



SUPER 100

**EXAM
RELEVANT**

AS QUESTIONS



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Introduction & Applicability of Accounting Standards

1. A company with a turnover of ₹ 225 crores and borrowings of ₹ 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3. 2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Quick Revision Highlights:

Answer: The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

2. A company was classified as Non-SMC in 2021-22. In 2022-23, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 2022-23. However, the accountant of the company does not agree with the same. Comment.

Quick Revision Highlights:

Answer: As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or

relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 2022-23.

3. Ravi Traders, an unlisted partnership firm, had a turnover of ₹230 crore and borrowings of ₹45 crore during the financial year 2023-24. It is not a bank, financial institution, or insurance company, and also not a subsidiary of any other entity. The firm wishes to avail MSME exemptions for FY 2024-25. Is it eligible?

Quick Revision Highlights:

Answer: Yes, Ravi Traders qualifies as an MSME since it meets all five criteria: it is unlisted, not a bank/FI/insurance company, turnover < ₹250 crore, borrowings < ₹50 crore, and not a subsidiary/holding. Hence it can avail MSME exemptions in FY 2024-25.

Further, it has been assumed that Ravi Traders is not newly qualifying as an MSME in FY 2024-25 because a non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for two consecutive years. Until then, full AS compliance is required.

4. Om Finserv LLP had a turnover of ₹180 crore and borrowings of ₹55 crore in FY 2023-24. It is not a listed entity or a financial institution or a subsidiary of any entity. Can it classify as an MSME and avail related exemptions in FY 2024- 25?

Quick Revision Highlights:

Answer: No, Om Finserv LLP cannot be classified as an MSME because its borrowings exceeded ₹ 50 crore, which violates one of the key conditions for qualifying as an MSME. It will be treated as a Large entity and would have to comply fully with all the applicable Accounting Standards.

Framework for preparation & Presentation of Financial Statements

5. Balance sheet of a trader on 31st March, 2021 is given below

Liabilities	₹	Assets	₹
Capital	60,000	Property, Plant and Equipment	65,000
Profit and Loss Account	25,000	Stock	30,000
10% Loan	35,000		20,000

Trade payables	10,000	Trade receivables	10,000
		Deferred costs	5,000
	1,30,000	Bank	1,30,000

Additional information:

- The remaining life of fixed assets is 5 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.22 was ₹ 60,000.
- The trader's purchases and sales in 2021-22 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.
- The cost and net realisable value of stock on 31.03.22 were ₹ 32,000 and ₹ 40,000 respectively.
- Expenses for the year amounted to ₹ 14,900.
- Deferred cost is amortised equally over 4 years.
- Debtors on 31.03.22 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.
- Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.
- Cash balance on 31.03.22 is ₹ 37,100.
- There is an early repayment penalty for the loan ₹ 2,500.

The Profit and Loss Accounts and Balance Sheets of the trader are shown below in two cases (i) assuming going concern (ii) not assuming going concern

Quick Revision Highlights:

Answer: Profit and Loss Account for the year ended 31st March, 2022

	Case (i)	Case (ii)		Case (i)	Case (ii)
To Opening Stock	30,000	30,000	By Sales	4,50,000	4,50,000
To Purchases	4,00,000	4,00,000	By Closing Stock	32,000	40,000
To Expenses	14,900	14,900	By Trade payables	-	600
To Depreciation	13,000	5,000			
To Provision for doubtful debts	2,000	6,000			
To Deferred expenditure	2,500	10,000			
To Loan penalty	-	2,500			
To Net Profit(b.f.)	19,600	22,200			
	4,82,000	4,90,600		4,82,000	4,90,600

Balance Sheet as at 31st March, 2022

Liabilities	Case (i)	Case (ii)	Assets	Case (i)	Case (ii)
Capital	60,000	60,000	PPE	52,000	60,000
Profit & Loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade receivables (less provision)	23,000	19,000
Trade payables	12,000	11,400	Deferred expenditure	7,500	Nil
			Bank	37,100	37,100
	1,51,600	1,56,100		1,51,600	1,56,100

6. A trader commenced business on April 1, 2020 with ₹ 1,20,000 represented by 6,000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

Quick Revision Highlights:

Answer:

a) Physical Capital Maintenance at Current Cost

Retained Profit = Closing Capital - (Opening Capital + Addition/20 × 25)

= ₹ 1,20,000 - ((₹ 1,20,000 + Nil)/20 × 25)

= ₹ 1,20,000 - ₹ 1,50,000

= (₹ 30,000)

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 - ₹ 30,000)

b) If the trader had not withdrawn any amount, then the answer would have been as below:

Retained Profit = Closing Capital - (Opening Capital + Addition/20 × 25)

= ₹ 1,80,000 - ((₹ 1,20,000 + Nil)/20 × 25)

= ₹ 1,80,000 - ₹ 1,50,000

= ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

Quick Revision Highlights:

7. Suppose at the beginning of an accounting period, aggregate values of assets, liabilities and equity of a trader are ₹ 5 lakh, ₹ 2 lakh and ₹ 3 lakh respectively.

Also suppose that the trader had the following transactions during the accounting period.

- (a) Introduced capital ₹ 20,000.
- (b) Earned income from investment ₹ 8,000.
- (c) A liability of ₹ 31,000 was finally settled on payment of ₹ 30,000. Wages paid ₹ 2,000.
- (d) Rent outstanding ₹ 1,000.
- (e) Drawings ₹ 4,000.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

Quick Revision Highlights:

Answer: Effects of each transaction on Balance sheet of the trader is shown below

Transactions	Assets ₹ lakh	-	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	5.00	-	2.00	=	3.00
(a) Capital introduced	5.20	-	2.00	=	3.20
(b) Income from investments	5.28	-	2.00	=	3.28
(c) Settlement of liability	4.98	-	1.69	=	3.29
(d) Wages paid	4.96	-	1.69	=	3.27
(e) Rent Outstanding	4.96	-	1.70	=	3.26
(f) Drawings	4.92	-	1.70	=	3.22

AS 1 Disclosure of Accounting Policies

8. State whether the following statements are 'True' or 'False'. Also give reason for your Solution:

- a) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- b) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- c) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- d) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- e) There is no single list of accounting policies which are applicable to all circumstances.

Quick Revision Highlights:

Answer:

- a) **False:** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- b) **False:** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- c) **True:** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
- d) **False:** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- e) **True:** As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

9. ABC Financial Services Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions

in a Special Court. ABC Financial Services Ltd. has accepted Inter Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the Profit and Loss Account.

State whether the treatment done by the company is correct or not as per relevant accounting Standard.

Quick Revision Highlights:

Answer: AS - 1 'Disclosure of Accounting Policies' recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Also as per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non-payment of interest in respect of overdue amount. From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case.

Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct

10. Jagannath Ltd. Had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹40 crores during the accounting year to end on 31st March, 2022. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹10 crores. The board in consultation with the managing director, decided on the following:

- (i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of

valuation of inventory at prime cost (₹ 30 crores).

- (ii) Provide for permanent diminution in the value of investments, which had taken place over the past five years, the amount of provision being ₹10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2021-2022.

Quick Revision Highlights:

Answer: As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

- (i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year has increased by ₹ 20 crores.
- (ii) The company has decided to provide ₹10 crores for the permanent diminution in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹10 crores.

11. ABC Ltd. was making provision for non-moving inventories based on issues for the last 12 months up to 31.3.2016. The company wants to provide during the year ending 31.3.2017 based on technical evaluation:

Total value of inventory	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Quick Revision Highlights:

Answer: The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2016-17:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh."

AS 2 Valuation of Inventories

12. HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available:
- Sales ₹ 47,25,000
 - General overheads cost ₹ 1,25,000
 - Inventory at beginning 1,00,000 litres @ ₹ 15/- per litre
 - Purchases
 - June 1 two lakh litres @ 14.25
 - June 30 one lakh litres @ 15.15
 - Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS-2:

- Value of Inventory on June 30
- Amount of cost of goods sold for June.
- Profit/ Loss for the month of June.

Quick Revision Highlights:

Answer: Valuation by FIFO

	Particulars	Qty.	Calculation	₹
	Opening Stock	1,00,000	1,00,000 × ₹ 15	15,00,000
	Purchase 1 st June	2,00,000	2,00,000 × ₹ 14.25	28,50,000

	Purchase 30 th June	1,00,000	1,00,000 × ₹ 15.15	15,15,000
	Total	4,00,000		58,65,000
(i)	Less: Closing Stock	1,30,000	1,00,000 @ 15.15 = 15,15,000 30,000 @ 14.25 = 4,27,500	19,42,500
(ii)	Cost of goods sold	2,70,000		39,22,500
	Sales			47,25,000
	Less: Cost of Goods Sold			(39,22,500)
	Less: General OH Cost			(1,25,000)
(iii)	Net Profit			6,77,500

13. A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

Particulars	₹ Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

- (a) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.
(b) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

- (i) Net realizable value of Chemical Y is ₹ 800 per unit
(ii) Net realizable value of Chemical Y is ₹ 600 per unit

Quick Revision Highlights:

Answer:

- (i) **When Net Realizable Value of the Chemical Y is ₹ 800 per Unit**

NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.) Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

Particulars	Calculation	Amount (₹)
Raw Material X	1,000 units x ₹440	4,40,000
Finished Goods Y	2,400 units x ₹660	15,84,000
Total Value of Closing Stock		20,24,000

(ii) When Net Realizable Value of the Chemical Y is ₹ 600 per unit

NRV is less than the cost of Finished Goods Y i.e. ₹ 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

Particulars	Calculation	Amount (₹)
Raw Material X	1,000 units x ₹ 300	3,00,000
Finished Goods Y	2,400 units x ₹ 600	14,40,000
Total Value of Closing Stock		17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/20,000 units)	20
Cost	660

14. Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.
- 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.
 - 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.
 - 1,500 units of finished Product X and total cost incurred Rs.320 per unit. Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

Quick Revision Highlights:

Answer: As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320.

Hence the valuation will be done as under:

- (i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.
- (ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost (₹ 260) or Net realisable value ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).
- (iii) 1,500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹ 320 of product X.

Valuation of Total Inventory as on 31.03.20X1:

	Units	Cost (₹)	NRV / Replacement cost	Value = units x cost or NRV whichever is less(₹)
Raw material A	600	120	90	54,000
Partly finished goods	500	260	(300 - 60) 240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

AS 3 Cash Flow Statement

AS-3 "Cash Flow Statement" has already been covered in the Cash Flow Statement chapter

AS 4 Contingencies & Event Occurring After the Balance Sheet Date

15. While preparing its final accounts for the year ended 31st March, 2021 a company made a provision for bad debts @ 5% of its total trade receivables. In the last week of February, 2021 a trade receivable for ₹ 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2021 the trade receivable became a bankrupt. Can the company provide for the full loss arising out of insolvency of the trade receivable in the final accounts for the year ended 31st March, 2021?

Quick Revision Highlights:

Answer: As per Accounting Standard 4, Assets and Liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist estimation of amounts relating to conditions existing at the balance sheet date. So full provision for bad debt amounting to ₹ 2 lakhs should be made to cover the loss arising due to the insolvency in the Final Accounts for the year ended 31st March, 2021. It is because earthquake took place before the balance sheet date. Had the earthquake taken place after 31st March, 2021, then this would have been treated as non-adjusting event and only disclosure required as per AS 4 (Revised), would have been sufficient.

16. Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2013, the company wants to recognize receipt of cheques bearing date 31st March, 2013 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques are presented to the bank in the month of April 2013 and are also realized in the same month in normal course after deposit in the bank. State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard.
- Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.
 - Cheques sent by the stockists through courier on or before 31st March, 2013.

Quick Revision Highlights:

Answer:

- Cheques collected by the marketing personnel of the company is an adjusting event as the marketing personnel are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockist to the marketing employees discharges the

liability of the stockist. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2013 require adjustment from the stockists' accounts i.e. from 'Trade Receivables A/c' even though these cheques (dated on or before 31st March, 2013) are presented in the bank in the month of April, 2013 in the normal course. Hence, collection of cheques by the marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'. Such 'cheques in hand' will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.

- b. Even if the cheques bear the date 31st March or before and are sent by the stockists through courier on or before 31st March, 2013, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2013 does not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

17. State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013:

- a. An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on 15th April, 2013.
- b. The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.

Quick Revision Highlights:

Answer:

- a. According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2013 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013.

- b. AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2013.

Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2013 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

18. A Limited Company closed its accounting year on 30.6.2021 and the accounts for that period were considered and approved by the board of directors on 20th August, 2021. The company was engaged in laying pipeline for an oil company deep beneath the earth. While doing the boring work on 1.9.2021 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of ₹ 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2021.

