SEP 25/JAN 26/MAY 26

CA INTER - PAPER 1

ADVANCED ACCOUNTING

MCQ GUIDE

Full Coverage: All the chapters are covered

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This Material belongs to Future CA -

Who will intent to score and will score 70+ in CA inter (New syllabus) Advanced Accounting paper in CA inter Sep 25 / Jan 26/May 26 exams.

PAPER 1

ADVANCED ACCOUNTING

MCQ case law guide

CA INTERMEDIATE (NEW) SYLLABUS

SEP - 2025 / JAN - 2026 / MAY - 2026

CA CS KARTHIK MANIKONDA

Every morning/night before you start studying, just visualize the moment you pass your exams when you click submit for your results, that feeling is magical, you and your well-wishers would love that emotion and that requires a lot of smart & hard work.

Faculty’s Message

My Dear Future CAs

Being a CA is a responsibility, a responsibility so strong that the financial burden of the country falls on your shoulders.

Ofcourse you are pursuing this course to transform your **financial independence** and earn the **respect** in the society, these are only by products of the two letters CA.

It maybe only two letters, but the efforts behind that is **not measurable**, they say CA is Hard, not easy to crack and only a few people can clear this course.

Just remember this one thing, **anything that is easy is not worth it and anything worth it is not easy.**

To become a successful Chartered Accountant, Hard work Alone is NOT sufficient, I would urge you to build these **three Attributes** in your life along with CA.

A. Integrity (Be Honest and Ethical in all circumstances in your life)

B. Humbleness (you may grow to become a CFO of the richest company, but learn to be grounded and down to earth

C. Giving it back (today you may not have much, but one day you will have a lot, that day remember to give back to the society)

Faculty's Message

At the CA Inter Level, ICAI prepares Question papers expecting only one thing from you, your dedicated consistent efforts. **(Namely Discipline)**

Ofcourse you are pursuing this course to transform your financial independence and earn the respect in the society, these are only by products of the two letters CA.

Discipline is the only thing that can change and transform your life, let me tell you in a way you will understand, in school, you were disciplined because someone was watching you and because of that you were successful then.

now no one's watching you and that makes discipline a choice, if discipline is a choice then your results would also become a choice for ICAI, if your result has to be in your own hands, what's needed is not discipline, it's **Self Discipline** (working towards your goals all by yourself when no one is watching you)

I would like to conclude by saying for any subject, this is the approach to be taken to enjoy the subject and also excel in it.

Step 1 : Learn the concepts in Detail (understand the WHY of it and NO **SELECTIVE STUDY**)

Step 2 : Practice Questions, I mean practice by writing or solving them and not looking at them.

Step 3 : Test Series, in school you wrote a lot of tests, apply the same concept here by testing yourself in real life exam scenario to be ready for the exams.

Faculty's Message

Bonus : If all the above steps are done, then scoring well in **MCQ** is only a result of the above process.

I would like to thank my Teachers who have been an immense support in my journey namely CA MP Vijay Kumar sir, CS Jayaraman sir (Late) , CS Desikan Balaji sir (Late) , Radhika Ma'am.

My Family who have been an immense support for the profession I have chosen namely CA Nivedha Shankar, Vasantha Rani, Rajesh Babu, Rupesh, Shankar, Gomathi Shankar and my son dheera.

Lastly i cannot conclude without thanking my students who have been a huge support in preparing this material, personally thanking Jaya Priya, Harini and Gubeara Prawin

Wishing you all most and more to become a Chartered Accountant and be a responsible Human.

With Love,

Karthik Manikonda

Table Of Confidence

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Case scenario -1 (May 24 RTP)

[Revenue Recognition, Government Grants, Inventories]

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

* The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.

* Railways sends an order for a defined quantity.

* The Company manufactures the required quantity and informs Railways for carrying out the inspection.

* Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.

* Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.

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

i. Nationalisation or privatization by government

ii. Out of court settlement of a legal claim

iii. Rights issue of equity shares

iv. Strike by workforce

v. Announcing a plan to discontinue an operation

The Company has received a grant of Rs 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed Rs 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent. RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was Rs 1,000. The entire quantity of waste was on stock at the end of the financial year.

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

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

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

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

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

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

(a) Rs 47,00,000.

(b) Rs 50,00,000.

(c) Rs 49,50,000.

(d) Rs 49,47,368.

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

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

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

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

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

Question	Answer	Insight
CS1-1	**A**	As per AS 9, revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.
CS1-ii	**D**	Normal output = 5,000 – 250 = 4,750 MT Total input cost = 5,000 × Rs 1,000 = Rs 50,00,000 Cost per MT of good output = Rs 50,00,000 / 4,750 = Rs 1,052.63 (approx.) Value of 4,700 MT stock (good units) = 4,700 × 1,052.63 ≈ Rs 49,47,368
CS 1-iii	**D**	As per AS 12, grants should be utilized only for the purposes for which they have been received by the entity and hence any distribution of dividend in the above mentioned case in inappropriate. Further, land is non-monetary government grant. Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value.

Case scenario -2 (sep 24 RTP)

[Revenue Recognition- AS 9, AS 29]

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products. Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for Rs 45,000 each which includes installation fees of Rs 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered Rs 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

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

(i) Rs 2,25,000

(ii) Rs 2,17,500

(iii) Rs 2,00,000

(iv) Rs 2,30,000

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

(i) Rs 5000

(ii) Rs 2,20,000

(iii) Rs 10,000

(iv) Rs 2,40,000

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

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

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

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

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

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

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

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

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

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

Question	Answer	Insight
CS 2-a	ii	As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue will be recognised excluding installation charges. Further, as per AS 9, trade discount are not encompassed with revenue. The revenue for F.Y. 23-24 will be: 5 *(₹45000-500-1000) = ₹ 2,17,500)
CS 2-b	i	As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue pertaining to installation should be recognised when ACs are installed.)
CS 2-c	ii	AS 9 – Trade Discounts: Revenue is reported net of trade discounts. It is deducted upfront while determining revenue, not shown separately in P&L.
CS 2-d	ii	As per paragraph 14 of AS 29, a provision should be recognised when there exists present obligation to act or perform in a certain way and other conditions for its recognition under AS 29 are satisfied. Here, the Company can estimate the amount that it may have to incur considering past trends and make a provision.

Case scenario -3 (Jan 25 RTP)

[Impairment of Assets-AS 28]

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for Rs 600 lakhs and FA 2 is being carried at Rs 300 lakhs As at 31st March 2024, the value in use for FA 1 is Rs 500 lakhs and the net selling price is Rs 550 lakhs. The Company did upward revaluation last year for Rs 20 lakhs for FA 1. As at 31st March 2024, the value in use for FA 2 is Rs 350 lakhs and the net selling price is Rs 320 lakhs.

a. How much is the total Impairment loss for current year for FA 1:

(i) Rs 100 Lakhs

(ii) Rs 50 Lakhs

(iii) Rs 30 lakhs

(iv) Nil

b. How much impairment loss will be charged to profit and loss for current year for FA1:

(i) Rs 100 Lakhs

(ii) Rs 50 Lakhs

(iii) Rs 30 lakhs

(iv) Nil

c. How much is the total Impairment loss for current year for FA 2:

(i) Rs 50 Lakhs

(ii) Rs 30 Lakhs

(iii) Rs 20 lakhs

(iv) Nil

d. What will be the carrying value on 1st April 2024 for FA 1:

(i) Rs 550 Lakhs

(ii) Rs 530 Lakhs

(iii) Rs 520 lakhs

(iv) Rs 500 lakhs

Reason for a, b, c & d:

For FA 1

Recoverable amount
= ₹ 550 lakh (higher of value in use and net selling price)

Impairment Loss: Carried amount – recoverable amount
= ₹ 600 lakhs – ₹ 550 Lakhs = ₹ 50 Lakhs

Impairment Loss charged to Profit and loss
= ₹ 50 lakh – ₹ 20 lakh = ₹ 30 lakh

Carrying Value FA 1

Recoverable Amount = ₹ 550 Lakh

For FA 2

Recoverable amount = ₹ 350 lakh (higher of value in use and net selling price)

Carrying amount = ₹ 300 lakh

When recoverable amount is more than carrying amount, there is no need to provide impairment loss.

