31st March, 20X2 (₹)	31st March, 20X1 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		**7,53,000**	**3,90,000**
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		**7,53,000**	**3,90,000**

Notes to Accounts

Particulars	31st March, 20X2 (₹)	31st March, 20X1 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000

	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000.

ANSWER :

Fox Ltd.

Cash Flow Statement for the year ended 31st March, 20X2

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		

Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note:

	₹
Property, plant and equipment acquisitions	
W.D.V. at 31.3.20X2	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.20X1	1,80,000
Acquisitions during 20X1-20X2	2,10,000

03. ACCOUNTING STANDARD 7 CONSTRUCTION CONTRACTS

QUESTION (REFER Q.NO. 24 IN CLASS BOOK)

On 1st December, 20X1, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 20X2, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 20X2 as per provisions of AS-7?

ANSWER :

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

= **(32.50/47.60) ´ 100 = 68.28%**

Proportion of total contract value recognised as revenue for the year ended 31st March, 20X2 per AS 7 (Revised)

= Contract price x percentage of completion

= ₹ 45 lakh x 68.28% = ₹ 30.73 lakhs.

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

According to of AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

04. ACCOUNTING STANDARD 9 REVENUE RECOGNITION

QUESTION :

PQR Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 20X1-X2 the company wants to recognize the entire interest receivable. Do you agree?

ANSWER :

As per AS 9 'Revenue Recognition', where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments.

Thus, PQR Ltd. cannot recognise the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstanding is also an estimate based on previous record and is not certain. Hence, the company is advised to recognise interest receivable only on receipt basis.

05. ACCOUNTING STANDARD 10 PROPERTY, PLANT AND EQUIPMENT

QUESTION :

Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

Cost of preparation of site for installation	21,200
Total Labour charges	56,000
(200 out of the total of 500 men hours worked,	
were spent on installation of the machinery)	
Spare parts and tools consumed in installation	5,000
Total salary of supervisor	26,000
(Time spent for installation was 25% of the total time worked)	
Total technical expense	34,000
(1/10 relates to the plant installation)	
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.20X1 but was used from 01.02.20X1. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

ANSWER :

Calculation of Cost of Plant

Particulars		₹
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000

Supervisor's Salary	25% of ₹ 26,000	6,500
Technical costs	1/10 of ₹ 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		(40,000)
Value to be capitalized		7,39,500

Note: Further Expenses of ₹ 8,900 from 15.1.20X1 to 1.2.20X1 to be charged to profit and loss A/c as plant was ready for production on 15.1.20X1.

06. ACCOUNTING STANDARD 12 ACCOUNTING FOR GOVERNMENT GRANTS

QUESTION :

Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2024. The company debited the said amount to its machinery account in 2024 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2024 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

ANSWER :

As per the facts of the case, Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

07. ACCOUNTING STANDARD 13 ACCOUNTING FOR INVESTMENTS

QUESTION (REFER Q.NO. 34 IN CLASS BOOK)

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of

₹ 4,25,000. It also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 20X1.

Market values as on 31st March, 20X4, of the above investments are as follows:

Shares	₹ 3,50,000
Gold	₹ 10,25,000
Silver	₹ 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 20X4 as per the provisions of AS 13.

ANSWER :

As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31 March 20X4, i.e., ₹ 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31stMarch, 20X1) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 20X4, i.e., ₹ 8,00,000 and ₹3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 20X4 as per AS 13.

08. ACCOUNTING STANDARD 16 BORROWING COSTS

QUESTION :

Expert Limited issued 12% secured debentures of ₹ 100 lakhs on 01.06.20X1. Money raised from debentures to be utilized as under:

Intended Purpose	Amount ₹ in lakhs
Construction of factory building	40
Working Capital	30
Purchase of Machinery	15
Purchase of Furniture	2
Purchase of truck	13

Additional Information:

(i) Interest on debentures for the Financial Year 20X1-20X2 was paid by the Company.