Quick Revision Highlights:

Answer: AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above-mentioned definition and requirements given in AS 4 (Revised). In this case the incidence, which was expected to push up cost, became evident after the date of approval of the accounts. So it is not an 'event occurring after the balance sheet date'.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

19. The company finds that the inventory sheets of 31.3.2021 did not include two pages containing details of inventory worth ₹ 14.5 lakhs. State, how you will deal with the following matters in the accounts of Omega Ltd. for the year ended 31st March, 2022.

Quick Revision Highlights:

Answer: AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".

Rectification of error in inventory valuation is a prior period item vide AS 5. Separate disclosure of this item as a prior period item is required as per AS 5.

20. The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS 5
- Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.
 - During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
 - Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
 - 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.
 - During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

Quick Revision Highlights:

Answer:

- In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
- As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex -gratia payments to employees on retirement is a transaction which is

substantially different from the previous policy, will not be treated as change in an accounting policy.

- c. Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.
- d. Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
- e. Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

21. Shama was working with ABC Ltd. drawing monthly salary of ₹ 25,000 per month. She went on maternity leave with pay for 7 months i.e. from 01.01.2017 to 31-7-17. Her salary for 3 months was not provided for in financial statements for F.Y. 2016-17 due to omission. When she joined after leave period, the whole salary for 7 months was paid to her. You are required to
- (i) Pass the necessary journal entries in F.Y. 2017-18 to record the above transaction as per accounting standard-5 and state reason for the same.
 - (ii) Would the treatment have been different, if Shama was terminated on 01-01-2017 and was reinstated in service by the court w.e.f. 01-08-2017 with instruction to pay Shama salary for the intervening period i.e. 01-01-2017 to 31-07-2017

Quick Revision Highlights:

Answer: As per AS 5 "Net Profit or Loss for the Period", Prior Period Items and Changes in Accounting Policies, the term 'prior period items', refers to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss so that their impact on the current profit or loss can be perceived. Hence, in this case salary paid to Shama for 3 months i.e. 1.1.2017 to 31.3.2017 ₹75,000 will be classified as prior period item in FY 2017-18 and following journal entry shall be passed:

- (i) Journal entry in FY 2017-18

Salary A/c (₹ 25,000 × 4)	Dr.	1,00,000	
Prior period item (₹ 25,000 × 3)	Dr.	75,000	
To Bank A/c			1,75,000
(Salary related to 7 months paid out of which 3 months' salary			

- (ii) AS 5 states that the term 'prior period items' does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Accordingly, in the second case though Shama was terminated on 1.1.2017 i.e. in 2016-2017, yet she was reinstated due to court's order in 2017-2018, with the instruction by the court to

pay the salary for the intervening period i.e. with retrospective effect from January, 2017. The adjustment of salary of ₹75,000 (for January 2017 to March, 2017) would not be considered as prior period item and will be accounted for in the books as current year expense. Thus the entire amount of Salary of ₹1,75,000 for January, 2017 to July, 2017 is a current year expense only.

Salary A/c (Rs 25,000 × 7) Dr. 1,75,000

To Bank A/c 1,75,000

(Salary related to 7 months paid i.e. for the period 1.1.2017 to 31.7.2017)

AS 7 Construction Contracts

22. M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The Contract Price was estimated at Rs. 150 Crore. Up to 31.03.2014, the Company incurred Rs. 120 Crores on the construction. The Engineers involved in the project estimated that a further Rs. 45 Crores would be incurred to complete it. What amount should be charged to revenue for the year 2013-2014 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s Highway Constructions.

Quick Revision Highlights:

Answer:

Calculation of cost, revenue and loss to be recognized

(Rs. In crores)

(a)	Cost incurred till date	120
	Add: Additional cost to be incurred	45
	Total estimate cost	165
	Total contract revenue	150
	Total Estimated Loss	15
(b)	Stage of completion = $\frac{\text{Cost Incurred}}{\text{Total Estimated Cost}} \times 100$ = $\frac{120}{165} \times 100 = 72.73\%$	
(c)	Revenue to be recognized (150 × 72.73%)	109.10
	Cost to be recognized 165 × 72.73%	120
	Loss incurred	10.9
	Additional loss to be provided = 15 - 10.9	4.1

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.

Profit & Loss A/c (extract) for the year ended 31.03.2014

Particulars	Rs.	Particulars	Rs.
To Contract Cost	120.00	By Contract Revenue (150 x 72.73%)	109.10
		By Loss	10.9
	120		120
To Loss	10.9	By Net Loss	15
To Provision for Loss	4.1		
	15		15

23. A construction contractor has a fixed price contract for Rs. 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

Particulars	(Amount Rs. in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
	-	200	200
Variation in Revenue (+)	2093	6168*	8100**
Contracts costs incurred up to the reporting date	950	1000	1000
Estimated profit for whole contract			

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

Quick Revision Highlights:

Answer: Calculation of revenue, expenses and profit recognized in the statement of profit and loss in three years are shown below: (Amount in ₹ lakhs)

Particulars	Upto the reporting date	Recognized in prior years	Recognized in current year
-------------	-------------------------	---------------------------	----------------------------

<u>Year 1</u>			
Revenue (9,000 × 26%)	2,340	-	2,340
Expenses (8,050 × 26%)	2,093	-	2,093
Profit	247	-	247
<u>Year 2</u>			
Revenue (9,200 × 74%)	6,808	2,340	4,468
Expenses (8,200 × 74%)	6,068	2,093	3,975
Profit	740	247	493
<u>Year 3</u>			
Revenue (9,200 × 100%)	9,200	6,808	2,392
Expenses (8,200 × 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note:

1. Stage of completion

(Amount in ₹ lakhs)

Particulars	Year 1	Year 2	Year 3
Revenue after consider variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6,068	8,200
	26%	(6,168 - 100) 74%	(8,100 + 100) 100%
Degree of completion (B/A)			

24. PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2012. Using this data and applying the relevant Accounting Standard you are required to:
- Compute the amount of profit/ loss for the year ended 31st March, 2012.
 - Arrive at the contract work in progress as at the end of financial year 2011-12.
 - Determine the amount of revenue to be recognized out of the total contract value.
 - Amount due from/ to customers as at year end.

	(Rs. in Crore)
Total Contract Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost of completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

Quick Revision Highlights:

Answer:

(i) Calculation of profit/ loss for the year ended 31st March, 2012

	(Rs. in crores)
Total estimated cost of construction (1,250 + 250 + 1,750)	3,250
Less: Total contract price	(2,400)
Total foreseeable loss to be recognized as an expense	850

According to AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(ii) Contract work-in-progress i.e. cost incurred to date

	(Rs. in crores)
Work certified	1,250
Work not certified	250
	1,500

(iii) Proportion of total contract value recognized as revenue

Percentage of completion of contract to total estimated cost of construction

$$= (1,500 / 3,250) \times 100 = 46.15\%$$

Revenue to be recognized till date = 46.15% of Rs. 2,400 crores = Rs. 1,107.60 crores.

(iv) Amount due from/ to customers = Contract costs + Recognized profits - Recognized losses - (Progress payments received + Progress payments to be received)

$$= \text{Rs. } [1,500 + \text{Nil} - 850 - (1100 + 300)] \text{ crores}$$

$$= \text{Rs. } [1,500 - 850 - 1,400] \text{ crores}$$

Amount due to customer (shown as liability) = Rs. 750 crores.

AS 9 Revenue Recognition

25. Given the following information of Rainbow Ltd.

- (i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

- (ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.
- (iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to repurchase the same goods on 14th April.
- (iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2020 -21.
- (v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9

Quick Revision Highlights:

Answer:

- (i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 5,00,000 as the time period for rejecting the goods had expired.
- (ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31st March.
- (iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.
- (iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.
- (v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

26. Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing Rs. 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire

payment of Rs. 30,00,000 and Raj Ltd. Stated dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth Rs. 15,00,000 ready for dispatch. Raj Ltd. accounted 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. With reference to the provision of AS-9.

Quick Revision Highlights:

Answer: As per AS-9: Bill and hold sales (Delivery is delayed at buyer's request)

Revenue should be recognized even though physical delivery has not been completed so long as following conditions are satisfied -

- there is every expectation that delivery will be made.
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized.
- delivery is delayed at buyer's request.
- buyer takes title and accepts billing.

The sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of Rs. 30,00,000 (Rs. 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

AS 10 Property, Plant & Equipment

27. ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
2.	Initial delivery and handling costs	₹ 2,00,000
3.	Cost of site preparation	₹ 6,00,000
4.	Consultants used for advice on the acquisition of the plant	₹ 7,00,000
5.	Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
6.	Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
7.	Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

Quick Revision Highlights:

Answer: According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	₹ 25,00,000
2.	Initial delivery and handling costs	₹ 2,00,000
3.	Cost of site preparation	₹ 6,00,000
4.	Consultants' fees	₹ 7,00,000
5.	Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
		₹ 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

28. Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

Quick Revision Highlights:

Answer: Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars	Calculation	₹
Purchase Price	Given (₹ 158,34,000 × 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870

Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

29. 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 (200 out of the total of 500 men hours worked, were spent on installation of the machinery)	56,000
Spare parts and tools consumed in installation	5,000
Total salary of supervisor (Time spent for installation was 25% of the total time worked)	26,000
Total technical expense (1/10 relates to the plant installation)	34,000
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 15.01.2021 but was used from 01.02.2021. 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.

Quick Revision Highlights:

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 15.1.2021 to 1.2.2021 to be charged to profit and loss A/c as plant was ready for production on 15.1.2021.

30. In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

Statement showing amount of depreciation as per Componentization Method

Quick Revision Highlights:

Answer:

Component	(₹) Depreciation (Per annum)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	1,00,000
	2,15,000

AS 11 The Effect of Changes in Foreign Exchange Rates

31.

	Exchange Rate per \$
Goods purchased on 1.1.2021 for US \$ 15,000	₹ 75
Exchange rate on 31.3.2021	₹ 74
Date of actual payment 7.7.2021	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years ended 31st March, 2021 and 31st March, 2022 as per AS 11.

Quick Revision Highlights:

Answer:

At the date of Transaction: As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2021 and corresponding creditors would be recorded at ₹ 11,25,000 (i.e. \$15,000 × ₹ 75)

At the year end re-statement: According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US \$15,000 on 31.3.2021 will be reported at ₹ 11,10,000 (i.e. \$15,000 × ₹ 74) and exchange profit of ₹ 15,000 (i.e. ₹ 11,25,000 - ₹ 11,10,000) should be credited to Profit and Loss account in the year ended 31st March, 2021.

On maturity/settlement: On 7.7.2021, creditors of \$15,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 15,000 (i.e. ₹ 11,10,000 - ₹ 10,95,000) will be credited to Profit and Loss account in the year ended 31st March, 2022.

32. A Ltd. has borrowed USD 10,000 in foreign currency on April 1, 2021 at 5% p.a. annual interest and acquired a depreciable asset. The exchange rates are as under:

01/04/2021 1 US\$ = ₹ 48.00

31/03/2022 1 US\$ = ₹ 51.00

You are required to pass the journal entries in the following cases:

- (i) Option under Para 46A is not availed.
- (ii) Option under Para 46A is availed.

- (iii) The loan was taken to finance the operations of the entity (and not to procure a depreciable asset).

In all cases, assume interest accrued on 31 March 2022 is paid on the same date

Quick Revision Highlights:

Answer: Journal Entries in the Books of A Ltd.

- (i) Option under Para 46A is not availed

Date	Particulars	₹ (Dr.)	₹ (Cr.)
2021			
Apr. 01	Bank A/c (10,000 × 48) Dr. To Foreign Loan A/c	4,80,000	4,80,000
Mar 31	Finance Cost A/c Dr. (USD 10,000 × 5% × ₹ 51) To Bank A/c	25,500	25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr. To Foreign Loan Account [10,000 × (51-48)]	30,000	30,000

In this case, since the option under Para 46A is NOT availed, the Exchange Loss of ₹ 30,000 is recognised as an expense in the Statement of Profit and Loss for the year ending 31 March 2022

- (ii) Option under Para 46A is availed

Date	Particulars	₹ (Dr.)	₹ (Cr.)
2021			
Apr. 01	Bank Account (10,000 × 48) Dr. To Foreign Loan Account	4,80,000	4,80,000
Mar 31	Finance Cost A/c Dr. (USD 10,000 × 5% × ₹ 51) To Bank Account	25,500	25,500
Mar 31	Foreign Exchange Difference Account Dr. To Foreign Loan Account [10,000 × (51-48)]	30,000	30,000
Mar 31		30,000	

	Property, Plant and Equipment	Dr.		30,000
	To Foreign Exchange Difference Account			

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is capitalized in the cost of Property, Plant and Equipment, which will indirectly get recognized in the Profit & Loss A/c by way of increased depreciation over the remaining useful life of the asset.