Question	Answer	Insight
CS1-a	ii	As per above workings
CS1-b	iii	As per above workings
CS 1-c	iv	As per above workings
CS 1-d	i	As per above workings

Case scenario -4 (May 25 RTP)

[Inventory Valuation - Change in Method – AS 2]

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to Rs 10,40,000 (on the basis of FIFO method).The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to Rs 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to Rs 12,00,000.

1. What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

(a) The value of inventory will be Rs 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.

(b) The value of inventory will be Rs 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(c) The value of inventory will be Rs 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.

(d) The value of inventory will be Rs 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

Question	Answer	Insight
CS 4	d	**AS 2 – Change in Inventory Valuation Method:** Inventory = ₹8,80,000 (lower of cost or NRV). Change from FIFO to Weighted Average is a change in accounting policy → requires **full disclosure** including **amount of change** in financials.

Case scenario -5 (may 25 RTP)

[Schedule III Disclosures]

A Ltd. has a balance of Rs 17,15,000 in the loan account with State Finance Corporation which is inclusive of Rs 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

1. As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:

(a) Disclosed Rs 16,00,000 as a secured loan under long-term borrowings.

(b) Disclosed Rs 16,00,000 as a secured loan under long-term borrowings and Rs 1,15,000 under short-term borrowings.

(c) Disclosed Rs 16,00,000 as a secured loan under long-term borrowings and Rs 1,15,000 under other current liabilities.

(d) Disclosed Rs 16,00,000 as a secured loan under long-term borrowings and no disclosure for Rs 1,15,000.

Question	Answer	Insight
CS 5	C	As per Schedule III ` 16,00,000 as a secured loan under long-term borrowings and interest accrued but not due will be shown under other current liabilities.

Case scenario -6 (Sep 25 RTP)

[Government Grants, Depreciation – AS 12]

Surat Ltd. has received a grant of Rs 40 crore for purchase of a qualified machine costing Rs 90 crores. The residual value is Rs 2 crore and expected useful life of the machine is 20 years.

Answer the following question as per the requirements of AS 12, Government Grants assuming that the depreciation method is straight line:

a. What is the nature of Grant being received by Surat Ltd.?

(i) Non-Monetary Government Grant

(ii) Grant related to specific fixed assets

(iii) Grant related to Revenue

(iv) Promoter's Contribution

b. If Surat Ltd. has the policy to recognise the grant as deduction from the cost of the asset, what will be the amount of depreciation to be charged as expense in statement of profit and loss account every year:

(i) Rs 4.5 crores

(ii) Rs 2.5 crores

(iii) Rs 2.4 crores

(iv) Rs 2 crores

c. If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of grant to be recognised as other income in statement of profit and loss account every year:

(i) Rs 4.5 crores

(ii) Rs 2.5 crores

(iii) Rs 2 crores

(iv) Rs 1 crores

d. If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of depreciation to be charged as expense in statement of profit and loss account, every year:

(i) Rs 4.5 crores

(ii) Rs 4.4 crores

(iii) Rs 2.5 crores

(iv) Rs 2 crores

Question	Answer	Insight
CS 6-a	ii	AS 12 – Nature of Grant: Since the grant is for purchasing a specific machine, it is a Grant related to specific fixed assets, not revenue or promoter's contribution
CS 6-b	iii	**Deduction Method (AS 12):** Asset cost = ₹90Cr – ₹40Cr grant = ₹50Cr. Depreciable amount = ₹50Cr – ₹2Cr = ₹48Cr. Depreciation = ₹48Cr ÷ 20 yrs = **₹2.4Cr/year**.
CS 6-c	iii	**Deferred Income Method:** Entire grant of ₹40Cr is amortised over 20 years → ₹40Cr ÷ 20 = **₹2Cr/year** as **Other Income**.
CS 6-d	ii	**Depreciation (Full Cost):** Under deferred income method, depreciation is based on full asset cost (₹90Cr – ₹2Cr) = ₹88Cr ÷ 20 = **₹4.4Cr/year**.

Case scenario -7 (ICAI Booklet)

[Leases – AS 19]

A Machinery was given on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I	50,000 units
Year II	60,000 units
Year III	40,000 units
Year IV	65,000 units
Year V	85,000 units

1. What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

(i) The value of inventory will be Rs 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.

(ii) The value of inventory will be Rs 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(iii) The value of inventory will be Rs 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.

(iv) The value of inventory will be Rs 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement

Reason:

Total lease rent = 120% of ₹ 3,00,000 × (Output during lease period / Total output)
=₹3,60,000×(1,50,000units/3,00,000units)
= ₹ 1,80,000

Annual lease rent = ₹ 1,80,000 / 3 = ₹ 60,000

Question	Answer	Insight
CS 7	ii	As per above workings

Case scenario -8 (sep 25 RTP)

[Current Investments Valuation – AS 13]

Cost of current investment acquired was Rs 1000 but the fair value was Rs 800. The Investment was recorded at Rs 800. Now the fair value of Investment is Rs 1200.

1. At what value should it be recorded and how much gain will be credited to profit and loss account.

(i) No change is required and it will continue at Rs 800

(ii) Current investment will be recorded at Rs 1000 and gain of Rs 200 will be credited to profit and loss account.

(iii) Current investment will be recorded at Rs 1200 and gain of Rs 400 will be credited to profit and loss account.

(iv) Current investment will be recorded at Rs 1200 but no gain will be credited to profit and loss account.

Question	Answer	Insight
CS 8	ii	**AS 13 – Current Investments:** Current investments should be carried at **lower of cost or fair value**. Original cost = ₹1,000. Fair value now = ₹1,200. Earlier undervaluation (₹800) must be corrected. Record at ₹1,000; **gain of ₹200** to be shown in **P&L**.

Case Scenario -9 (ICAI Booklet)

[AS 25, AS 5]

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹4 lakhs for the third quarter ending 30-09-20X1. On enquiry, you observe the following:

1. Dividend income of ₹4 lakhs received during the quarter has been recognized to the extent of ₹1 lakh only.
2. 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.
3. 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
4. ₹2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
5. Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹3 lakhs. Out of this, ₹1 lakh relates to previous quarters.
6. Sale of investment in the first quarter resulted in a gain of ₹20 lakhs. The company had apportioned this equally to the four quarters

i. Under AS 25, how much of the ₹4 lakhs dividend income should be recognized in Q3?

A. ₹1 lakh

B. ₹2 lakhs

C. ₹3 lakhs

D. ₹4 lakhs

ii. Is deferring ₹12 lakhs (80%) of sales promotion expenses to Q4 acceptable as per AS 25?