(ii) During the year, the company invested idle fund of ₹ 5 lakhs (out of the money raised from debentures) in Bank's fixed deposit and earned interest of ₹ 50,000.

(iii) In March, 20X2 construction of factory building was not completed (it is expected that it will take another 6 months).

(iv) In March 20X2, Machinery was installed and ready for its intended use.

(v) Furniture was put to use at the end of March 20X2.

(vi) Truck is going to be received in April, 20X2.

You are required to show the treatment of interest as per AS 16 in respect of borrowing cost for the year ended 31st March, 20X2 in the Books of Expert Limited.

ANSWER :

According to AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. As per the Standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost = ₹ 10,00,000 (100 lakhs x 12% x 10/12) – ₹ 50,000 = ₹ 9,50,000

Particulars	Nature of assets	Interest to be capitalized (₹)	Interest to be charged to Profit & Loss Account (₹)
Constructionof factory building	Qualifying Asset	9,50,000x40/100 = ₹ 3,80,000	NIL
Purchase of Machinery	Not a Qualifying Asset	NIL	9,50,000x15/100 = 1,42,500
Purchase of and furniture	Not a Qualifying Asset	NIL	9,50,000x2/100 =19,000
Purchase of truck	Not a Qualifying Asset	NIL	9,50,000x13/100 = 1,23,500
Working Capital	Not a Qualifying Asset	NIL	9,50,000x30/100 = ₹ 2,85,000
Total		₹ 3,80,000	₹ 5,70,000

09. ACCOUNTING STANDARD 17 SEGMENT REPORTING

QUESTION (REFER Q.NO. 18 IN CLASS BOOK)

The Senior Accountant of AMF Ltd. gives the following data regarding its five segments:

(₹ in lakhs)

Particulars	P	Q	R	S	T	Total
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS-17 'Segment Reporting'.

ANSWER :

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments. Accordingly,

(a) On the basis of revenue from sales criteria, segment P is a reportable segment.

(b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).

(c) On the basis of asset criteria, all segments except T are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

10. ACCOUNTING STANDARD 20 EARNINGS PER SHARE

QUESTION (REFER Q.NO. 31 IN CLASS BOOK)

Following information is supplied by K Ltd.:

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹ 98

Last date of exercising rights - 30-06-20X2.

Fair value of one equity share immediately prior to exercise of right on 30-06-20X2 is ₹ 102.

Net Profit to equity shareholders:

20X1-20X2 - ₹ 50,00,000

20X2-20X3 -₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earnings per Share.

ANSWER :

$$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{102 \times 2{,}50{,}000 \text{ Shares } +` \ 98 \times 1{,}00{,}000 \text{ shares}}{3{,}50{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = 102/100.86 = 1.01$$

Computation of earnings per share:

EPS for the year 20X1-X2 as originally reported : ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 20X1-X2 restated for rights issue: = ₹ 50,00,000 / (2,50,000 shares x 1.01)

= ₹ 19.80

EPS for the year 20X2-X3 including effects of rights issue: EPS = 75,00,000/3,25,625* = ₹ 23.03

* [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 shares

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

11. ACCOUNTING STANDARD 21 CONSOLIDATED FINANCIAL STATEMENTS

QUESTION (REFER Q.NO. 45 IN CLASS BOOK)

Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 20X4:

Particulars	Chand Ltd (₹)	Sitara Ltd. (₹)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000

Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 20X1 Chand Ltd., acquired 5,000 equity shares of ₹ 100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 20X3. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of ₹ 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹ 70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include ₹ 21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include ₹ 28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹ 5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 20X4 as per Schedule III to the Companies Act, 2013.