(iii) Option under Para 46A is availed

Date	Particulars	₹ (Dr.)	₹ (Cr.)
2021			
Apr. 01	Bank Account (10,000 × 48) Dr. To Foreign Loan Account	4,80,000	4,80,000
Mar 31	Finance Cost (USD 10,000 × 5% × ₹ 51) To Bank Account	25,500	25,500
Mar 31	Foreign Exchange Difference Account Dr. To Foreign Loan Account [10,000 × (51-48)]	30,000	30,000
Mar 31	Foreign Currency Monetary Item Translation Difference A/c (FCMITDA) Dr. To Foreign Exchange Difference Account	30,000	30,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is accumulated in the FCMITD A/c, which will be subsequently spread over and debited to P&L A/c over the tenure of the loan.

33. Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 20X1, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹ 48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

Quick Revision Highlights:

Answer:

Forward Rate	₹ 49.15
Less: Spot Rate	(₹ 48.85)
Premium on Contract	₹ 0.30

Contract Amount	US\$ 1,00,000
Total Loss $(1,00,000 \times 0.30)$	₹ 30,000

Contract period 3 months (2 months falling in the year ended 31st March, 20X1)

Loss to be recognised $(30,000/3) \times 2 = ₹ 20,000$ in the year ended 31st March, 20X1. Rest ₹ 10,000 will be recognised in the following year.

In recording a forward exchange contract intended for trading or speculation purposes, the premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.

AS 12 Accounting for Government Grants

34. Z Ltd. purchased a fixed asset for ₹ 50 lakhs, which has the estimated useful life of 5 years with the salvage value of ₹ 5,00,000. On purchase of the assets government granted it a grant for ₹ 10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant amount is deducted from the value of fixed asset.

Quick Revision Highlights:

Answer: Journal in the books of Z Ltd.

Year	Particulars	₹ (Dr.)	₹ (Cr.)
1st	Fixed Assets Account Dr. To Bank Account (Being Fixed Assets purchased)	50,00,000	50,00,000
	Bank Account Dr. To Fixed Assets Account (Being grant received from the government)	10,00,000	10,00,000
	Depreciation Account Dr. To Fixed Assets Account (Being Depreciation charged on SLM)	7,00,000	7,00,000
	Profit & Loss Account Dr. To Depreciation Account (Being Depreciation transferred to P&L Account)	7,00,000	7,00,000
	Depreciation Account Dr. To Fixed Assets Account (Being Depreciation charged on SLM)	7,00,000	7,00,000
2nd	Profit & Loss Account Dr.	7,00,000	

To Depreciation Account (Being Depreciation transferred to P&L Account)	7,00,000
--	----------

35. Z Ltd. purchased a fixed asset for ₹ 50 lakhs, which has the estimated useful life of 5 years with the salvage value of ₹ 5,00,000. On purchase of the assets government granted it a grant for ₹ 10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant is treated as deferred income.

Quick Revision Highlights:

Answer:

Journal in the books of Z Ltd.

Year	Particulars	₹ (Dr.)	₹ (Cr.)
1st	Fixed Assets Account Dr. To Bank Account (Being fixed assets purchased)	50,00,000	50,00,000
	Bank Account Dr. To Deferred Government Grant Account (Being grant received from the government)	10,00,000	10,00,000
	Depreciation Account Dr. To Fixed Assets Account (Being depreciation charged on SLM)	9,00,000	9,00,000
	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to P/L Account)	9,00,000	9,00,000
	Deferred Government Grants Account Dr. To Profit & Loss Account (Being proportionate government grant taken to P/L)	2,00,000	2,00,000
2nd	Depreciation Account Dr. To Fixed Assets Account (Being depreciation charged on SLM)	9,00,000	9,00,000
	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to P/L Account)	9,00,000	9,00,000
	Deferred Government Grant Account Dr. To Profit & Loss Account (Being proportionate government grant taken to P/L)	2,00,000	2,00,000

36. Supriya Ltd. received a grant of ₹ 2,500 lakhs during the accounting year 2020-21 from government for welfare activities to be carried on by the company for its employees. The grant

prescribed conditions for its utilization. However, during the year 2021-22, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS-12.

Quick Revision Highlights:

Answer: As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

In the present case, the amount of refund of government grant should be first adjusted against the unamortised deferred income in the books and the excess if any will be debited to profit & loss account of the company as an extraordinary item in the year 2022-2023

37. Santosh Ltd. 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. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12 examine, whether the treatment of both the grants is correct.

Quick Revision Highlights:

Answer: As per AS 12 'Accounting for Government Grants', when government grant is received for a specific purpose, it should be utilised for the same. So the grant received for setting up a factory is not available for distribution of dividend.

In the second case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the elements of the grant is incorrect as per AS 12.

38. Co X runs a charitable hospital. It incurs salary of doctors, staff etc to the extent of ₹ 30 lakhs per annum. As a support, the local govt grants a lumpsum payment of ₹ 90 lakhs to meet the salary expense for a period of next 5 years.

You are required to pass the necessary journal entries in the books of the company for first year if the grant is:

- Shown separately as Other Income; and
- Deducted against the Salary costs.

Quick Revision Highlights:

Answer:

a)

Particulars		₹ (Dr.)	₹ (Cr.)
Bank Account Dr.	90,00,000		
To Deferred Income Account			90,00,000
(Being receipt of grant from government)			
Salary Expense Account To Dr.	30,00,000		
Bank Account			30,00,000
(Being Salary expense paid for the year)			
Deferred Income Account Dr.	18,00,000		
To Other Income Account			18,00,000
(Being Year 1 Grant income recognised in Profit & Loss)			

Note: The grant has been spread on a straight-line basis over a period of 5 years [$\text{₹}90,00,000/5 \text{ years} = \text{₹}18,00,000$].

b)

Particulars		₹ (Dr.)	₹ (Cr.)
Bank Account Dr.	90,00,000		
To Deferred Income Account			90,00,000
(Being receipt of grant from government)			
Salary Expense Account Dr.	12,00,000		
To Bank Account			12,00,000
(Being Salary expense paid (net of grant income) for the year)			
Deferred Income Account Dr.	18,00,000		
To Salary Expense Account			18,00,000

(Being Year 1 grant adjusted against Salary expense for the year)

Statement of Profit & Loss Account (Extract)

(a) Shown separately as Other Income:

Particulars	Notes	(₹)
Other Income		18,00,000

(b) Deducted against the Salary costs:

Particulars		(₹)
Salary cost	30,00,000	
Less: Deferred Government Grant	(18,00,000)	12,00,000

39. Primus Hospitals Ltd. had acquired 40 units of Doppler Scan machines from Holiver USA at a cost of US\$ 165,100 per unit in the beginning of financial year 2008-09. The prevailing rate of exchange was ₹ 50 to 1 US\$. The acquisition was partly funded out of a government grant of ₹ 5 crores. The grant relating to such machines was given with a rider that in the event of a change in management, the entity is bound to return the grant. In April 2011, 51% control in the company was taken over by an overseas investor. The expected productive period of such an asset is normally reckoned as 5 years. The depreciation rate adopted was 20% p.a. on S.L.M. basis. The company had incurred expenditure of US \$4000 towards bank charges and ₹ 7500 per unit as sea freight. You are also informed that neither capital reserve nor deferred income account has been maintained by the company. You are required to suggest the accounting treatment as a result of the return of the grant, in the light of the relevant AS.

Quick Revision Highlights:

Answer:

Calculation of Revised Book value as on 1st April, 2010

Particulars	(₹)
Acquisition of 40 Doppler Scan machines [US \$ 165,100 × ₹ 50 × 40 machine]	33,02,00,000
Add: Bank charges paid (\$ 4000 × ₹ 50)	2,00,000
Add: Sea Freight on the above machines (₹ 7,500 per unit × 40 machines)	3,00,000
Total landed cost as on 1 st April, 2008	33,07,00,000
Less: Government Grant	(5,00,00,000)

Value of 40 Doppler Scan Machines	28,07,00,000
Less: Depreciation @ 20% for 3 years on SLM basis (i.e. ₹ 28,07,00,000 × 20% × 3 years)	(16,84,20,000)
WDV at the beginning of the year 2011-12	11,22,80,000
Add: Refund of Government grant	5,00,00,000
Revised Book value on 1 st April, 2011	16,22,80,000

Note: As per AS 10 'Property Plant & Equipment', where the historical cost a depreciable asset has undergone a change due to increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors, the depreciation on the revised unamortized depreciable amount should be provided prospectively over the residual useful life of the asset. In this case, on 1st April, 2011, the remaining useful life is only two years i.e. 2011-12 & 2012-13. Hence the WDV of ₹ 16,22,80,000 is to be written off under SLM @ 50% each year i.e. ₹ 8,11,40,000 per year.

The Government grant of ₹ 5 crores that becomes refundable should be accounted for as an extraordinary item as per AS 12 'Government Grants', with related disclosure of the increased depreciation of ₹ 2.5 crores (i.e. ₹ 8,11,40,000 - ₹ 5,61,40,000) consequent to the return of such grant.

AS 13 Accounting for Investments

40. M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2023 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2021. Market value as on 31st March, 2024 of above investments are as follows:

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2024 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Quick Revision Highlights:

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 (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2024, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

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 1st March, 2021) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2024, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

41. On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:
- A portion of long term investments purchased on 1st March, 2017 are to be re- classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was ₹ 11 lakhs.
 - Another portion of long term investments purchased on 15th January, 2017 are to be re- classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ₹ 4.5 lakhs.
 - A portion of current investments purchased on 15th March, 2018 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs,
 - Another portion of current investments purchased on 7th December, 2017 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on
31st March, 2018 ₹ 3.5 lakhs
on 15th June, 2018 ₹ 3.8 lakhs

Quick Revision Highlights:

Answer: As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term,

transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

- In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.
- In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.
- In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.
- In this case, market value (considered as fair value) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

AS 14 Accounting for Amalgamation

AS-14 "Accounting for Amalgamation" has already been covered in the Amalgamation Chapter

1.15 - AS 15 Employee Benefits

42. An employee Roshan has joined a company XYZ Ltd. in the year 2021. The annual emoluments of Roshan as decided is ₹ 14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum. The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment. What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%. (P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Quick Revision Highlights:

Answer:

Calculation of Defined Benefit Obligation (DBO)

Expected last drawn salary = ₹ 14,90,210 × 110% × 110% × 110% × 110% × 110% = ₹ 24,00,000

Defined Benefit Obligation (DBO) = ₹ 24,00,000 × 25% × 5 = ₹ 30,00,000

Equal apportioned amount of DBO = ₹ 6,00,000

Calculation of Current Service Cost

Year	Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
a	b	c	d = b × c
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

Year	Opening balance	Interest cost	Current service cost	Closing balance
a	b	c = b × 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141
5	22,22,141	1,77,859*	6,00,000	30,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly

43. As on 1st April, 2021 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2021 the plan paid out benefits of ₹ 19,000 and received inward contributions of ₹ 49,000. On 31st March, 2022 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,47,920. Actuarial losses on the obligations for the year 2021- 2022 were ₹ 600. On 1st April, 2021, the company made the following estimates, based on its market studies, understanding and prevailing prices.

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets.

Quick Revision Highlights:

Answer:

Computation of Expected Returns on Plan Assets as on 31st March, 2022, as per AS 15

	₹
Return on ₹1,00,000 held for 12 months at 10.25%	10,250
Return on ₹ 30,000 (49,000-19,000) held for six months at 10.25% annually	1,538
Expected return on plan assets for 2021-2022	11,788

Computation of Actual Returns on Plan Assets as on 31st March, 2022, as per AS 15

Fair value of plan assets as on 31 March, 2022	1,50,000
Less: Fair value of plan assets as on 1 April, 2021 1,00,000	
Contributions received <u>49,000</u>	(1,49,000)
	1,000
Add: Benefits paid	19,000
Actual return on plan assets	20,000

44. Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

- Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at ₹ 5,100.
- The unamortized past service cost is ₹ 180.