A. Yes, matching principle allows it

B. No, expense should be recognized when incurred

C. Yes, due to seasonality of sales

D. Depends on management judgment

iii. How much of the ₹12 lakhs excess depreciation due to method change should be recognized in Q3?

A. ₹12 lakhs

B. ₹4 lakhs

C. ₹6 lakhs

D. ₹3 lakhs

iv. Can the ₹2 lakhs extraordinary gain be split between Q3 and Q4?

A. No, recognize full gain in Q3

B. Yes, as per smoothing

C. Only if gain was received in Q4

D. Gain should be deferred entirely

v. How should the ₹20 lakhs gain from Q1 sale of investment be treated in interim reporting?

A. Acceptable if material

B. Incorrect – full recognition in Q1 required

C. Only if board approves

D. Correct under AS 26

Question	Answer	Insight
CS 9-i	D	Dividend is recognized in the interim period in which the right to receive is established, i.e., the full ₹4 lakhs in Q3
CS 9-ii	B	AS 25 prohibits deferral of costs unless they qualify as assets. These promotion costs should be recognized in Q3 when incurred
CS 9-iii	D	AS 25 (read with AS 5) treats changes in depreciation method as a change in estimate and applies it prospectively. Only Q3's share (₹3 lakhs) is to be recognized.
CS 9-iv	A	Gains are recognized fully in the period in which they occur; they should not be deferred across quarters.
CS 9-v	B	AS 25 requires income to be reported in the quarter in which it arises. Spreading gain over future quarters is incorrect.

Case Scenario -10 (May 25 series 1 MTP)

[Revenue Recognition(AS 9), Subsequent Events, AS 12]

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment of manufacturing of equipments/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

* The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.

* Railways sends an order for a defined quantity.

* The Company manufactures the required quantity and informs Railways for carrying out the inspection.

* Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.

* Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.

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

i. Nationalisation or privatization by government

ii. Out of court settlement of a legal claim

iii. Rights issue of equity shares

iv. Strike by workforce

v. Announcing a plan to discontinue an operation.

The Company has received a grant of Rs 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed Rs 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent. RTS has a subsidiary, LPP Media & Creations Ltd (LPP), an advertising agency which prepares and publishes advertisement in newspapers on behalf of its clients. LPP invoices its clients for the commission they are entitled to as well as the media space payable to the newspaper.

Based on the above information, answer the following questions.

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

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

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

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

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

ii. In respect of LPP, how should the revenue be recognized as per Accounting Standards?

(a) LPP should record net amount of commission earned by it.

(b) LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement through media and preparation of advertisement material as well as payments to media and expenditure incurred for creation of an advertisement in the notes to accounts.

(c) LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.

(d) LPP may record this on net or gross basis depending on its accounting policy.

iii. Please guide the management of RTS Ltd as to which one of the events mentioned above (i to v) after the reporting period provide evidence of conditions that existed at the end of the reporting period?

(a) ii and v.

(b) ii.

(c) v.

(d) i, iii and iv.

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

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

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

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

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

Question	Answer	Insight
CS 10-i	b	Revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.
CS 10-ii	c	LPP is acting as a principal. Hence, revenue and related costs must be recorded at gross amounts, not net of media charges.
CS 10-iii	b	Out-of-court settlement is an adjusting event under AS 4, as it provides evidence of conditions existing at the balance sheet date.
CS 10-iv	d	Dividend from capital grants is not permitted. Land received free must be recorded at nominal value under AS 12.

Case Scenario -11 (May 25 series 1 MTP)

[AS 10, Capitalisation, Borrowing Cost AS 16]

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

♦ It has acquired land for installing Plant for Rs 50,00,000

♦ It incurred Rs 35,00,000 for material and direct labour cost for developing the Plant.

♦ The Company incurred Rs 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.

♦ The Company borrowed Rs 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to Rs 5,00,000 during the year for arranging this loan.

♦ On November 1, 2023, the construction activities of the plant were interrupted as the local people along with the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.

♦ With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur Rs 6,00,000 in March 2024.

♦ The rate of depreciation on Plant is 10%. Based on the above information, answer the following questions.

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

(a) Cost of Land

(b) Construction material and labour cost

(c) Head office expenses

(d) Borrowing cost

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

(a) Rs 300,000

(b) Rs 2,00,000

(c) Rs 7,00,000

(d) Rs 6,00,000

iii The total cost of plant as on March 31, 2024 will be:

(a) Rs 85,00,000

(b) Rs 98,00,000

(c) Rs 93,00,000

(d) Rs 95,00,000

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

(a) Rs 4,30,000

(b) Rs 9,30,000

(c) Rs 9,80,000

(d) Nil

Question	Answer	Insight
CS 11-i	c	As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Head office is generally used for the overall supervision, planning etc. which are not directly related to construction.
CS 11-ii	b	As per Paragraph 17 of AS 16 states that capitalisation of borrowing cost should be suspended during extended periods to which active development is interrupted. Thus, interest cost from November 1, 2023 to February 28, 2024 will not be capitalised. Interest for only 8 months will be capitalised (` 25,00,000*12%*8/12)
CS 11-iii	c	As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Thus, directly attributable costs in this case are cost of land ` 50,00,000, cost of material and direct labour ` 35,00,000, devices installed due to government order ` 6,00,000 and borrowing cost ` 2,00,000 as per paragraph 6 of AS 16.
CS 11-iv	d	As per paragraph 57 of AS 10, Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As the construction is not yet complete and the asset is not available for use, the depreciation will not start.

Case Scenario -12 (May 25 series 2 MTP)

[AS 26 - Intangible Assets]

1. Digitex limited acquired an intellectual property at the cost of Rs 70,00,000 (at the beginning of the year) and it meets the definition of intangible asset as per AS 26. As per the calculations made by the Company, the benefit from this intellectual property will accrue for next 5 years wherein for first year will be 30%, for next two years it will be 25% each and 10% for the next 2 years.

Year 2

The Company incurred development cost for its new product and incurred Rs 25,00,000 (at the beginning of the year) and was of the view that it will get the benefits for the next 5 years.

Year 3

During the year, it was found that due to change in government policies, no further benefits will be available to the Company from development cost.

Year 4

At beginning of year 4 it was found that the remaining 20% benefit from intellectual property will flow to the Company in this year itself.

Answer the following questions on the basis of above information:

(a) At the end of year 2, what will be the value of Intangible Asset of the Company in the financial statements:

(i) Rs 95,00,000

(ii) Rs 74,00,000

(iii) Rs 56,50,000

(iv) Rs 51,50,000

(b) For the year 2, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) Rs 21,00,000

(ii) Rs 22,50,000

(iii) Rs 14,00,000

(iv) Rs 5,00,000

(c) For the year 3, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) Rs 37,50,000

(ii) Rs 22,50,000

(iii) Rs 20,00,000

(iv) None of the above

(d) For the year 4, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) Rs 19,00,000

(ii) Rs 20,00,000

(iii) Rs 14,00,000

(iv) Nil

Question	Answer	Insight
CS 12-a	iv	IP amortized: ₹70L × (30% + 25%) = ₹38.5L → WDV = ₹31.5L Dev. cost: ₹25L – ₹5L (1/5th amortized) = ₹20L yet to amortize Total carrying value = ₹31.5L (IP) + ₹20L (dev) = ₹51.5L
CS 12-b	ii	IP amortized @25% = ₹70L × 25% = ₹17.5L Dev. cost amortized 1/5 = ₹25L ÷ 5 = ₹5L Total expense = ₹17.5L + ₹5L = ₹22.5L.
CS 12-c	i	IP amortized @25% = ₹17.5L Remaining dev. cost = ₹25L – ₹5L = ₹20L → fully written off Total = ₹17.5L + ₹20L = ₹37.5L
CS 12-d	iii	Remaining 20% IP benefit = ₹70L × 20% = ₹14L amortized in full this year as benefit arises entirely in Year 4

Case Scenario -13 (May 25 series 2 MTP)

[Deferred Tax and Provisions AS 22]

Situation 1: Expert Ltd. has depreciation amounting to Rs 6,00,000 in its books as per accounting records and depreciation as per tax records at Rs 15,00,000. There is adequate evidence of future profit sufficiency.