ANSWER :

Consolidated statement of profit and loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended on 31st March, 20X4

Particulars	Note No.	₹
Revenue from operations	1	50,03,250
Other Income	2	1,81,000
Total revenue (I)		51,84,250
Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	8,43,250
Total expenses (II)		**41,33,250**
Profit before tax (II-III)		**10,51,000**

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Chand Ltd.		33,25,000	
	Sitara Ltd.		19,07,500	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Sitara Ltd. from Chand Ltd.		(28,000)	
	Royalty received by Chand Ltd. from Sitara Ltd.		(5,000)	
	Brokage received by Chand Ltd. from Sitara Ltd.		(21,250)	50,03,250
2.	Other Income			
	Dividend income			

	Chand Ltd.	1,68,000		
	Sitara Ltd.	43,750	2,11,750	
	Loss on sale of investments Sitara Ltd.		(26,250)	
	Other Non-operating Income			
	Chand Ltd.	35,000		
	Sitara Ltd.	10,500		
	Less: Dividend realized from Sitara Ltd. (5,00,000 x 10%)	(50,000)	4,500	1,81,000
3.	Cost of material purchased / consumed			
	Chand Ltd.	13,93,000		
	Sitara Ltd.	4,72,500		
		18,65,500		
	Less: Purchases by Sitara Ltd. From			
	Chand Ltd.	(1,75,000)	16,90,500	
	Direct expenses (Production)			
	Chand Ltd.	3,15,000		
	Sitara Ltd.	1,40,000	4,55,000	21,45,500
4.	Changes (Increase) in inventories of finished goods			
	Chand Ltd.		4,37,500	
	Sitara Ltd.		75,250	
			5,12,750	
	Less: Unrealized profits ₹ 7,00,00 × 20/100		(14,000)	4,98,750
5.	Employee benefits and expenses Wages and salaries:			
	Chand Ltd.		13,30,000	
	Sitara Ltd.		2,45,000	15,75,000
6.	Finance cost Interest:			
	Chand Ltd.		17,500	
	Sitara Ltd.		5,250	22,750
7.	Depreciation			

	Chand Ltd.		31,500	
	Sitara Ltd.		14,000	45,500
8.	Other expenses			
	General & Administrative expenses:			
	Chand Ltd.	2,80,000		
	Sitara Ltd.	1,22,500		
		4,02,500		
	Less: Consultancy fees received by Sitara Ltd. from Chand Ltd.	(28,000)	3,74,500	
	Royalty:			
	Sitara Ltd.	5,000		
	Less: Received by Chand Ltd.	(5,000)	Nil	
	Selling and distribution Expenses:			
	Chand Ltd.	3,32,500		
	Sitara Ltd.	1,57,500		
		4,90,000		
	Less: Brokerage received by Chand Ltd. from Sitara Ltd.	(21,250)	4,68,750	8,43,250

12. ACCOUNTING STANDARD 24 DISCONTINUING OPERATIONS

QUESTION (REFER Q.NO. 1 IN CLASS BOOK)

A consumer goods producer has changed the product line as follows:

	Dish washing Bar	Clothes washing Bar
	(Per month)	(Per month)
January 2021 - September 2021	2,00,000	2,00,000
October 2021 - December 2021	1,00,000	3,00,000
January 2022 - March 2022	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2021 to this effect. The company follows calendar year as its accounting year.

You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

ANSWER :

As per AS 24 'Discontinuing Operations', a discontinuing operation is a

component of an enterprise:

(i) that the enterprise, pursuant to a single plan, is:

  (1) disposing of substantially in its entirety,

  (2) disposing of piecemeal, or

  (3) terminating through abandonment; and

(ii) that represents a separate major line of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

13. ACCOUNTING STANDARD 26 INTANGIBLE ASSETS

QUESTION (REFER Q.NO. 29 IN CLASS BOOK)

As per provisions of AS-26, how would you deal to the following situations:

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 20X1-X2, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting

year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

ANSWER :

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 20X2 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense

(iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

14. AS 29 (REVISED) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

QUESTION (REFER Q.NO. 14 IN CLASS BOOK)

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	Amount (₹)
11th Feb, 20X0	60,000
25th Dec, 20X0	40,000
04th Oct, 20X1	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 20X1 and 31st March, 20X2. Also compute amount to be debited to P & L account for the year ended 31st March, 20X2.