- (d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation

Quick Revision Highlights:

Answer:

Gain from curtailment is estimated as under:

	₹
Reduction in gross obligation	600
Less: Proportion of unamortised past service cost	(18)
Gain from curtailment	582

The liability to be recognised after curtailment in the balance sheet is estimated as under:

	₹
Reduced gross obligation (90% of ₹ 6,000)	5,400
Less: Fair value of plan assets	(5,100)
	300
Less: Unamortised past service cost (90% of ₹ 180)	(162)
Liability to be recognised in the balance sheet	138

AS 16 Borrowing Costs

45. On 1st April, 2021, Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:

- | | |
|--|-------------|
| a) Construction of sealink across two cities: | ₹ 25 crores |
| (Work was held up totally for a month during the year due to high water levels) | |
| b) Purchase of equipments and machineries | ₹ 3 crores |
| c) Working capital | ₹ 2 crores |
| d) Purchase of vehicles | ₹ 50,00,000 |
| e) Advance for tools/cranes etc | ₹ 50,00,000 |
| f) Purchase of technical know-how | ₹ 1 crores |
| g) Total interest charged by the bank for the year ending 31 st March, 2022 | ₹ 80,00,000 |

Show the treatment of interest by Amazing Construction Ltd.

Quick Revision Highlights:

Answer: According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per this standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred. The treatment of interest by Amazing Construction Ltd. can be shown as:

Particulars	Qualifying Asset	Interest to be Capitalised	Interest to be Charged to P&L	Calculations
Construction of sea-link	Yes	62,50,000		$[80,00,000 \times (25/32)]$
Purchase of equipment's & machineries	No		7,50,000	$[80,00,000 \times (3/32)]$
Working capital	No		5,00,000	$[80,00,000 \times (2/32)]$
Purchase of vehicles	No		1,25,000	$[80,00,000 \times (.5/32)]$
Advance for tools, cranes etc.	No		1,25,000	$[80,00,000 \times (.5/32)]$
Purchase of technical know-how	No		2,50,000	$[80,00,000 \times (1/32)]$
Total		62,50,000	17,50,000	

46. X Ltd. began construction of a new building on 1st January, 2016. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1st January, 2016 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 5,00,000	11%
₹ 9,00,000	13%

The expenditures that were made on the building project were as follows:

Particulars	₹
January 2016	2,00,000
April 2016	2,50,000
July 2016	4,50,000
December 2016	1,20,000

Building was completed by 31st December, 2016. Following the principles prescribed in AS 16 'Borrowing Cost,' calculate the amount of interest to be capitalised and pass one Journal Entry for capitalising the cost and borrowing cost in respect of the building.

Quick Revision Highlights:

Answer:

a) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest	Interest (₹)
5,00,000	11%	55,000
<u>9,00,000</u>	13%	1,17,000
14,00,000		1,72,000
Weighted average rate of interest (1,72,000/14,00,000)*100		12.285% (approx)

b) Computation of borrowing cost on general borrowing

Particulars	₹
(₹ 2,00,000 - ₹ 1,00,000) × 12.285% × 12 / 12	12,285
₹ 2,50,000 × 12.285% × 9 / 12	23,034
₹ 4,50,000 × 12.285% × 6 / 12	27,641
₹ 1,20,000 × 12.285% × 1 / 12	1,229
	<u>64,189</u>

c) Interest on average accumulated expenses

Particulars	₹
Specific borrowings (₹ 1,00,000 × 10%)	10,000
Non-specific borrowings	64,189
Amount of interest to be capitalised	<u>74,189</u>

d) Total expenses to be capitalised for building

Particulars	₹
Cost of building ₹ (2,00,000 + 2,50,000 + 4,50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalised	74,189
	<u>10,94,189</u>

e) Journal Entry

Date	Particulars	Dr. (₹)	Cr. (₹)
31.12.2016	Building account Dr. To Bank account (Being amount of cost of building and borrowing cost thereon capitalised)	10,94,189	10,94,189

47. Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed. Following is the detail of the work done on different phases of the building during the current year: (₹ in lakhs)

	Phase I ₹	Phase II ₹	Phase III ₹	Phase IV ₹
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Quick Revision Highlights:

Answer: Computation of amount to be capitalized

No.	Particulars	₹
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	30,00,000
2.	Total cost of Phases I and II (₹ 34,00,000 + ₹ 64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	3,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment For Phase I and Phase II

Since Phase I and Phase II have become operational at the mid of the year, half of the interest

amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be expensed during the year.

For Phase III and Phase IV

Interest of ₹ 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

48. ABC Builders Limited had borrowed a sum of US \$ 15,00,000 at the beginning of Financial year 2020-21 for its residential project at London Interbank Offered Rate (LIBOR) + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US \$ and the rate as on 31st March, 2021 was ₹ 76 per US \$. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is 1%).

Quick Revision Highlights:

Answer:

- (i) Interest for the period 2020-21
= US \$ 15 lakhs × 5% × ₹ 76 per US \$ = Rs 57 lakhs
- (ii) Increase in the liability towards the principal amount
= US \$ 15 lakhs × ₹ (76 - 72) = ₹ 60 lakhs
- (iii) Interest that would have resulted if the loan was taken in Indian currency
= US \$ 15 lakhs × ₹ 72 × 9.5% = ₹ 102.60 lakhs
- (iv) Difference between interest on local currency borrowing and foreign currency borrowing
= ₹ 102.60 lakhs less ₹ 57 lakhs = ₹ 45.60 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 102.60 lakhs being the aggregate of interest of ₹ 57 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 45.60 lakhs.

Hence, ₹ 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 14.4 lakhs (60 - 45.60) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

AS 17 Segment Reporting

49. The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

Rs. in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

Quick Revision Highlights:

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

- 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
- Its segment result whether profit or loss is 10% or more of:
 - The combined result of all segments in profit; or
 - The combined result of all segments in loss,
 whichever is greater in absolute amount; or
- Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments M and N are reportable segments.

On the basis of the result criteria, segments M, N and R are reportable segments (since their

results in absolute amount is 10% or more of ₹ 200 lakhs).

On the basis of asset criteria, all segments except R are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported in accordance with Accounting Standard (AS) 17. Hence the opinion of chief accountant is wrong.

- 50.** Nathan Limited has three segments namely P, Q and R. The assets of the company are ₹ 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - ₹ 1 crore, Q - ₹ 0.90 crores and R - ₹ 0.80 crores. The accountant contends all these three segments are reportable segments. Comment.

Quick Revision Highlights:

Answer: According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are 12.3 crores [₹ 15 - (₹ 1 + 0.9 + 0.8)] Details of Segment wise assets: Segment P holds total assets of ₹ 3 crores (₹ 4 crores - ₹ 1 crores); Segment Q holds ₹ 5.1 crores (₹ 6 crores - ₹ 0.9 crores); Segment R holds ₹ 4.2 crores (₹ 5 crores - ₹ 0.8 crores). Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments. Hence, the contention of the Accountant that all three segments are reportable segments is correct.

- 51.** XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 2022 have been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	Profit (Loss) ₹ in lakhs
A	225
B	25
C	(175)
D	(20)
E	(105)

Quick Revision Highlights:

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

Its segment results whether profit or loss is 10% or more of:

- The combined result of all segments in profit; i.e. ₹ 250 Lakhs or
 - The combined result of all segments in loss; i.e. ₹ 300 Lakhs
- Whichever is greater in absolute amount i.e. ₹ 300 Lakhs.

Operating Segment	Absolute amount of Profit or Loss (₹ In lakhs)	Reportable Segment Yes or No
A	225	Yes
B	25	No
C	175	Yes
D	20	No
E	105	Yes

On the basis of the profitability test (result criteria), segments A, C and E are reportable segments (since their results in absolute amount is 10% or more of ₹ 300 lakhs i.e. 30 lakhs).

52. ABC Limited has 5 segments namely A, B, C, D and E. The profit/loss of each segment for the year ended March 31st, 20X2 is as follows

Segment	Profit/(Loss) (₹ in crore)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	1,480

Identify the Reportable segments.

Quick Revision Highlights:

Answer: In compliance with AS 17, the segment profit/loss of respective segment will be compared with the greater of the following:

- All segments in profit, i.e., A, B and E - Total profit ₹ 8,280 crores.
 - All segments in loss, i.e., C and D - Total loss ₹ 6,800 crores.
- Greater of the above - ₹ 8,280 crores.

Based on the above, reportable segments will be as follows:

Segment	Profit/(Loss)	Reportable Segment
A	780	No
B	1,500	Yes
C	(2,300)	Yes
D	(4,500)	Yes
E	6,000	Yes

53. Prepare a segmental report for publication in Diversifiers Ltd. from the following details of the company's three divisions and the head office:

	₹ ('000)
<u>Forging Shop Division</u>	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
<u>Bright Bar Division</u>	45
Sales to Fitting Division	300
Export Sales to Rwanda	345
<u>Fitting Division</u>	
Export Sales to Maldives	270

Particulars	Head Office ₹ ('000)	Forging Shop Division ₹ ('000)	Bright Bar Division ₹ ('000)	Fitting Division ₹ ('000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36

Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

Quick Revision Highlights:

Answer: Diversifiers Ltd. Segmental Report

₹

(₹ '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-	-	90
Export	6,135	300	270	-	6,705
External Sales	6,225	300	270	-	6,795
Inter-Segment Sales	4,575	45	-	4,620	-
Total Revenue	10,800	345	270	4,620	6,795
Segment Result (Given)	240	30	(12)		258
Head Office Expenses					(144)
Operating Profit					114
Interest Expense					(16)
Profit Before Tax					98
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	-	540
Net Current Assets	180	60	135	-	375
Segment assets	480	120	315	-	915
Unallocated Corporate Assets (75 + 72)	-	-	-	-	147
Total assets					1,062
Segment liabilities	30	15	180	-	225
Unallocated corporate liabilities					57

Total liabilities					282
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Sales Revenue by Geographical Market (₹ '000)

	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	Consolidated Total
External sales	90	6,135	300	270	6,795

54. Calculate the segment results of a manufacturing organization from the following information:

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)				1,10,000
Revenue from transactions with other segments	1,00,000		50,000	1,50,000
Transaction from B	10,000	50,000		60,000
Transaction from C		25,000	1,00,000	1,25,000
Transaction from A	3,00,000	1,50,000	75,000	5,25,000
Operating expenses				77,000
Enterprise expenses(allocated in 5 : 4 : 2 basis)	75,000		30,000	
Expenses on transactions with other segments	6,000	40,000		
Transaction from B		18,000	82,000	
Transaction from C				
Transaction from A				

Quick Revision Highlights:

Answer:

Calculation of segment result

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Total segment revenue as per AS 17 (A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000

Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000
Total segment expenses as per AS 17 (B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

AS 18 Related Party Disclosure

55. Identify the related parties in the following case as per AS 18:

- A Ltd. holds 51% of B Ltd.
- B Ltd holds 51% of O Ltd.
- Z Ltd holds 49% of O Ltd

Quick Revision Highlights:

Answer:

In relation to Reporting enterprise - A Ltd.

- B Ltd. (subsidiary) is a related party
- O Ltd.(subsidiary) is a related party

In relation to Reporting enterprise - B Ltd.

- A Ltd. (holding company) is a related party
- O Ltd. (subsidiary) is a related party

In relation to Reporting enterprise - O Ltd.

- A Ltd. (ultimate holding company) is a related party
- B Ltd. (holding company) is a related party
- Z Ltd. (investor/ investing party) is a related party (O Ltd being Associate of Z Ltd)

Reporting enterprise - Z Ltd.

- O Ltd. (Associate) is a related party

56. Consider a scenario wherein:

- A Ltd. has 60% voting right in B Ltd.
- A Ltd. also has 22% voting right in C Ltd.; and
- B Ltd. has 30% voting right in C Ltd.

Whether C Ltd. is to be treated under AS-18 as a party related to A Ltd.?

Quick Revision Highlights:

Answer:

Yes - in relation to A Ltd. (the reporting enterprise), C Ltd. is a related party under AS-18. This is because A Ltd. indirectly controls C Ltd.

In this case, A Ltd. (together with its subsidiary B Ltd.) controls more than one half of the voting rights of C Ltd.

57. Consider a scenario wherein:

- X Ltd. holds 28% voting right in Y Ltd. (and hence Y Ltd. is an associate of X Ltd.)
- Y Ltd. holds 32% voting right in Z Ltd. (and hence Z Ltd. is an associate of Y Ltd.)

In the above case, since Y Ltd. is an associate of X Ltd. - Y Ltd. is a related party to X Ltd.

Likewise, since Z Ltd. is an associate of Y Ltd. - Z Ltd. is a related party to Y Ltd.