Situation 2: Further, they have accrued Rs 8,00,000 towards GST liability for the last month of the year which is expected to be paid off by next month. As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Answer the following questions on the basis of above information:

(a) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%:

(i) Rs 8,50,000 (deferred tax liability)

(ii) Rs 4,50,000 (deferred tax liability)

(iii) Rs 8,50,000 (deferred tax asset)

(iv) Rs 4,50,000 (deferred tax asset)

(b) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:

(i) Rs 3,15,000 (deferred tax asset)

(ii) Rs 7,35,000 (deferred tax asset)

(iii) Rs 3,15,000 (deferred tax liability)

(iv) Rs 7,35,000(deferred tax liability)

(c) In Situation 2: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:

(i) Rs 2,80,000

(ii) Rs 5,20,000

(iii) Rs 8,00,000

(iv) Nil

(d) In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications from internal sources of information:

(i) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use

(ii) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially

(iii) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation

(iv) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected

CASE BASED MCQ

Question	Answer	Insight
CS 13-a	**ii**	Tax depreciation > book depreciation → timing difference = ₹15L – ₹6L = ₹9L DTL = ₹9L × 50% = ₹4.5L
CS 13-b	**iii**	Using 35% rate: ₹9L × 35% = ₹3.15L DTL.
CS 13-c	**i**	GST expense of ₹8L unpaid → not allowed under Sec 43B → DTA = ₹8L × 35% = ₹2.8L.
CS 13-d	**iv**	(iv) is the only internal source listed here; others are external per AS 28

Case Scenario -14 (May 25 series 2 MTP)

[Buy-Back of Shares]

Hello Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of Rs 10 each at a price of Rs 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Hello Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Hello Ltd.'s Balance Sheet as of 31st March, 2023:

(A) Share Capital: Equity share capital (fully paid up shares of Rs 10 each) Rs 12,50,000

(B) Reserves and Surplus: Securities premium Rs 2,50,000; Profit and loss account Rs 1,25,000; Revenue reserve Rs 15,00,000;

(C) Long term borrowings: 14% Debentures- Rs 28,75,000, Unsecured LoansRs 16,50,000

(D) Land and Building Rs 19,30,000; Plant and machinery Rs 18,00,000; Furniture and fitting Rs 9,20,000 and Other Current Assets - Rs 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

Answer the following questions on the basis of above information:

(a) By using the Shares Outstanding Test the number of shares that can be bought back

(i) 1,25,000

(ii) 31,250

(iii) 25,000

(iv) 30,000

(b) By using the Resources Test determine the number of shares that can be bought back:

(i) 25,000

(ii) 31,250

(iii) 28,750

(iv) 39,062

(c) By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

(i) 25,000

(ii) 31,250

(iii) 28,750

(iv) 39,062

(d) On the basis of all three tests determine Maximum number of shares that can be bought back:

(i) 25,000

(ii) 31,250

(iii) 28,750

(iv) 39,062

<table>
<tr><th>Question</th><th>Answer</th><th>Insight</th></tr>
<tr><td>CS 14-a</td><td>ii</td><td>25% of 1,25,000 shares = 31,250 shares (Shares Outstanding Test limit).</td></tr>
<tr><td>CS 14-b</td><td>iv</td><td>Resources Test: Maximum permitted limit
25% of Equity paid up capital + Free Reserves
<table>
<tr><th>Particulars</th><th>Amount (₹)</th></tr>
<tr><td>Paid-up capital</td><td>12,50,000</td></tr>
<tr><td>Free reserves (15,00,000 + 2,50,000 + 1,25,000)</td><td>18,75,000</td></tr>
<tr><td>Shareholders' funds</td><td>31,25,000</td></tr>
<tr><td>25% of Shareholders' funds</td><td>7,81,250</td></tr>
<tr><td>Buy-back price per share</td><td>₹ 20</td></tr>
<tr><td>Number of shares that can be bought back (7,81,250 / 20)</td><td>39,062</td></tr>
<tr><td>Actual number of shares for buy-back</td><td>25,000</td></tr>
</table></td></tr>
<tr><td>CS 14-c</td><td>iii</td><td>Debt Equity Ratio Test
Loans cannot be in excess of twice the Equity Funds post Buy-Back
<table>
<tr><th>Particulars</th><th>₹</th></tr>
<tr><td>(a) Loan funds (₹) (18,75,000 + 10,00,000 + 16,50,000)</td><td>45,25,000</td></tr>
<tr><td>(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (a/2)</td><td>22,62,500</td></tr>
<tr><td>(c) Present equity/shareholders fund (₹)</td><td>31,25,000</td></tr>
<tr><td>(d) Future equity/shareholders fund (see W.N.) (31,25,000 – 2,87,500)</td><td>28,37,500</td></tr>
<tr><td>(e) Maximum permitted buy-back of Equity [(d) – (b)]</td><td>5,75,000</td></tr>
<tr><td>(f) Maximum number of shares that can be bought back @ ₹ 20 per share</td><td>28,750 shares</td></tr>
<tr><td>(g) Actual Buy-Back Proposed</td><td>25,000 Shares</td></tr>
</table></td></tr>
</table>

CS 14-d	**iii**	Summary Statement: Maximum Number of Shares to be Bought Back

Particulars	Number of Shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back (least of above)	28,750

Case Scenario -15 (PYP sep 24)

[Inventory, AS 10, AS 13, AS 16]

Mr. Vikram took a loan of Rs 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are Rs 1,00,000 to produce 1000 units of finished goods. 1000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is Rs 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods. Mr. Vikram used 1500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are Rs 90,000. Mr. Vikram also paid Rs15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of Rs 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value Rs 10 each) for Rs 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

1. What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?

(A) Closing Stock of Raw Material X Rs 50,000 and closing stock of Finished Goods Rs 3,50,000

(B) Closing Stock of Raw Material X Rs 50,000 and closing stock of Finished GoodsRs 3,00,000

(C) Closing Stock of Raw Material X Rs 62,500 and closing stock of Finished Goods Rs 3,50,000

(D) Closing Stock of Raw Material X Rs 62,500 and closing stock of Finished Goods Rs 3,00,000

2. Cost of Self Constructed Asset as per AS 10 will be ?

(A) Rs 2,92,500

(B) Rs 2,77,500

(C) Rs 3,05,000

(D) Rs 2,90,000

3. As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?

(A) Rs 12,500 interest to be capitalised and Profit & Loss A/c. Rs 27,500 interest to be charged to Profit & Loss A/c

(B) Rs 12,500 interest to be capitalised and Rs 20,833 interest to be charged to Profit & Loss A/c.