ANSWER :

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 20X1 = ₹ 60,000 x .02 + ₹ 40,000 x .03

= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st March, 20X2 = ₹ 40,000 x .02 + ₹ 1,35,000 x .03

= ₹ 800 + ₹ 4,050 = ₹ 4,850

Amount debited to Profit and Loss Account for year ended 31 st March, 20X2

	₹
Balance of provision required as on 31.03.20X2	4,850
Less: Opening Balance as on 1.4.20X1	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 20X2 in respect of sales amounting ₹ 60,000 made on 11th February, 20X0 as the warranty period of 2 years has already expired.

15. BUY-BACK OF SECURITIES

QUESTION :

The following information from Balance Sheet of Z Ltd. as on 31st March ,20X1:

	₹ Lakhs
Share Capital:	
Equity shares of ₹ 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	5,000
Reserves & Surplus	
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
Secured Loans:	
9% Debentures	10,000
Current Liabilities:	
Trade payables	4,600
Sundry Provisions	2,000
Fixed Assets	28,000
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 20X1 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

ANSWER :

(i) Journal Entries in the books of Z Ltd.

(₹ in lakhs)

	Particulars			
1.	Bank A/c	Dr.	5,000	
	To Investments A/c			4,700
	To Profit and Loss A/c			300
	(Being investment sold on profit for the purpose of buy-back)			
2.	10% Redeemable Preference Share Capital A/c	Dr.	5,000	
	Premium on Redemption of Preference Shares A/c	Dr.	500	
	To Preference Shareholders A/c			5,500
	(Being redemption of preference share capital at premium of 10%)			
3.	Profit and Loss A/c	Dr.	500	
	To Premium on Redemption of Preference Shares A/c			500
	(Being premium on redemption of preference shares adjusted through securities premium)			
4.	Equity Share Capital A/c	Dr.	1,600	
	Premium on buyback	Dr.	1,600	
	To Equity buy-back A/c			3,200
	(Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)			
5.	Securities Premium A/c (1,600)	Dr.	1,600	
	To Premium on Buyback A/c			1,600
	(Being premium on buyback provided out of securities premium)			
6.	Preference Shareholders A/c	Dr.	5,500	
	Equity buy-back A/c	Dr.	3,200	

	To Bank A/c			8,700
	(Being payment made to preference shareholders and equity shareholders)			
7.	General Reserve Account	Dr.	6,600	
	To Capital Redemption Reserve Account			6,600
	(Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)			

ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

(₹ Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	**Shareholders' Funds:**		
	(a) Share Capital	1	14,400
	(b) Reserves and Surplus	2	14,400
(2)	**Non-Current Liabilities:**		
	(a) Long Term Borrowings	3	10,000
(3)	**Current Liabilities:**		
	(a) Trade payables		4,600
	(b) Short Term Provisions		2,000
	Total		45,400
(II)	**ASSETS**		
(1)	**Non-Current Assets**		
	PPE		28,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		900
	(b) Other Current Assets		16,500
			45,100

Notes to Accounts

				₹ in lakhs
1.	**Share Capital**			
	1,440 lakh Equity Shares of ₹ 10 each Fully Paid up (160 lakh Equity Shares bought back)			14,400
2.	**Reserves and Surplus**			
	General Reserve	12,000		
	Less: Transfer to CRR	(6,600)	5,400	
	Capital Redemption Reserve	2,000		
	Add: Transfer due to buy-back of shares from Gen. res.	6,600	8,600	
	Securities premium	1,600		
	Less: Adjustment for premium paid on buy back	(1,600)		
	Profit & Loss A/c	600		
	Add: Profit on sale of investment	300		
	Less: Adjustment for premium paid on redemption of preference shares	(500)		
			400	14,400
3.	**Long-term borrowings**			
	Secured			
	9 % Debentures			10,000

Working Note:

Bank Account

	Amount		Amount
	(₹ Lakhs)		**(₹ Lakhs)**
To balance b/d	4,600	By Preference Shareholders A/c	5,500
To Investment A/c (Sale Proceeds)	5,000	By Equity buy back A/c.	3,200

		By Balance c/d (Balancing figure)	900
	9,600		9,600

16. AMALGAMATION OF COMPANIES

QUESTION :

The following information from Balance Sheet of X Ltd. as at 31st March, 20X1:

	₹
4,000 Equity shares of ₹ 100 each	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

(1) Y Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) Y Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 20X1 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 20X1. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 20X1 after the takeover.