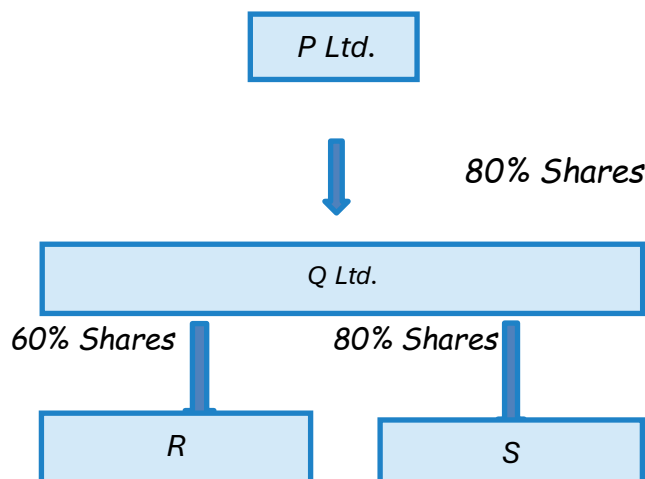
The question is: Whether Z Ltd. is to be treated under AS-18 as a party related to X Ltd.?

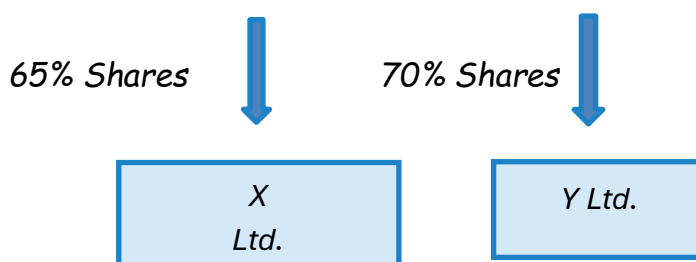
Quick Revision Highlights:

Answer:

No - in relation to X Ltd. (the reporting enterprise), Z Ltd. is not a related party. This is because as per the requirements of AS-18, 'associate of an associate' is not a related party.

58. Consider the following organization structure related to P Ltd.





Given the above structure: Identify related party relationships, if R Ltd. is the reporting enterprise

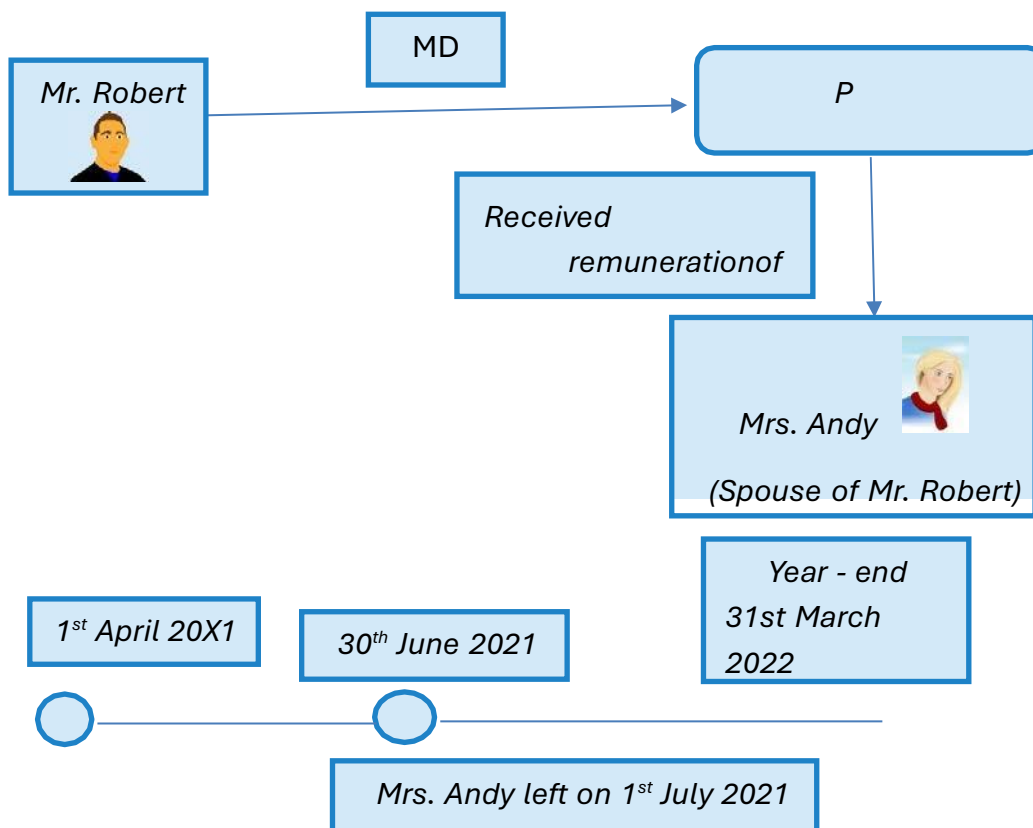
Quick Revision Highlights:

Answer: The following table identifies the related party relationships for R Ltd. (being the reporting enterprise):

Party Name	Relationship under AS-18
P Ltd.	- P Ltd. has indirect control on R Ltd. (through Q Ltd.) - Hence R Ltd. is related to P Ltd.
Q Ltd.	- Q Ltd. has direct control of R Ltd. - Hence R Ltd. is related to Q Ltd.
S Ltd.	- R Ltd. and S Ltd. are under common control of Q Ltd. - Hence R Ltd. is related to S Ltd.
X Ltd.	- X Ltd. is controlled by R Ltd. - Hence R Ltd. is related to X Ltd.
Y Ltd.	- Y Ltd. is the sub-subsidiary of Q Ltd. - Both R Ltd. and Y Ltd. are under common control of Q Ltd. - Hence R Ltd. is related to Y Ltd.

59. Consider a scenario wherein:

- Mr. Robert is a Managing Director of P Ltd.
- Andy (spouse of Robert) received a remuneration of Rs 5 lacs from P Ltd. - for the services she rendered to P Ltd. for the period 1st April 2021 through 30th June 2021
- Andy left the services of P Ltd. on 1st July 2021
- Consider 31st March 2022 as the year-end date for P Ltd



Whether Andy is to be identified as related party at the year-end date (31st March 2022) for the purposes of AS-18?

Quick Revision Highlights:

Answer: Yes - This is because as per AS-18, parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence Andy (being the spouse and relative of the KMP of P Ltd.) needs to be reported as related party at the year-end date (i.e. 31st March 2022). This is because the remuneration Andy received from P Ltd. (for the period April 20X1 to 30 June 2021) falls within the reporting year April 2021 to March 2022.

60. Mr. Raj, a relative of key management personnel, received remuneration of ₹ 2,50,000 for his services in the company for the period from 1.4.2021 to 30.6.2021. On 1.7.2021, he left the

service of the company. Should the relative be identified as at the closing date i.e. on 31.3.2022 for the purposes of AS 18?

Quick Revision Highlights:

Answer: According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence Mr. Raj, a relative of key management personnel, should be identified.

AS 19 Lease

61. Classify the following into either operating or finance lease:
- Lessee has option to purchase the asset at lower than fair value, at the end of lease term;
 - Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;
 - Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;
 - Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

Quick Revision Highlights:

Answer:

- Finance Lease** - If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.
 - Finance Lease** - The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.
 - Finance Lease** - Since the asset is procured only for the use of lessee, it is a finance lease.
 - Finance Lease** - The lease is a finance lease if $X = Y$, or where X substantially equals Y.
62. B & P Ltd. availed a lease from N & L Ltd. The conditions of the lease terms are as under:
- Lease period is 3 years, in the beginning of the year 2020, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
 - The Fair market value is also ₹ 10,00,000.
 - The property reverts back to the lessor on termination of the lease.
 - The unguaranteed residual value is estimated at ₹ 1,00,000 at the end of the year 2022

e) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513. The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the lease constitute finance lease and also calculate unearned finance income

Quick Revision Highlights:

Answer:

a) Determination of Nature of Lease

- Present value of unguaranteed residual value at the end of 3rd year = (₹ 1,00,000 × 0.7513) = ₹ 75,130
- Present value of lease payments = ₹ 10,00,000 - ₹ 75,130 = ₹ 9,24,870
- The percentage of present value of lease payments to fair value of the leased asset is (₹9,24,870 / ₹ 10,00,000) × 100 = 92.487%

Present value of annuity for three years is 2.4868

Annual lease payment = ₹ 9,24,870 / 2.4868 = 3,71,911.70

Classification of Lease:

Parameter 1: Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease

Parameter 2: As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

b) Computation of Unearned Finance Income

Particulars	₹
Total lease payments (₹ 3,71,911.70 × 3)	11,15,735
Add : Unguaranteed residual value	1,00,000
Gross investment in the lease	12,15,735
Less: Present value of investment (lease payments and residual value) (₹ 75,130 + ₹ 9,24,870)	10,00,000

63. A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. Compute the following :

- (i) Annual Lease Rent
- (ii) Lease Rent income to be recognized in each operating year and
- (iii) Depreciation for 3 years of lease.

Quick Revision Highlights:

Answer:

- (i) Annual lease rent

$$\text{Total Lease Rent} = 130\% \text{ of } ₹ 1,50,000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

$$= 130\% \text{ of } ₹ 1,50,000 \times (40,000 + 50,000 + 60,000) / (40,000 + 50,000 + 60,000 + 80,000 + 70,000)$$

$$= 1,95,000 \times 1,50,000 \text{ units} / 3,00,000 \text{ units} = ₹ 97,500$$

$$\text{Annual lease rent} = ₹ 97,500 / 3 = ₹ 32,500$$

- (ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognised as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognised in years 1, 2 and 3 will be as:

Year 1 ₹ 26,000,

Year 2 ₹ 32,500 and

Year 3 ₹ 39,000.

- (iii) Deprecation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount ₹ 1,50,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 40 : 50 : 60 : 80 : 70 .

Depreciation for year 1 is ₹ 20,000, year 2 = 25,000 and year 3 = 30,000.

- 64.** A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if -

- (a) Sale price of ₹ 50 lakhs is equal to fair value.
- (b) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.
- (c) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.
- (d) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

- (e) Fair value is ₹ 35 lakhs and sale price is ₹ 39 lakhs

Quick Revision Highlights:

Answer: Following will be the treatment in the given cases:

- (a) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 10 lakhs (i.e. 50 - 40) in its books.
- (b) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 - 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment, otherwise defer and amortise the loss.
- (c) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortised over the lease period.
- (d) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 - 40) to be immediately recognised in its books and balance profit of ₹ 4 lakhs (50-46) is to be amortised/deferred over lease period.
- (e) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period

AS 20 Earning Per Share

65.

Net profit for the year 20X1	₹ 18,00,000
Net profit for the year 20X2	₹ 60,00,000
No. of equity shares outstanding until 30th September 20X2	20,00,000
Bonus issue 1st October 20X2 was 2 equity shares for each equity share outstanding at 30th September, 20X2	
Calculate Basic Earnings Per Share.	

Quick Revision Highlights:

Answer:

No. of Bonus Issue $20,00,000 \times 2 = 40,00,000$ shares

Earnings per share for the year 20X2 = $60,00,000 / [20,00,000 + 40,00,000] = ₹ 1.00$

Adjusted earnings per share for the year 20X1 = ₹ 18,00,000 / 20,00,000 + 40,00,000 = ₹ 0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 20X1, the earliest period reported.

66.

Net profit for the year 2021 ₹ 11,00,000
 Net profit for the year 2022 ₹ 15,00,000
 No. of shares outstanding prior to rights issue 5,00,000 shares
 Rights issue price ₹ 15.00
 Last date to exercise rights 1st March 2022
 Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)
 Fair value of one equity share immediately prior to exercise of rights on 1st March 2022 was ₹ 21.00. Compute Basic Earnings Per Share.