(C) Rs 19,167 interest to be capitalised and Rs 20,833 interest to be charged to Profit & Loss A/c.

(D) Whole of Rs40,000 interest to be charged to Profit & Loss A/c.

4. What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?

(A) Carrying amount of Investment as on 31st March, 2024 is Rs 72,000 and the dividend is deducted from the nominal value of investment.

(B) Carrying amount of Investment as on 31st March, 2024 is Rs90,000 and the dividend is credited to Profit & Loss A/c.

(C) Carrying amount of Investment as on 31st March, 2024 isRs 1,00,000 and the dividend is credited to Profit & Loss A/c.

(D) Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

Question	Answer	Insight
CS 15-1	b	Raw Material to be valued at replacement cost (₹100) since NRV of finished goods < cost. Closing stock = 500 units × ₹100 = ₹50,000. Finished goods (1,000 units × ₹300 NRV) = ₹3,00,000.
CS 15-2	c	Asset cost includes: RM 1,500 units × ₹125 = ₹1,87,500, labour = ₹90,000, installation = ₹15,000, total = ₹3,05,000.
CS 15-3	a	Total interest: ₹6L × 10% × 8/12 = ₹40,000. Qualifying asset use: 1,500 of 4,000 units = 37.5% → ₹15,000 (but ₹12,500 adjusted due to portion of loan proceeds used elsewhere). Remaining ₹27,500 to P&L.
CS 15-4	d	Investment valued at cost less dividend received from pre-acquisition profits. ₹1,00,000 – ₹18,000 dividend = ₹82,000 carrying amount. Dividend reduced from cost of investment.

Case Scenario -16 (PYP sep 24)

[AS 29,AS 9, AS 4]

Kay Ltd. sold goods of Rs 22,00,000 to Mr. Ravi Kumar on 1st February, 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.Kay Ltd. also sold Rs 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is Rs 45,000. Settlement amount if the claim is required to be paid Rs 5,00,000, Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31 March, 2024 is Rs 75,000.Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Question No. 1-3

1. What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?

(A) Rs 23,50,000

(B) Rs 1,50,000

(C) Rs 23,00,000

(D) Rs 1,00,000

2. What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?

(A) Create a Provision for Rs 5,45,000

(B) Create a Provision for Rs 5,00,000

(C) Create a Provision forRs 45,000 and make a disclosure of contingent liability of Rs 5,00,000

(D) Make a disclosure of contingent liability of Rs 5,45,000

3. What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4?

(A) An Adjusting Event, full provision of Rs 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.

(B) An Adjusting Event, provision of Rs 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.

(C) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.

(D) A Non-adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

Question	Answer	Insight
CS 16-1	A	Goods sold and delivery pending at the request of buyer is recognized as revenue and out of goods sold on approval basis 2, 00,000, only 25% were not accepted by the buyer. Rest are treated as revenue. So total revenue recognized is 22,00,000+ 1,50,000 = 23,50,000
CS 16-2	C	There are remote chances of payment of damages to the buyer so claim of ` 5,00,000 treated as contingent liability and provision is made for legal charges as these charges will be incurred.
CS 16-3	A	The earthquake occurred before 31st March and at the time of the bankruptcy of Sheetal enterprises, there was sufficient evidence that the amount due from the buyer was not recoverable.

Case scenario -17 (PYP sep 24)

[Cash Flow, Reconstruction]

Jay Ltd. submits the following data extracted from the Final Accounts as on 31 March, 2023:

Particulars	Amount (Rs.)
Equity shares of Rs 10 each	50,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000
Furniture & Fixtures	85,000
Investment in Star Ltd.	1,25,000
10,000 equity shares of 10 each	
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31 March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of 10 each.

(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of Rs 1,00,000.

(c) Balance of Profit & Loss to be written off.

(d) Equity shares issued for Rs 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1stApril, 2023:

(a) Interest is received on advances given to suppliers of goodsRs 3,000.

(b) Taxation liability is settled at Rs 14,000.

(c) A debtor of Rs 40,000 is insolvent, only 40% of his dues are recovered from his estate.

(d) Dividend is received on Investment in Star Ltd. Rs 1 per equity share invested.

(e) Part of Plant and Machinery is sold at a loss ofRs 3,000 (book value Rs 15,000)

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

1. . The amount of Cash Flow from operating activity is:

(A) Rs 2,000

(B) Rs 5,000

(C) Rs 12,000

(D) Rs 15,000

2. The amount of Cash Flow from investing Activity is

(A) Rs 28,000

(B) Rs 25,000

(C) Rs 15,000

(D) Rs 22,000

3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2023 ?

(A) Rs1,92,500

(B) Rs 92,500

(C) Rs 1,27,000

(D) Rs 1,98,500

4.The Balance of Equity Share Capital after internal reconstruction is :

(A) Rs 6,50,000

(B) Rs 4,50,000

(C) Rs 5,50,000

(D) Rs 7,50,000

Question	Answer	Insight
CS 17-1	B	3000-14000+16000= ₹5k.
CS 17-2	D	10000+12000=22000
CS 17-3	A	65500+100000+3000-14000+16000+10000+12000=192500
CS 17-4	C	Existing 500000 Issued 150000 Give up (200000) 500000*40% Issue 100000 TOTAL 550000

Case Scenario – 18 (PYP jan 25)

[AS 10, AS 12, Impairment]

On 1st April, 2019, Black Limited received a government grant of Rs 15,00,000 for acquisition of a Machine costing Rs 50,00,000. The grant was credited to the cost of the Machine. The life of the Machine is expected to be 10 years and estimated residual value at the end of 10 years is Rs 5,00,000. The company charges depreciation on straight line basis. Due to non-fulfillment of certain conditions the company had to refund the entire grant on 1st April, 2021.

On 31st March, 2023, Black Limited received certain indications of impairment of the Machine and the recoverable amount was ascertained to be Rs 28,00,000 with revised useful life of 4 years and nil residual value.

On 1st April, 2024, the company exchanged the Machine by paying cash of Rs 2,00,000 and new Machine valued at Rs 18,00,000.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

1. What will be the carrying amount of the Machine as on 31st March, 2021 after charging depreciation for the year?

(A) Rs 28,00,000

(B) Rs 26,00,000

(C) Rs 41,00,000

(D) Rs 29,00,000

2. What will be the amount of depreciation to be charged on the Machine for the year ended 31st March, 2022?

(A) Rs 4,87,500

(B) Rs 6,37,500

(C) Rs 4,50,000

(D) Rs 5,37,500

3. What will be the impact of test of impairment on Profit & Loss Account of the company?

(A) Impairment loss of Rs 4,00,000 to be debited to Profit & Loss A/c.

(B) Impairment loss of Rs 4,25,000 to be debited to Profit & Loss A/c.

(C) Impairment loss of Rs 6,25,000 to be debited to Profit & Loss A/c.

(D) Impairment loss of Rs 15,25,000 to be debited to Profit & Loss A/c.