ANSEWR :

Books of X Limited

Realisation Account

		₹			₹
To	Building	1,70,000	By	Trade payables	1,60,000
To	Machinery	3,20,000	By	Y Ltd.	6,05,000
To	Inventory	1,10,000	By	Equity Shareholders (Loss)	38,000
To	Trade receivables	1,30,000			
To	Patent	65,000			
To	Bank (Exp.)	8,000			
		8,03,000			8,03,000

Bank Account

To Balance b/d	68,000	By Realisation (Exp.)	8,000
To Y Ltd.	3,00,000	By 10% Debentures	2,00,000
		By Loan	80,000
		By Equity shareholders	80,000
	3,68,000		3,68,000

10% Debentures Account

To Bank	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

Loan Account

To Bank	80,000	By Balance b/d	80,000
	80,000		80,000

Share Issue Expenses Account

To Balance b/d	17,000	By Equity shareholders	17,000
	17,000		17,000

General Reserve Account

To Equity Shareholders	40,000	By Balance b/d	40,000

	40,000		40,000

Y Ltd. Account

To Realisation A/c	6,05,000	By Bank	3,00,000
		By Equity share in Y Ltd. (2,440 shares at ₹ 125 each)	3,05,000
	6,05,000		6,05,000

Equity Shares in Y Ltd. Account

To Y Ltd.	3,05,000	By Equity shareholders	3,05,000
	3,05,000		3,05,000

Equity Share Holders Account

To Realisation	38,000	By Equity share capital	4,00,000
To Share issue Expenses	17,000	By General reserve	40,000
To Equity shares in B Ltd.	3,05,000		
To Bank	80,000		
	4,40,000		4,40,000

Y Ltd

Balance Sheet as on 1st April, 20X1 (An extract)

	Particulars	Notes	₹
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	2,44,000
b	Reserves and Surplus	2	53,500
2	**Current liabilities**		
a	Trade Payables	3	1,40,000
b	Bank overdraft		3,00,000
	Total		**7,37,500**
	Assets		
1	**Non-current assets**		
a	Property, Plant and Equipment	4	4,41,000

	Intangible assets	5	1,08,000
2	**Current assets**		
a	Inventories	6	91,500
b	Trade receivables	7	97,000
			7,37,500

Notes to Accounts

			₹
1	**Share Capital**		
	Equity share capital		
	2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		2,44,000
	Total		2,44,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		61,000
	Profit and loss account		
	Less: Unrealised profit	(7,500)	(7,500)
	Total		53,500
3	**Trade payables**		
	Opening balance	1,60,000	
	Less: Inter-company transaction cancelled upon amalgamation	(20,000)	1,40,000
4	**Property, Plant and Equipments**		
	Buildings		1,53,000
	Machinery		2,88,000
	Total		4,41,000
5	**Intangible assets**		
	Goodwill		1,08,000
6	**Inventories**		
	Opening balance	99,000	
	Less: Cancellation of profit upon amalgamation	(7,500)	91,500
7	**Trade receivables**		

	Opening balance	1,17,000	
	Less: Intercompany transaction cancelled upon amalgamation	(20,000)	97,000

Working Notes:

1.	**Valuation of Goodwill**	₹
	Average profit	62,200
	Less: 8% of ₹ 4,40,000	(35,200)
	Super profit	27,000
	Value of Goodwill = 27,000 x 4	1,08,000
2.	**Net Assets for purchase consideration**	
	Goodwill as valued in W.N.1	1,08,000
	Building	1,53,000
	Machinery	2,88,000
	Inventory	99,000
	Trade receivables (1,30,000-13,000)	1,17,000
	Total Assets	7,65,000
	Less: Trade payables	(1,60,000)
	Net Assets	6,05,000
3	**Unrealised Profit on Inventory**	
	The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be [20,000/80,000 x 50,000]	12,500
	As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	(5,000)
	Amount of unrealized profit	7,500

17. FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

QUESTION :

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom- made machine ₹ 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2.