Quick Revision Highlights:

Answer:

Theoretical ex-right value =

Fair value of all outstanding shares immediately prior to exercise of rights + total amount received from exercise
Number of shares outstanding prior to exercise + number of shares issued in the exercise

$$= \frac{(5,00,000 \text{ Shares} \times ₹21) + (1,00,000 \text{ Shares} \times ₹15)}{5,00,000 \text{ Shares} + 1,00,000 \text{ Shares}} = ₹ 10$$

$$\text{Adjustment factor} = \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-right value per share}} = \frac{₹21}{₹20} = 1.05$$

$$\text{Basic EPS} = \frac{\text{Net Profit attributable to equity shareholders}}{\text{Weighted average number of shares}}$$

$$\text{EPS for 2022} = \frac{₹15,00,000}{(5,00,000 \times 2/12 / 1.05) + (6,00,000 \text{ Shares} \times 10/12)} = \frac{₹15,00,000}{5,87,500} = ₹2.55$$

$$\begin{aligned} \text{EPS for 2022} &= \text{originally report} = ₹11,00,000 / 5,00,000 = ₹2.20 \\ &\text{Restate} = ₹11,00,000 / (5,00,000 \times 1.05) = ₹2.010 \end{aligned}$$

67. Net profit for the year 2012 : ₹ 24,00,000

Weighted average number of equity shares outstanding during the year 2012: 10,00,000

Average Fair value of one equity share during the year 2012 : ₹ 25.00

Weighted average number of shares under option during the year 2012: 2,00,000

Exercise price for shares under option during the year 2012 : ₹ 20.00

Compute Basic and diluted earnings per share

Quick Revision Highlights:

Answer:

Computation of earnings per share

Particulars	Earnings ₹	Shares	Earnings per share
Net profit for the year 2012	24,00,000		
Weighted average number of shares outstanding during the year 2012		10,00,000	
Basic earnings per share			₹ 2.40
Number of shares under option	--*	2,00,000	
Number of shares that would have been issued at fair value: $(2,00,000 \times 20.00)/25.00$		(1,60,000)	
Diluted earnings per share	24,00,000	10,40,000	₹2.31

68.

Net profit for the current year	₹ 1,00,00,000
No. of equity shares outstanding	50,00,000
Basic earnings per share	₹ 2.00
No. of 12% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	₹ 12,00,000
Tax relating to interest expense (30%)	₹ 3,60,000

Compute Diluted Earnings Per Share.

Quick Revision Highlights:

Answer:

Adjusted net profit for the current year $(1,00,00,000 + 12,00,000 - 3,60,000) = ₹ 1,08,40,000$

No. of equity shares resulting from conversion of debentures: 10,00,000 Shares

No. of equity shares used to compute diluted EPS: $(50,00,000 + 10,00,000) = 60,00,000$ Shares

Diluted earnings per share: $(1,08,40,000/60,00,000) = ₹ 1.81$

AS 21 Consolidated Financial Statements

AS-21 "Accounting for Consolidated Financial Statements" has already been covered in the Consolidated Financial Statements chapter.

AS 22 Accounting for Taxes on Income

69. Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortized preliminary expenses as per tax record	30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/ liability should be recognized as transition adjustment? Tax rate 50%.

Quick Revision Highlights:

Answer:

Table showing calculation of deferred tax asset / liability

Particulars	Amount	Timing differences	Deferred tax	Amount @ 50% (Tax Rate)
Excess depreciation as per tax records (₹ 5,00,000 - ₹ 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability	2,70,000			1,35,000

70. From the following details of A Ltd. for the year ended 31-03-2017, calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

Particulars	₹
Accounting Profit	6,00,000
Book Profit as per MAT	3,50,000
Profit as per Income Tax Act	60,000
Tax rate	20%
MAT rate	7.50%

Quick Revision Highlights:

Answer:

Tax as per accounting profit ₹ 6,00,000 × 20% = ₹ 1,20,000

Tax as per Income-tax Profit ₹ 60,000 × 20% = ₹ 12,000

Tax as per MAT ₹ 3,50,000 × 7.50% = ₹ 26,250

Tax expense = Current Tax + Deferred Tax

₹ 1,20,000 = ₹ 12,000 + Deferred tax

Therefore, Deferred Tax liability as on 31-03-2017

= ₹ 1,20,000 - ₹ 12,000 = ₹ 1,08,000

Deferred tax liability = (₹ 6,00,000 - ₹ 60,000) × 20% = ₹ 1,08,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-2017

- Current Tax ₹ 12,000
 - Deferred Tax liability ₹ 1,08,000
 - Excess of MAT over current tax ₹ 14,250 (26,250 - 12,000)
- ₹ 1,34,250

71. PQR Ltd.'s accounting year ends on 31st March. The company made a loss of ₹ 2,00,000 for the year ending 31.3.2015. For the years ending 31.3.2016 and 31.3.2017, it made profits of ₹ 1,00,000 and ₹ 1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2016 and 2017 for tax purposes. Prepare a statement of Profit and Loss for the years ending 2015, 2016 and 2017.

Quick Revision Highlights:

Answer:

Statement of Profit and Loss

	31.3.2015 ₹	31.3.2016 ₹	31.3.2017 ₹
Profit (Loss)	(2,00,000)	1,00,000	1,20,000
Less: Current tax (20,000 × 40%)			(8,000)
Deferred tax:			
▪ Tax effect of timing differences originating during the year (2,00,000 × 40%)	80,000		
▪ Tax effect of timing differences reversed/adjusted during the year (1,00,000 × 40%)		(40,000)	(40,000)
Profit (Loss) After Tax Effect	(1,20,000)	60,000	72,000

Figures in bracket are debit and others are credit

72. Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/ liability for the years 2014-2015, 2015-2016 and 2016-2017.

Quick Revision Highlights:

Answer:

Omega Limited.

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	4,00,000	1,40,000	1,40,000
2015-2016	16,00,000	18,00,000	(2,00,000)	2,00,000	(70,000)	70,000
2016-2017	21,00,000	23,00,000	(2,00,000)	NIL	(70,000)	NIL
	48,00,000	48,00,000				

AS 23 Accounting for Investments in Associates in Consolidated Financial Statements

73. A Ltd. acquire 45% of B Ltd. shares on April 01, 2021, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 2021:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 2022. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 2022.

Quick Revision Highlights:

Answer: Calculation of Goodwill/Capital Reserve under Equity Method

Particulars	₹	₹
Cost of Investment (A)		15,00,000
Less: Dividend out of pre-acquisition profit		-
Net Cost of Investment in B Ltd.		15,00,000
Equity Shares	10,00,000	
Security Premium	1,00,000	
Reserves & Surplus	5,00,000	
Net Assets	16,00,000	
45% of Net Asset (16,00,000 × 45%) (B)		7,20,000
Goodwill (A-B)		7,80,000

Calculation of Carrying Amount of Investment in the year ended on 31st March, 2022

Particulars	
Investment in Associate as per AS 23:	
Share of Net Assets on 1 April 2021	7,20,000
Add: Goodwill	7,80,000

Cost of Investment	15,00,000
Add: Profit during the year (3,00,000 × 45%)	1,35,000
Less: Dividend paid (1,00,000 × 45%)	(45,000)
Carrying Amount of Investment	15,90,000

74. A Ltd. acquired 40% share in B Ltd. on April 01, 2021 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 2021-2022, B Ltd. suffered a loss of ₹ 10,00,000; during 2022-2023 loss of ₹ 12,50,000 and during 2023-2024 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Quick Revision Highlights:

Answer: Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		₹
Cost of acquisition		10,00,000
Less: Dividend out of pre-acquisition profit		-
Net Cost of Investment		10,00,000
Equity Shares	10,00,000	
Reserves & Surplus	2,00,000	
Net Assets	12,00,000	
40% share of Net Assets		4,80,000
Goodwill		5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 2021: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000

31 March 2022:

Calculation of Carrying Amount of Investment as at 31 March 2022:

Investment in Associate as per AS 23	₹
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Share of Net Assets on 1 April, 2021	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 × 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2022: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

31 March 2023:

Calculation of Carrying Amount of Investment as at 31 March 2023

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 2022	6,00,000
Less: Loss for the year (12,50,000 × 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2023: ASSETS

Investment in Associate as per AS 23		
Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above (₹ 4,00,000 + ₹ 5,00,000)	(9,00,000)	
Add: Goodwill	5,20,000	1,00,000

31 March 2024:

Calculation of Carrying Amount of Investment as at 31 March 2024

Investment in Associate as per AS 23	₹
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Carrying Amount of Investment	1,00,000
Less: Loss for the year ($5,00,000 \times 40\% = 2,00,000$, restricted to Carrying amount of Investment in B Ltd.) - * refer note below	(1,00,000)
Carrying Amount of Investment	-

- * If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value.

Consolidated Balance Sheet (Extract) as on March 31, 2024: ASSETS

Investment in Associate as per AS 23		₹
Share of Net Assets	4,80,000	
Less: Share in Loss ($4,00,000 + 5,00,000 + *1,00,000$)	(10,00,000)	
Add: Goodwill	5,20,000	-

75. A Ltd. acquired 25% of shares in B Ltd. as on 31.3.2021 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.2021 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
Current Assets	3,00,000
	10,00,000

During the year ended 31.3.2022 the following are the additional information available:

- A Ltd. received dividend from B Ltd., for the year ended 31.3.2021 at 40% from the Reserves.
- B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.2022.
- B Ltd., declared a dividend @ 50% for the year ended 31.3.2022 on 30.4.2022.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. Calculate:

- Goodwill if any on acquisition of B Ltd.'s shares.

- (ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
- (iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

Quick Revision Highlights:

Answer: In terms of AS 23, B Ltd. will be considered as an associate company of A Ltd. as shares acquired represent to more than 20%.

- (i) Calculation of Goodwill (₹ in lakhs)

Amount paid towards acquisition of stake in B Ltd.	3.00
Less: Pre-acquisition dividend (₹ 5,00,000 × 40% × 25%)	<u>0.50</u>
Cost of Investment in B Ltd.	2.50
Less: Share in the value of Equity of B Ltd. as at the date of investment [25% of ₹ 10 lakhs (₹ 5 lakhs + ₹ 5 lakhs)]	<u>(2.50)</u>
Goodwill	NIL

- (ii) A Ltd. Consolidated Profit and Loss Account for the year ended 31st March, 2022 (An extract)

		₹ in lakhs
Other income:		
Share of profits in B Ltd. (7 × 25%)		1.75
Pre-acquisition Dividend received from B Ltd.	0.50	
Transfer to investment A/c	(0.50)	Nil

- (iii) A Ltd. Consolidated Balance Sheet as on 31.3.2022 (An extract)

		₹ in lakhs
Non-current investments		
Investment in B Ltd.		
Cost of Investment in B Ltd.	2.50	
Share of profit for year 2021 - 2022	1.75	
	4.25	
Add: Goodwill	NIL	4.25

Working Notes:

1. Pre-acquisition dividend received from B Ltd. amounting to ₹ 0.50 lakhs will be reduced from investment value in the books of A Ltd.
2. B Ltd. made a profit of ₹ 7 lakhs for the year ended 31st March, 2022. A Ltd.'s share in the profits of ₹ 7 lakhs is ₹ 1.75 lakhs.
Investment in B Ltd. will be increased by ₹ 1.75 lakhs and consolidated profit and loss account of A Ltd. will be credited with ₹ 1.75 lakhs in the consolidated financial statement of A Ltd.
3. Dividend declared on 30th April, 2022 will not be recognized in the consolidated financial statement of A Ltd.

76. Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-2021. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-2021 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-2021. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-2022 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-2022. Calculate the carrying amount of investment in:

- (i) Separate financial statements of Bright Ltd. as on 31-03-2022;
- (ii) Consolidated financial statements of Bright Ltd.; as on 31-03-2022;
- (iii) What will be the carrying amount as on 30-06-2022 in consolidated financial statements?

Quick Revision Highlights:

Answer:

- (i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.2022

	₹
Amount paid for investment in Associate (on 1.06.2021)	2,00,000
Less: Pre-acquisition dividend (₹ 50,000 × 30%)	(15,000)
Carrying amount as on 31.3.2022 as per AS 13	1,85,000

- (ii) Carrying amount of investment in Consolidated Financial Statements of Bright Ltd. as on 31.3.2022 as per AS 23

	₹
Carrying amount as per separate financial statements	1,85,000

Add: Proportionate share of 10-month profit of Investee as per equity method (30% of ₹ 3,00,000 × 10/12)	75,000
Carrying amount as on 31.3.2022	2,60,000

(iii) Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.2022 as per AS 23

	₹
Carrying amount as on 31.3.2022	2,60,000
Less: Dividend received (₹ 60,000 × 30%)	(18,000)
Carrying amount as on 30.6.2022	2,42,000

AS 24 Discontinuing Operation

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

	Dish washing Bar (Per month)	Clothes washing Bar (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?

Quick Revision Highlights:

Answer: In response to the market forces, business enterprises often abandon products or even product lines and reduce the size of their work-force. These actions are not in themselves discontinuing operations unless they satisfy the definition criteria.