4. What will be the amount of Profit or Loss on exchange of Machine as on 1st April, 2024?

(A) Loss of Rs 8,00,000

(B) Loss of Rs 1,00,000

(C) Profit of Rs 1,00,000

(D) Loss of Rs 3,00,000

Question	Answer	Insight
CS 18-1	D	Original cost after grant = ₹35L. Depreciation = ₹3L/year. After 2 years: ₹6L. Carrying value = ₹29L.
CS 18-2	A	Revalued = 29L+15=44L Depreciation = 44L-5L/8 = 487500
CS 18-3	C	44L - (487500*2) = 342500 Recoverable amount = 28L Impairment loss = 625000 (P&L)
CS 18-4	No correct option	Recoverable amount 28L Depreciation 28L/4 = 7L IL = 28L-7L = 21L No correct option given.

Case Scenario - 19(PYP jan 25)

[AS 22 - Deferred Tax]

The following particulars are stated in the Balance Sheet of Star Limited as on 31st March, 2023:

Deferred Tax Assets (Dr.) Rs 1,20,000

Deferred Tax Liabilities (Cr.) Rs 2,10,000

The following transactions were reported during the year 2023-24:

1. Depreciation as per accounting records Rs 12,00,000

2. Depreciation as per income tax records Rs 18,00,000

3. Interest paid accounted in books on accrual basis Rs 4,50,000 but paid on 15-05-2024

4. Employer PF Contribution exp. disallowed for tax purpose Rs 82,000 in year 2022-23 but allowed in year 2023-24

5. Unamortized preliminary expenses as per tax records Rs 1,00,000

6. Donation Rs 70,000

7. Tax Rate 20%

Based on the information given in above Case Scenario, answer the following Question No. 1-4

1. What would be the value of the Deferred Tax Assets as on 31-03-2024?

(A) Rs 1,52,000

(B) Rs 3,30,000

(C) Rs 1,23,600

(D) Rs 4,50,000

2. What would be the value of the Deferred Tax Liabilities as on 31-03-2024?

(A) Rs 1,23,600

(B) Rs 3,30,000

(C) Rs 1,52,000

(D) Rs 1,20,000

3. What would be the value of reversal of Deferred Tax Assets as on 31-03-2024?

(A) Rs 20,000

(B) Rs 1,04,000

(C) Rs 16,400

(D) Rs 90,000

4. Which is the permanent difference item as per AS 22?

(A) Employer PF Contribution exp.

(B) Donation

(C) Unamortized preliminary expenses

(D) Depreciation

Question	Answer	Insight
CS 19-1	C	120000-16400+20000=123600.
CS 19-2	B	210000+120000; Total = ₹3.3L.
CS 19-3	C	PF reversal = ₹82k × 20% = ₹16.4k DTA reversal.
CS 19-4	B	Donation is permanently disallowed → permanent difference under AS 22.

Case Scenario - 20(PYP jan 25)

[Cash Flow Statement- AS 3]

The following summary cash account has been extracted from the Nextspace Limited's accounting records:

PARTICULARS	AMOUNT
Cash Balance as on 01-04-2023	72,000
Cash Sales	15,56,000
Trade Receivable	7,40,000
Rent from Property held as investment	64,000
Income tax refund	25,000
Loan from Bank	5,00,000
Issue of Shares	2,50,000
Sale of Investment	49,500
	31,84,500
Outflow of Cash	
Trade Payable	19,60,000
Office and Selling Exp.	1,20,000
Trade Commission	40,500
Underwriting Commission	25,000
Redemption of Preference shares	8,00,000
Brokerage on Sale of Investment	9,200
Interest on long term borrowings	85,600
Payment for Overheads	46,000
Purchases of Goodwill	50,000
	(31,36,300)
Balance as on 31-03-24	1,20,200

Based on the information given in above Case Scenario, answer the following

Question No. 1-4

1. What would be the value of Cash Flow from Operating Activities?

(A) Rs 1,29,500

(B) Rs 1,54,500

(C) Rs 1,45,300

(D) Rs 4,04,000

2. What would be the value of Cash Flow from Investing Activities?

(A) Rs 54,300

(B) Rs 1,04,300

(C) Rs 29,300

(D) Rs (500)

3. What would be the value of Cash Flow from Financing Activities?

(A) Rs (50,000)

(B) Rs (1,35,600)

(C) Rs 54,300

(D) Rs (1,60,600)

4. Which of the following would be considered as a 'Cash Flow item from an Investing Activities?

(A) Underwriting Commission

(B) Trade Commission

(C) Purchase of Goodwill

(D) Interest on Long Term Borrowings

Question	Answer	Insight
CS 20-1	B	1556000+740000+25000-1960000-120000-40500-46000.
CS 20-2	A	64000+49500-9200-50000
CS 20-3	D	500000+250000-25000-800000-85600.
CS 20-4	C	Purchase of goodwill is classified as an investing activity.

Case Scenario – 21 (PYP may 25)

[Construction Contracts - AS 7]

Gray Ltd. is engaged in the business of constructing towers since 15 years. Alpha Ltd gave a contract to Gray Ltd. for construction of 2 towers. Contract price for 2 towers is agreed at Rs 160 crore. (each tower has contract price of Rs 80 crore) At the time of contract, Gray Ltd has estimated that the contract cost will be Rs 141 crore. It is assumed that construction will be completed in 3 years. At the end of year 1, Gray Ltd has revised the construction cost to Rs 150 crore. At the beginning of year 2, the customer has requested for a variation in the contract. Customer now wants construction of 3 towers instead of 2 towers. The term of the contract will not change, construction of all the towers will be completed simultaneously. As a result of this variation, contract price will increase by Rs 80 crore and contract costs will increase by Rs 75 crore. Gray Ltd has decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs.

Contract costs incurred at the end of each year is:

Year 1: Rs 35.25 crore.

Year 2: Rs 148.5 crore (including unused material of Rs 2.25 crore)

Year 3: Total Revised contract costs.

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

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

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

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

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

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

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

(A) Rs 2.35 crore

(B) Rs 44.75 crore

(C) Rs 4.75 crore

(D) Rs 21 crore

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

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

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

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

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

Question	Answer	Insight
CS 21-1	**B**	Stage of completion = cost incurred ÷ total expected cost; Year 1: 35.25/150 23.5%, Year 2: 146.25/225 65%.
CS 21-2	**A**	Profit = total revenue (₹160 Cr) × stage (23.5%) – cost incurred.37.6-35.25=2.35
CS 21-3	**C**	Revenue in Y1: ₹160Cr × 23.5% = ₹37.6Cr; Y2: ₹84Cr + catchup; Y3 balance = ₹84Cr.

Case Scenario – 22 (PYP may 25)

[AS 9, AS 13, AS 11, AS 4]

Health India Limited (HIL), incorporated under the Companies Act, 2013, is engaged in the production and distribution of medicines. It has manufacturing plants at Baddi (Himachal Pradesh) and Bhopal (Madhya Pradesh). It also imports medicines from Pharma Inc. New York (United States).On 1st Jan 2024, HIL sold 2,00,000 strips of Medicine to Dee Limited for Rs 50 Lakhs on 60 days of credit. Cost per strip of this medicine, was Rs 20. (i.e.) total cost Rs 40 Lakhs (2,00,000 strips@Rs 20). Dee Ltd. paid 20% of the amount due on 5th January, 2024. In March 2024, Dee Limited is having significant cash flow issues and is trying to raise funds through bank loan to run its operations. However, it is unable to do so and not able to release payment to HIL on due date. Subsequent to this, it has gone under liquidation on 15th March, 2024. At the time when medicine was sold by HIL to Dee Limited, there was no reason for HIL to believe that it will not be able to collect the sales proceeds from Dee Limited in future.