ANSWER :

A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal Entry

Loss on change in production method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method			1,00,000
(Loss transferred to profit and loss account)			

18. (MCQs based on CASE SCENARIOS)

CASE SCENARIO 1 (REFER VIDEO RTP MAY 2024 Q.NO. 1)

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipments/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.
- Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

i. Nationalisation or privatization by government

ii. Out of court settlement of a legal claim

iii. Rights issue of equity shares

iv. Strike by workforce

v. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.

RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was ₹ 1,000. The entire quantity of waste was on stock at the end of the financial year.

(i) When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?

(a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

(b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

(c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.

(d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

(ii) In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts?

(a) ₹ 4,700,000.

(b) ₹ 5,000,000.

(c) ₹ 4,950,000.

(d) ₹ 4,947,368.

(iii) Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.

(a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.

(b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.

(c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.

(d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

ANSWERS :

(i)	(b)	(ii)	(d)	(iii)	(d)

CASE SCENARIO 2 (REFER VIDEO RTP SEPTEMBER 2024 Q.NO. 1)

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

(i) How much revenue should be recognised by the Company as on March 31, 2024:

(a) ₹ 2,25,000

(b) ₹ 2,17,500

(c) ₹ 2,00,000

(d) ₹ 2,30,000

(ii) How much revenue should be recognised by the Company in the financial year 2024-25:

(a) ₹ 5000

(b) ₹ 2,20,000

(c) ₹ 10,000

(d) ₹ 2,40,000

(iii) What will be the accounting for trade discount:

(a) The same will be recognised separately in the profit and loss.

(b) The trade discounts are deducted in determining the revenue.

(c) Trade discount will be recognised after one year, when the warranty will be over.

(d) Trade discount will be recognised after installation is complete.

(iv) Is the Company required to do any accounting for 1 year warranty provided by it:

(a) No accounting treatment is required till some warranty claim is actually received by the Company.

(b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

(c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.

(d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

ANSWER :

(i)	(b)	(ii)	(a)	(iii)	(b)	(iv)	(b)

CASE SCENARIO 3 (REFER VIDEO MTP 2 APRIL 2024 CASE 1)

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- It has acquired land for installing Plant for ₹ 50,00,000
- It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
- The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
- The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
- On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
- With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
- The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

(i) Which of the following expenses cannot be included in the cost of plant:

(a) Cost of Land

(b) Construction material and labour cost

(c) Head office expenses

(d) Borrowing cost

(ii) How much amount of borrowing cost can be capitalised with the plant:

(a) ₹ 300,000

(b) ₹ 2,00,000

(c) ₹ 7,00,000

(d) ₹ 6,00,000

(iii) The total cost of plant as on march 31, 2024 will be:

(a) ₹ 85,00,000

(b) ₹ 98,00,000

(c) ₹ 93,00,000

(d) ₹ 95,00,000

(iv) The amount of depreciation to be charged for the year end March 31, 2024

(a) ₹ 4,30,000

(b) ₹ 9,30,000

(c) ₹ 9,80,000

(d) Nil

ANSWERS :

(i)	(c)	(ii)	(b)	(iii)	(c)	(iv)	(d)

CASE SCENARIO 4 (REFER VIDEO MTP 2 APRIL 2024 CASE 2)

Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly- owned subsidiary.
- The Company paid a total income tax of ₹ 75 lacs for the year. Based on the above information, answer the following questions.

(i) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(ii) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iii) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iv) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(v) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:

(a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.