In the instant case the company has been gradually reducing operation in the product line of Washing Soap, simultaneously increasing operation in the product line of Bathing Soap. The company was not disposing of any of its components. Phasing out a product line as undertaken

by the company does not meet definition criteria of AS 24, namely, disposing of substantially in its entirety a component of the enterprise. Therefore, this change over is not a discontinuing operation.

- 78.** Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:
- If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.
 - If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?
 - Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

Quick Revision Highlights:

Answer:

- Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:
 - 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;
 - Shifting of some production or marketing activities for a particular line of business from one location to another; and
 - Closing of a facility to achieve productivity improvements or other cost savings.

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the company's strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

- No, the resolution is silent about stoppage of the car segment in definite time period. Though,

sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.

Hence, AS 24 will not be applicable and it cannot be considered as discontinuing operation.

- (iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.

Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operation as per AS-24.

AS 25 Interim Financial Reporting

79. Sincere Corporation is dealing in seasonal product. Sales pattern of the product quarter-wise is as follows:

1st quarter 30th June	10%
2nd quarter 30th September	10%
3rd quarter 31st December	60%
4th quarter 31st March	20%

Information regarding the 1st quarter ended on 30th June, 2021 is as follows:

Sales	80 crores
Salary and other expenses	60 crores
Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer ₹ 10 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, the third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

Quick Revision Highlights:

Answer:

Particulars	(₹ In crores)	
Result of first quarter ended 30th June, 2021		
Turnover	80	
Other Income	Nil	

Total (a)	80
Less: Changes in inventories	Nil
Salaries and other cost	60
Administrative and selling Expenses (4+8)	12
Total (b)	72
Profit (a)-(b)	8

According to AS 25, the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized when they occur. Thus, the company's view is not as per AS 25.

80. An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000. Calculate the tax expense to be recognized in each quarter.

Quick Revision Highlights:

Answer:

As per AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

	₹
Estimated Annual Income (A)	10,00,000
Tax expense:	
30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 5,00,000	2,00,000
(B)	3,50,000

Weighted average annual income tax rate = $3,50,000 / 10,00,000 \times 100 = 35\%$

Tax expense to be recognized in each of the quarterly reports	₹
Quarter I - ₹ 75,000 × 35%	26,250
Quarter II - ₹ 2,50,000 × 35%	87,500

Quarter III - ₹ 3,75,000 × 35%	1,31,250
Quarter IV - ₹ 3,00,000 × 35%	1,05,000
₹ 10,00,000	3,50,000

81. The accounting year of X Ltd. ends on 30th September, 2021 and it makes its reports quarterly. However for the purpose of tax, year ends on 31st March every year. For the Accounting year from 1-10-2020 to 30-9-2021, the quarterly income is as under:

1st quarter ending on 31st December, 2020	₹ 200 crores
2nd quarter ending on 31st March, 2021	₹ 200 crores
3rd quarter ending on 30th June, 2021	₹ 200 crores
4th quarter ending on 30th September, 2021	₹ 200 crores
Total	₹ 800 crores

Average actual tax rate for the financial year ending on 31st March, 2021 is 20% and for financial year ending 31st March, 2022 is 30%. Calculate tax expense for each quarter.

Quick Revision Highlights:

Answer: Calculation of tax expense

1st quarter ending on 31st December, 2020	200×20%	₹ 40 lakhs
2nd quarter ending on 31st March, 2021	200×20%	₹ 40 lakhs
3rd quarter ending on 30th June, 2021	200×30%	₹ 60 lakhs
4th quarter ending on 30th September, 221	200×30%	₹ 60 lakhs

82. Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2021. On enquiry you observe the following. Give the treatment required under AS 25:
- Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.
 - 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
 - In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.
 - ₹ 2 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 ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.
- (vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter

Quick Revision Highlights:

Answer: As per 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. Therefore, dividend income, extra-ordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only. Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only

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.

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

Statement showing Adjusted Profit before Tax for the third quarter.

	(₹ in lakhs)
Profit before tax (as reported)	4
Add: Dividend income ₹ (4-1) lakhs	3
Excess depreciation charged in the 3rd quarter, due to change in the method	-
Extra ordinary gain ₹ (2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (3-2) lakhs	<u>1</u>
	9
Less: Sales promotion expenses (80% of ₹ 15 lakhs)	(12)
Gain on sale of investment (occasional gain should not be deferred)	<u>(5)</u>
Adjusted Profit before tax for the third quarter	(8)

AS 26 Intangible Assets

83. A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as ₹ 100 per £. The seller allowed trade discount @ 2.5%. The other expenditures were:

- (i) Import Duty 10%
- (ii) Additional Import Duty 5%
- (iii) Entry Tax 2% (Recoverable later from tax department).
- (iv) Installation expenses ₹ 1,50,000.
- (v) Professional fees for clearance from customs ₹ 50,000.

Compute the cost of software to be Capitalized as per relevant AS.

Quick Revision Highlights:

Answer: Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	£ 1,50,000
Less: Trade discount @ 2.5%	£ (3,750)
	£1,46,250
Cost in ₹ (UK £1,46,250 × ₹ 100)	₹146,25,000
Add: Import duty on cost @ 10% (₹)	₹ 14,62,500
	₹160,87,500
Add: Additional import duty @ 5% (₹)	₹8,04,375
	₹168,91,875
Add: Installation expenses (₹)	₹1,50,000
Add: Professional fee for clearance from customs (₹)	₹ 50,000
Cost of the software to be capitalized (₹)	₹170,91,875

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset.

84. During 2021-22, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	₹
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Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market. You are required to state how the above referred cost to be recognized in the books of accounts.

Quick Revision Highlights:

Answer: As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product.

Technological feasibility/asset recognition criteria have been established upon completion of detailed program design, coding and testing.

In this case, ₹ 90,000 would be recorded as an expense (₹ 50,000 for completion of detailed program design and ₹ 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = ₹ 1,00,500. Packing cost ₹ 16,500 should be recognized as expenses and charged to P & L A/c.

85. NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹ 530 lakhs on research upto 31st March, 2011

The development of the process began on 1st April, 2011 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 2012 which meets assets recognition criteria. From 1st April, 2012, the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years. The cost of capital of company is 10%.

Explain:

- Accounting treatment for research expenses.
- The cost of internally generated intangible asset as per AS 26.
- The amount of amortization of the assets. (The present value of annuity factor of Rs. 1 for 5 years @ 10% = 3.7908)

Quick Revision Highlights:

Answer:

- a) Research Expenditure - According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product Rs. 530 lakhs should be charged to Profit and Loss Account in the year in which it is incurred.
- b) Cost of internally generated intangible asset - The question states that the development phase expenditure amounting ₹ 360 lakhs incurred upto 31st March, 2012 meets asset recognition criteria. As per AS 26 for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	80 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (₹ 80 lakhs × 3.7908)	303.26 lakhs

The cost of an internally generated intangible asset would be lower of cost value ₹ 360 lakhs or present value of future net cash flows Rs.303.26 lakhs.

Hence, cost of an internally generated intangible asset will be Rs. 303.26 lakhs.

The difference of ₹ 56.74 lakhs (i.e. ₹ 360 lakhs - ₹ 303.26 lakhs) will be amortized by the enterprise for the financial year 2011-12.

- c) Amortisation - The company can amortise ₹ 303.26 lakhs over a period of five years by charging ₹ 60.65 lakhs per annum from the financial year 2012-13 onwards.

86. As per provision of AS-26, how would you deal to the following situations?:

- a) ₹ 23,00,000 paid by a manufacturing company to the legal advisor defending the patent of a product is treated as a capital expenditure.
- b) During the year 2018-19, 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.
- c) 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.
- d) 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 for 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.

Quick Revision Highlights:

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.

- 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.
- 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, 2019 because no benefit will arise in the future.
- 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
- 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.

87. Swift Ltd. acquired a patent at a cost of ₹ 80,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 10,00,000 per annum. The company had amortized the patent at 10,00,000 per annum in first two years on the basis of economic benefits derived from the product manufactured under the patent. After two years it was found that the product life-cycle may continue for another 5 years from then. The patent was renewable and Swift Ltd. got it renewed after expiry of five years. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years.

Quick Revision Highlights:

Answer: Swift Limited amortised ₹ 10,00,000 per annum for the first two years i.e. ₹ 20,00,000. The remaining carrying cost can be amortised during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

	Net cash flows ₹	Amortisation Ratio	Amortisation Amount ₹
I	-	0.125	10,00,000
II	-	0.125	10,00,000
III	36,00,000	0.180	10,80,000
IV	46,00,000	0.230	13,80,000
V	44,00,000	0.220	13,20,000
VI	40,00,000	0.200	12,00,000
VII	34,00,000	0.170	10,20,000
Total	2,00,00,000	1.000	80,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 60,00,000 has been amortised in the ratio of net cash flows arising from the product of Swift Ltd.

AS 27 Financial Reporting of Interests in Joint Ventures

88. Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.2021 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.2021 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer

Quick Revision Highlights:

Answer: Draft Consolidated Profit & Loss Account

Particulars	₹	₹	Particulars	₹	₹
To Purchase of Land: Mr. A		60,00,000	By Sale of Flats: Mr. A	40,00,000	

To Registration Fees:			Mr. B	20,00,000	
Mr. A		60,000	Mr. C	10,00,000	70,00,000
To Materials:		9,50,000	By Flats taken by		
Mr. B			Venturers:		
To Other Expenses:			Mr. A	10,00,000	
Mr. C		9,00,000	Mr. B	10,00,000	30,00,000
To Bank Interest:			Mr. C	10,00,000	
Mr. A		2,00,000			
To Profits:					
Mr. A	6,30,000				
Mr. B	6,30,000				
Mr. C	6,30,000	18,90,000			
		1,00,00,000			1,00,00,000

In the Books of Mr. A

Joint Venture Account

Particulars	₹	Particulars	₹
To Bank Loan (Purchase of Land)	50,00,000	By Bank (Sale of Flats)	40,00,000
To Bank: (Purchase of Land)	10,00,000	By Land & Building	10,00,000
To Bank (Registration Fees)	60,000	By Bank (Received from Mr. B)	14,20,000
To Bank (Bank Interest)	2,00,000	By Bank (Received from Mr. C)	4,70,000
To Profit on JV	6,30,000		
	68,90,000		68,90,000

In the Books of Mr. B

Joint Venture Account

Particulars	₹	Particulars	₹
To Purchases (Material Supplied)	4,50,000	By Bank (Sale of Flats)	20,00,000
To Bank (Materials)	5,00,000	By Land & Building	10,00,000
To Profit on JV	6,30,000		
To Bank (Paid to Mr. A)	14,20,000		
	30,00,000		30,00,000

In the Books of Mr. C

Joint Venture Account

Particulars	₹	Particulars	₹
To Bank (Misc. Expenses)	9,00,000	By Bank (Sale of Flats)	10,00,000
To Profit on JV	6,30,000	By Land & Building	10,00,000
To Bank (Paid to Mr. A)	4,70,000		
	20,00,000		20,00,000

89. A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings ₹ 12,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for ₹ 3,00,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 9,00,000 to be depreciated @ 20% p.a. They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 6,00,000 each year. You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

Quick Revision Highlights:

Answer:

Consolidated Balance Sheet

		Note	(₹)
I	Equity and liabilities		
	Shareholders' funds:		
	Share Capital	1	71,40,000
			71,40,000
II	Assets		
	Non-current Assets		
	Property, Plant and Equipment:	2	71,40,000
			71,40,000

Notes to Accounts

			(₹)
1.	Share capital		
	A Ltd.	23,80,000	
	B Ltd.	23,80,000	
	C Ltd.	23,80,000	71,40,000
	Property, Plant and Equipment		
2.	Land & Building:		
	A Ltd.	3,80,000	
	B Ltd.	3,80,000	
	C Ltd.	3,80,000	11,40,000
	Plant & Machinery:		
	A Ltd.	17,00,000	
	B Ltd.	17,00,000	

	C Ltd.	17,00,000	51,00,000
	Computers:		
	A Ltd.	60,000	
	B Ltd.	60,000	
	C Ltd.	60,000	1,80,000
	Vehicles:		
	A Ltd.	2,40,000	
	B Ltd.	2,40,000	
	C Ltd.	2,40,000	7,20,000

In the Books of A Ltd.

Extract of statement of Profit & Loss

Particulars	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		200,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	23,80,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	20,000	
	Plant & Machinery	3,00,000	
	Computers	40,000	
	Vehicles	60,000	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	(20,000)	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	(3,00,000)	17,00,000
	Computers	1,00,000	

Less: Depreciation	(40,000)	60,000
Vehicles	3,00,000	
Less: Depreciation	(60,000)	2,40,000
		23,80,000

In the Books of B Ltd.