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

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

Exchange rate per $

1st April, 2023 Rs 76

1st January, 2024 Rs 81

31st March, 2024 Rs 80

17th April, 2024 Rs 79

HIL is working on a strategic plan to close the production unit of Bhopal due to change in technology. The board of directors approved the closure of Bhopal Plan on 1st March, 2024. The company did a formal announcement regarding closure to the affected parties on 10th March, 2024. The company entered into a binding-sale agreement on 21 April, 2024.Reporting date of the company is 31st March,2024.Based on the information given in the above Case Scenario, answer the following Question No. 1 to 4:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(A) 31st March, 2024

(B) 1st March, 2024

(C) 21st April, 2024

(D) 10th March, 2024

CASE BASED MCQ

Question	Answer	Insight
CS 22-1	C	Revenue recognized fully at ₹50L; ₹40L unpaid later written off as bad debts.
CS 22-2	C	Reduction is not temporary; both current and long-term investments to be written down.
CS 22-3	A	Foreign exchange gain = ₹81 – ₹80 = ₹1 × \$2.5L = ₹2.5L gain.
CS 22-4	D	Initial disclosure is when formal communication made to stakeholders i.e., 10 March.

Case Scenario – 23 (PYP may 25)

[Buy-Back of Shares]

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

	(Rs in lakhs)
Share Capital	
Equity shares of Rs 10 each fully paid up	800
11% Redeemable Preference shares of Rs 100 each fully paid up	200
Reserve and surplus	
Capital redemption Reserve	50
Securities Premium	100
General Reserve and profit and Loss (Combined balance)	600
Secured Loans	
9% Debentures	250
Current Liabilities	10
Fixed Assets	1200
Investments	95
Cash at bank	320
Other Current Assets	840

On 1st April, 2024 Z Ltd redeemed all its preference shares at a premium of 5%. Z Ltd. bought back 8,00,000 equity shares @ Rs 20 per share. Buy back is fully authorized by Z Ltd.'s articles and necessary resolution has been passed for this. The payment for buy back of shares will be made through available balance in bank account. To finance Redemption of preference shares and buy back of shares, company has decided to sell its investments for Rs 98 Lakhs. Z Ltd had 80,000 Equity stock options outstanding on the above mentioned date, to the employees @ Rs 15 per share when the market price was Rs 20 per share. (This was included under the head current liabilities). On 1st April, 2024,·70% of the employees exercised their options.

Based on the information given in the above Case Scenario, answer the following Question No. 1 - 3:

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

(A) Rs 280 Lakhs

(B) Rs 330 Lakhs

(C) Rs 250 Lakhs

(D) Rs 130 Lakhs

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

(A) Rs 56.40 Lakhs

(B) Rs 66.40 Lakhs

(C) Rs 59.20 Lakhs

(D) Rs 48 Lakhs

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

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

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

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

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

Question	Answer	Insight
CS 23-1	B	50L+200L+80L.
CS 23-2	A	320L+98L+8.4L-160L-210L
CS 23-3	C	100L+ 80000*70%*10-80L-10L.

Case Scenario 24 (MODEL PAPER 1)

[AS 9, AS 1&2, AS 11, Consolidated FS AS 23]

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package. The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service. The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances. The Company is evaluating below mentioned schemes:

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

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 Rs 20,000 per month. Earlier there was no such scheme of pension in the organization.

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

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

(a) Gross basis.

(b) Net basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Question	Answer	Insight
CS 24-i	A	SEAS Ltd. is principal in the arrangement → revenue on gross basis.
CS 24-ii	D	As per the requirements of AS 11, any premium or discount arising at the inception of a forward exchange contract (which is not intended for trading or speculation purposes) should be amortised as expense or income over the life of the contract.
CS 24-iii	C	Reasoning: As per the requirements of AS 5, the following are not considered as changes in accounting policies (a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., the introduction of a formal retirement gratuity scheme by an employer in place of adhoc ex-gratia payments to employees on retirement; and (b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial. Schemes (i) and (ii) are the events or transactions which did not occur and are different from previously occurred transactions.
CS 24-iv	C	Since, ADI Ltd is a subsidiary of SEAS Ltd, SEAS Ltd would consolidate ADI Ltd on a line by line basis wherein 23% of ASOC Ltd held by ADI Ltd in ASOC Ltd would automatically get covered. Further, the balance 9% held by SEAS Ltd in ASOC Ltd would also be required to be consolidated using equity method of accounting as per AS 23.

CASE SCENARIO 25(MODEL PAPER 1)

[AS 10, AS 16]

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

Rs Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (p.m)	25,000

General overhead costs allocated to construction project by the Manager is Rs 30,000. However, as per company's normal overhead allocation policy, it should be Rs 24,000. The auditor of the company has support documentation for the cost of Rs 15,000 only) and raised objection for the balance amount.

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building. The construction of the factory was partly financed by a loan of Rs 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of Rs 25,000 on the temporary investment of the proceeds. You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period. Based on the information given in the above scenario, answer the following multiple choice questions:

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

(a) Rs 2,00,000 incurred as legal cost

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

(c) Rs 80,000 costs of inauguration ceremony

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

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

(a) Rs 2,90,000

(b) Rs 3,48,000

(c) Rs 2,32,000

(d) Rs 29,000

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

(a) Rs 1,89,000

(b) Rs 1,68,000

(c) Rs 1,44,000

(d) Rs 1,64,000

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

(a) Rs 30,00,000

(b) Rs 57,78,125

(c) Rs 27,78,125

(d) Rs 58,00,000

<table>
<tr><th>Question</th><th>Answer</th><th>Insight</th></tr>
<tr><td>CS 25-i</td><td>A</td><td>Legal costs on land acquisition are capitalized under AS 10.</td></tr>
<tr><td>CS 25-ii</td><td>C</td><td>₹29,000 × 8 months = ₹2,32,000 employee cost capitalized.</td></tr>
<tr><td>CS 25-iii</td><td>D</td><td>Reason for Answer 3 & 4
<table>
<tr><td>Cost</td><td>Amount</td></tr>
<tr><td>Land</td><td>30,00,000</td></tr>
<tr><td>Preparation, levelling</td><td>80,000</td></tr>
<tr><td>Materials</td><td>21,24,000</td></tr>
<tr><td>Costs of Construction workers (29,000 x 8 months)</td><td>2,32,000</td></tr>
<tr><td>Direct overhead(25,000 x 8 months)</td><td>2,00,000</td></tr>
<tr><td>Allocated overheads</td><td>nil</td></tr>
<tr><td>Relocation cost, cost of inauguration</td><td>nil</td></tr>
<tr><td>Net borrowing cost (1,89,000 less 25,000)</td><td>1,64,000</td></tr>
<tr><td>Total</td><td>58,00,000</td></tr>
</table>
Carrying Amount
<table>
<tr><td></td><td>Land</td><td>Factory</td></tr>
<tr><td></td><td>30,00,000</td><td>28,00,000</td></tr>
<tr><td>Depreciation</td><td></td><td></td></tr>
<tr><td>Land</td><td>Nil</td><td>8750</td></tr>
<tr><td>Roof (28,00,000 x .25 x 1/20 x 3/12)</td><td></td><td>13,125</td></tr>
<tr><td>Remaining factory (28,00,000 x .75 x 1/40 x 3/12)</td><td></td><td>(21,875)</td></tr>
<tr><td></td><td></td><td>27,78,125</td></tr>
</table>
</td></tr>
<tr><td>CS 25-iv</td><td>B</td><td>As per above workings</td></tr>
</table>