(b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures

(c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments

(d) No specific disclosures are required.

ANSWERS :

(i)	(a)	(ii)	(a)	(iii)	(b)	(iv)	(a)	(v)	(b)

CASE SCENARIO 5 (REFER VIDEO MTP 1 JULY 2024 Q.NO. 2)

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery.

There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

(i) The land received from Government, free of cost should be presented at:

(a) ₹ 75 Lakhs

(b) ₹ 30 Lakhs

(c) ₹ 10 Lakhs

(d) ₹ 45 Lakhs

(ii) As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:

(a) It should be recognised in the profit and loss statement as per the related cost.

(b) It will be treated as capital reserve.

(c) It will be treated as deferred income.

(d) It will not be recognised in the financial statements.

(iii) As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:

(a) Capital Reserve

(b) Shareholders Fund

(c) Deferred Income

(d) Income in statement of profit and loss as received.

(iv) Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:

(a) Land received as Grant

(b) Government Grant of ₹ 30 Lakhs

(c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery

(d) Noe of the above

ANSWERS :

(i)	(c)	(ii)	(b)	(iii)	(c)	(iv)	(c)

CASE SCENARIO 6 (REFER VIDEO MTP 1 JULY 2024 Q.NO. 3)

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the

Company also received income tax refund along with interest.

(i) As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:

(a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.

(b) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.

(c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.

(d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

(ii) At what amount, the machinery should be recognised in the financial statements:

(a) ₹ 400,000

(b) ₹ 10,30,000

(c) ₹ 600,000

(d) ₹ 10,00,000

(iii) How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:

(a) Cash flows from Operating Activities

(b) Cash flows from Investing Activities

(c) Cash flows from Financing Activities

(d) No disclosure in Cash Flow Statement

(iv) How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

(a) Cash flows from Operating Activities

(b) Cash flows from Investing Activities

(c) Cash flows from Financing Activities

(d) No disclosure in Cash Flow Statement

ANSWERS :

(i)	(c)	(ii)	(d)	(iii)	(b)	(iv)	(b)

CASE SCENARIO 7 (REFER VIDEO MTP 1 MARCH 2024 CASE 1)

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.

(i) What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?

(a) Gross basis.

(b) Net basis.

(c) Depends on the accounting policy of the Company.

(d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

(ii) Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.

(a) MTM (marked to market value) of contract will be recorded on 31 March 2024.

(b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.

(c) No accounting will be done during the year ended 31 March 2024.

(d) Premium on contract will be amortized over the life of the contract.

(iii) You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.

(a) 1 – Change in accounting policy. 2 – Change in accounting policy.

(b) 1– Not a change in accounting policy. 2 – Change in accounting policy.

(c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.

(d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

(iv) Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.

(a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.

(b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.

(c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.

(d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

ANSWERS :

(i)	(a)	(ii)	(d)	(iii)	(c)	(iv)	(c)

CASE SCENARIO 8 (REFER VIDEO MTP 1 MARCH 2024 CASE 2)

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

(i) Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?

(a) ₹ 2,00,000 incurred as legal cost

(b) ₹ 60,000 – costs of relocating employees

(c) ₹ 80,000 costs of inauguration ceremony

(d) ₹ 24,000 – allocated general overhead cost

(ii) What amount of employment cost of construction workers will be capitalized to the cost of factory building?

(a) ₹ 2,90,000

(b) ₹ 3,48,000

(c) ₹ 2,32,000

(d) ₹ 29,000

(iii) What is the amount of net borrowing cost capitalized to the cost of the factory?

(a) ₹ 1,89,000

(b) ₹ 1,68,000

(c) ₹ 1,44,000

(d) ₹ 1,64,000

(iv) What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?

(a) ₹ 30,00,000

(b) ₹ 57,78,125

(c) ₹ 27,78,125

(d) ₹ 58,00,000

ANSWERS :

(i)	(a)	(ii)	(c)	(iii)	(d)	(iv)	(b)

NOTES