Extract of draft Profit & Loss Account

Particulars	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		200,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets	2	23,80,000
Property, Plant and Equipment		

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	20,000	
	Plant & Machinery	3,00,000	
	Computers	40,000	
	Vehicles	60,000	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	(20,000)	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	(3,00,000)	17,00,000
	Computers	1,00,000	
	Less: Depreciation	(40,000)	60,000
	Vehicles	3,00,000	

	Less: Depreciation	(60,000)	2,40,000
			23,80,000

In the Books of C Ltd.

Extract of Draft Profit & Loss Account	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		200,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets	2	23,80,000
Property, Plant and Equipment		

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	20,000	
	Plant & Machinery	3,00,000	
	Computers	40,000	
	Vehicles	60,000	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	(20,000)	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	(3,00,000)	17,00,000
	Computers	1,00,000	
	Less: Depreciation	(40,000)	60,000
	Vehicles	3,00,000	
	Less: Depreciation	(60,000)	2,40,000
			23,80,000

90. A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

Quick Revision Highlights:

Answer: Consolidated Profit & Loss Account

Particulars	Note No.	(₹)
Revenue from operations	1	13,05,000
Total Revenue (A)		13,05,000
Less: Expenses		
Purchases	2	9,00,000
Other expenses	3	3,06,000
Changes in inventories of finished goods	4	(1,00,000)
Total Expenses (B)		11,06,000
Profit Before Tax (A-B)		1,99,000

Consolidated Balance Sheet

		Note No.	(₹)
I	Equity and liabilities		
	1. Shareholders' funds:		
	Share Capital	5	4,01,000
	Reserves and Surplus	6	1,99,000
	2. Non-current liabilities		
	Long term borrowings	7	2,00,000
	3. Current Liabilities	8	1,00,000
			9,00,000
II	Assets		
	Non-current Assets		
	Property, Plant and Equipment	9	6,00,000
	Current Assets		
	Inventories	10	1,00,000
	Other current assets	11	2,00,000
			9,00,000

Notes to Accounts

	Particulars		(₹)
1.	Revenue from operations		
	Sales:		
	A Ltd.	7,25,000	
	B Ltd.	5,80,000	13,05,000
2.	Purchases		
	A Ltd.	5,00,000	
	B Ltd.	4,00,000	9,00,000
3.	Other expenses		
	A Ltd.	1,70,000	
	B Ltd.	1,36,000	3,06,000
4.	Closing Inventory		
	A Ltd.	50,000	

5.	B Ltd.	50,000	1,00,000
	Share Capital		
	A Ltd.	1,96,490	
	B Ltd.	2,04,510	4,01,000
6.	Reserves and Surplus		
	Profit & Loss Account:		
	A Ltd.	99,500	
	B Ltd.	99,500	1,99,000
7.	Long Term Borrowings		
	Unsecured Loans:		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000
8.	Current Liabilities		
	A Ltd.		
	B Ltd.	50,000	
	Property, Plant and Equipment	50,000	1,00,000
9.	A Ltd.	3,00,000	
	B Ltd.	3,00,000	6,00,000
10.	Inventories		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
11.	Other Current Assets		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000

91. A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	16,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000

Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	-
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.

Quick Revision Highlights:

Answer:

Balance Sheet of A Ltd

		Note No.	(₹)
I	Equity and liabilities		
	1. Shareholders' funds:		
	Share Capital	1	10,00,000
	Reserves and Surplus	2	24,00,000
	2. Non-current liabilities	3	4,00,000
	3. Current Liabilities		4,50,000
	TOTAL		42,50,000
II	Assets		
	Non-current Assets		
	Property, Plant and Equipment:	4	40,25,000
	Current Assets	5	2,25,000
			42,50,000

Notes to Accounts

		₹	₹
1.	Reserves and Surplus		
	A Ltd.	18,00,000	
	C Ltd.	6,00,000	24,00,000
2.	Long Term Borrowings		
	Loans:		
	A Ltd.	3,00,000	
	C Ltd.	1,00,000	4,00,000

3.	Current Liabilities:		
	A Ltd.	4,00,000	
	C Ltd.	50,000	4,50,000
4.	Property, Plant and Equipment:		
	A Ltd.	30,50,000	
	C Ltd.	9,75,000	40,25,000
5.	Current Assets:		
	A Ltd.	2,00,000	
	C Ltd.	25,000	2,25,000

Balance Sheet of B Ltd.

		Note No.	(₹)
I	Equity and liabilities		
	1. Shareholders' funds:		
	Share Capital		7,50,000
	Reserves and Surplus	1	22,00,000
	2. Non-current liabilities	2	5,00,000
	3. Current Liabilities	3	3,00,000
			37,50,000
II	Assets		
	1. Non-current Assets		
	Property, Plant and Equipment	4	36,00,000
	2. Current Assets	5	1,50,000
			37,50,000

Notes to Accounts

		₹	₹
1.	Reserves and Surplus		
	B Ltd.	16,00,000	
	C Ltd.	6,00,000	22,00,000
2.	Long Term Borrowings		
	Loans:		
	B Ltd.	4,00,000	
	C Ltd.	1,00,000	5,00,000
3.	Current Liabilities:		

	B Ltd.	2,50,000	
	C Ltd.	50,000	3,00,000
4.	Property, Plant and Equipment:		
	B Ltd.	26,25,000	
	C Ltd.	9,75,000	36,00,000
5.	Current Assets:		
	B Ltd.	1,25,000	
	C Ltd.	25,000	1,50,000

AS 28 Impairment of Assets

92. Ergo Industries Ltd. gives the following estimates of cash flows relating to Property, Plant and Equipment on 31-12-2021. The discount rate is 15%.

Year	Cash Flow (₹ in lakhs)	
2022	4000	
2023	6000	
2024	6000	
2025	8000	
2026	4000	
Residual value at the end of 2026	=	₹ 1000 lakhs
Property, Plant and Equipment purchased on 1-1-2019	=	₹ 40,000 lakhs
Useful life	=	8 years
Net selling price on 31-12-2021	=	₹ 20,000 lakhs

Calculate on 31-12-2021:

- Carrying amount at the end of 2021
- Value in use on 31-12-2021
- Recoverable amount on 31-12-2021
- Impairment loss to be recognized for the year ended 31-12-2021
- Revised carrying amount
- Depreciation charge for 2022.

Note: The year 2019 is the immediate preceding year before the year 2020.

Quick Revision Highlights:

Answer:

- (a) Calculation of carrying amount:

Original cost = ₹ 40,000 lakhs

Depreciation for 3 years = $[(40,000 - 1000) \times 3/8] = ₹ 14,625$ lakhs
Carrying amount on 31-12-2021 = $[40,000 - 14,625] = ₹ 25,375$ lakhs

- (b) Calculation of value in use

Year	Cash Flow	Discount as per 15%	Discounted cash flow
2022	4,000	0.870	3,480
2023	6,000	0.756	4,536
2024	6,000	0.658	3,948
2025	8,000	0.572	4,576
2026	4,000	0.497	1,988
2026	(residual) 1,000	0.497	497
			19,025

Value in use = ₹ 19,025 lakhs

- (c) Recoverable amount = higher of value in use and net selling price i.e. ₹ 20,000 lakhs

Recoverable amount = ₹ 20,000 lakhs

- (d) Impairment Loss = Carrying amount - Recoverable Amount = ₹ $(25,375 - 20,000) = ₹ 5,375$ lakhs

- (e) Revised carrying amount = ₹ $(25,375 - 5,375) = ₹ 20,000$ lakhs

- (f) Depreciation charge for 2022 = $(20,000 - 1000)/5 = ₹ 3,800$ lakhs

93. X Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs on 31.3.2021. Its balance useful life is 5 years and residual value at the end of 5 years is ₹ 5 lakhs. Estimated future cash flow from using the plant in next 5 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.3.2022	50
31.3.2023	30
31.3.2024	30
31.3.2025	20

31.3.2026	20
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Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.2021 is ₹ 60 lakhs.

Quick Revision Highlights:

Answer: Present value of future cash flow

Year ended	Future Cash Flow	Discount @ 10% Rate	Discounted cash flow
31.3.2022	50	0.909	45.45
31.3.2023	30	0.826	24.78
31.3.2024	30	0.751	22.53
31.3.2025	20	0.683	13.66
31.3.2026	20	0.620	12.40
			118.82
Present value of residual price on 31.3.2026 = 5×0.620			3.10
Present value of estimated cash flow by use of an asset and residual value, which is called "value in use".			121.92

94. X Ltd. purchased a Property, Plant and Equipment four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs?

Quick Revision Highlights:

Answer: Treatment of Impairment Loss

As per AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs - ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount

will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the Property, Plant and Equipment at the end of the fourth year on revaluation

	(₹ in lakhs)
Purchase price of a Property, Plant and Equipment	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) × 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

95. From the following details of an asset

- Find out impairment loss
- Treatment of impairment loss
- Current year depreciation

Particulars of asset:

Cost of asset	₹ 56 lakhs
Useful life period	10 years
Salvage value	Nil
Current carrying value	₹ 27.30 lakhs
Useful life remaining	3 years
Recoverable amount	₹ 12 lakhs
Upward revaluation done in last year	₹ 14 lakhs

Answer: According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	₹
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Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27,30,000
Less: Current recoverable amount	(12,00,000)
Impairment Loss	15,30,000
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

In the given case, the carrying amount of the asset will be reduced to ₹ 12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹ 4,00,000.

AS 29 Provisions, Contingent Liabilities & Contingent Assets

96. During 2020-21, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2021-22, the financial condition of Enterprise B deteriorates and at 30 September 2021 Enterprise B goes into liquidation.

Quick Revision Highlights:

Answer:

a) At 31 March 2021

- **Present obligation as a result of a past obligating event** - The obligating event is the giving of the guarantee, which gives rise to an obligation.
- **An outflow of resources embodying economic benefits in settlement** - No outflow of benefits is probable at 31 March 2021.
- **Conclusion** - No provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

b) At 31 March 2022

- **Present obligation as a result of a past obligating event** - The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

- **An outflow of resources embodying economic benefits in settlement** - At 31 March 2022, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- **Conclusion** - Provision is recognized.

97. EXOX Ltd. is in the process of finalising its accounts for the year ended 31 st March, 2022. The company seeks your advice on the following:

- (i) The Company's sales tax assessment for assessment year 2021-22 has been completed on 14th February, 2024 with a demand of ₹ 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.
- (ii) The Company has entered into a wage agreement in May, 2022 whereby the labour union has accepted a revision in wage from June, 2021. The agreement provided that the hike till May, 2022 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2022.

Quick Revision Highlights:

Answer:

- (i) Since the company is not appealing against the addition of ₹ 0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 2024. The amount paid under protest can be kept under the heading 'Loans & Advances' and disclosed as a contingent liability of ₹ 2.10 crore.
 - (ii) The arrears for the period from June, 2021 to March, 2022 are required to be provided for in the accounts of the company for the year ended on 31st March, 2022
98. Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2021-2022 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2022-2023 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹ 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2021-2022 financial year. As on balance sheet date (31.3.2022), the goods were not manufactured, and it was unlikely that Sun Ltd. will be able to meet the contractual obligation.
- (i) Should Sun Ltd. provide for contingency as per AS 29?
 - (ii) Should provision be measured as the excess of compensation to be paid over the profit?

Quick Revision Highlights:

Answer:

- (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognized. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.
- (ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2022 and no profit had accrued for the financial year 2021-2022. Therefore, provision should be made for the full amount of compensation amounting ₹ 1.50 crores.

- 99.** An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. On 31st March 2021, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary considering the circumstances in line with provisions of AS 29?

Quick Revision Highlights:

Answer:

As per AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event. However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted. In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted

100. 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 (Rs.)
11th Feb, 2017	60,000
25th Dec, 2017	40,000
04th Oct, 2018	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to P & L account for the year ended 31st March, 2019.

Quick Revision Highlights:

Answer:

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

As at 31st March, 2018 = ₹ 60,000 × .02 + ₹ 40,000 × .03 = ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st March, 2019 = ₹ 40,000 × .02 + ₹ 1,35,000 × .03 = ₹ 800 + ₹ 4,050 = ₹ 4850

Amount debited to Profit and Loss Account for year ended 31st March, 2019

	₹
Balance of provision required as on 31.03.2019	4,850
Less: Opening Balance as on 1.4.2018	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2019 in respect of sales amounting ₹ 60,000 made on 11th February, 2017 as the warranty period of 2 years has already expired.