Hello Future CAs

Case Scenario -26(ICAI BOOKLET)

[AS 13]

Here is the extracted text from your image, presented with matching formatting:

Aazad Ltd. has the following particulars:

Particulars	₹ (lakh)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all its preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

i. The amount of Profit/Loss on Sale of Investment is:

(a) ₹ 1,500 lakhs Profit

(b) ₹ 1,000 lakhs Profit

(c) ₹ 2,000 lakhs Loss

(d) ₹ 1,000 lakhs Loss

ii. Securities Premium available for Buyback after redemption of Preference Shares

(a) ₹ 550 lakhs

(b) ₹ 800 lakhs

(c) Can't utilize securities premium for buyback

(d) ₹ 350 lakhs

iii. Cash balance after buyback

(a) ₹ 1,150 lakhs

(b) ₹ 2,200 lakhs

(c) ₹ 3,250 lakhs

(d) ₹ 900 lakhs

<table>
<tr><th>Question</th><th>Answer</th><th>Insight</th></tr>
<tr><td>CS 26-i</td><td>B</td><td>The market value of investment
<table>
<tr><td></td><td>₹ (lakh)</td></tr>
<tr><td>Sale value of investment</td><td>3,000</td></tr>
<tr><td>Less: The cost value of investment (3,000/1,500 × 1,000)</td><td>2,000</td></tr>
<tr><td>Profit</td><td>1,000</td></tr>
</table></td></tr>
<tr><td>CS 26-ii</td><td>A</td><td>
<table>
<tr><td></td><td>₹ (lacs)</td></tr>
<tr><td>Securities premium</td><td>800</td></tr>
<tr><td>Less: premium on redemption of preference shares</td><td>250</td></tr>
<tr><td>Balance available</td><td>550</td></tr>
</table></td></tr>
<tr><td>CS 26-iii</td><td>D</td><td>Reason:
Opening Balance + Investment sold + Loan raised – Preference Shares redeemed – Equity Share buy back
Lakhs [₹ 1,650 + ₹ 3,000 + ₹ 2,000 – ₹ 2,750 – ₹ 3,000] = ₹ 900 lakhs</td></tr>
</table>

Case Scenario 27 (ICAI BOOKLET)

[AS 4]

On 31st March, 20X1, seven companies finalized their financial statements, which were approved on 15th June, 20X1. During the financial year 20X1-20X2, several material events occurred, as detailed below. You are required to analyze each situation and decide how they should be treated in the financial statements for the year ended 31st March, 20X1, based on AS 4: Contingencies and Events Occurring After the Balance Sheet Date.

1. A Ltd. entered into a contract to sell a property valued at ₹ 1,00,000 in its balance sheet on 15th March, 20X1. The sale was finalized on 15th May, 20X1, for ₹ 2,50,000.
2. B Ltd.'s 100% subsidiary declared a dividend of ₹ 3,00,000 on 30th April, 20X1, for the year ended 31st March, 20X1.
3. C Ltd. decided to close its mail order activities on 31st May, 20X1, incurring closure costs of ₹ 2.5 million.
4. D Ltd. discovered, on 1st July, 20X1, that sand at a major civil engineering project site increased project costs by 25%, with no recovery from the customer.
5. On 2nd April, 20X1, a fire destroyed E Ltd.'s manufacturing plant. The estimated loss of ₹ 10 million is expected to be fully covered by insurance.
6. F Ltd. received a ₹ 8 million damage claim for breach of patent before 31st March, 20X1. Legal advice suggests the claim is baseless, though legal fees are expected.
7. G Ltd. experienced an 8% foreign exchange rate change between 1st April, 20X1, and 1st June, 20X1, reducing the value of its foreign assets by ₹ 1.3 million.

(i) For A Ltd., how should the sale of property be treated in the financial statements?

(a) Recognize ₹1,50,000 profit in the 20X0-20X1 financial statements.

(b) Disclose the sale as a non-adjusting event.

(c) Exclude the sale from the financial statements entirely.

(d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.

(ii) For B Ltd., how should the dividend declaration be treated?

(a) Recognize the dividend in the 20X0-20X1 financial statements.

(b) Treat it as an adjusting event.

(c) Disclose it as a non-adjusting event in the notes to accounts.

(d) Ignore the event entirely.

(iii) For C Ltd., how should the closure of mail order activities be treated?

(a) Recognize the closure costs in the 20X0-20X1 financial statements.

(b) Treat it as an adjusting event.

(c) Disclose it as a non-adjusting event in the financial statements.

(d) Ignore the closure since it occurred after the approval date.

(iv) For E Ltd., what should be the treatment of the fire incident?

(a) Recognize the ₹ 10 million loss in the 20X0-20X1 financial statements.

(b) Disclose it as a non-adjusting event with a note about insurance coverage.

(c) Ignore the incident since it occurred after the year-end.

(d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.

v. For F Ltd., how should the damage claim for breach of patent be treated?

(a) Provide ₹ 8 million for the claim in the 20X0-20X1 financial statements.

(b) Disclose it as a contingent liability and provide for estimated legal fees.

(c) Recognize the full amount as an expense in the financial statements.

(d) Ignore the claim since it is deemed baseless

Question	Answer	Insight
CS 27-i	A	Recognize ₹ 1,50,000 profit in the 20X0–20X1 financial statements. Reason: The contract exchange occurred before 31st March, 20X1, making it an adjusting event. The sale's impact must be reflected in the financial statements for 20X0–20X1.
CS 27-ii	C	Disclose it as a non-adjusting event in the notes to accounts. Reason: The dividend was declared after 31st March, 20X1. As per AS 4, it is a non-adjusting event and must be disclosed in the notes.
CS 27-iii	C	Disclose it as a non-adjusting event in the financial statements. Reason: The closure decision was made after 31st March, 20X1, and is a non-adjusting event requiring disclosure to ensure user understanding.
CS 27-iv	B	Disclose it as a non-adjusting event with a note about insurance coverage. Reason: The fire occurred after 31st March, 20X1, making it a non-adjusting event. Disclosure is required, especially given the insurance coverage.
CS 27-v	B	Disclose it as a contingent liability and provide for estimated legal fees. Reason: The claim is considered baseless but must be disclosed as a contingent liability per AS 4. Legal fees should be provided if not recoverable.

Case Scenario 28 (MODEL TEST PAPER 2)

[AS 3,AS 18]

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

• During the year the Company has lend 50 crores and earned Rs 1.5 crore as interest on loans.

• The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of Rs 20 lacs.

• The Company also acquired a gold loan unit for Rs 10 crore during the year and the Company provided interest free loan of Rs 15 crore to its wholly-owned subsidiary.

• The Company paid a total income tax of Rs 75 lacs for the year. Based on the above information, answer the following questions.

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

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

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

(a)Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

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

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

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

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

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

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

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

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

(d) No specific disclosures are required.

Question	Answer	Insight
CS 28-i	A	As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities.
CS 28-ii	A	As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. So, it will also be disclosed as cash flow from operating activities
CS 28-iii	B	As per paragraph 37 of AS 3, the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. This is acquisition of business, so the same should be disclosed as Cash Flow from investing activities.
CS 28-iv	A	*As per Paragraph 34 of AS 3 states cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. Here, no information is provided as to which activity the tax belongs so it will be disclosed as cash flow from operating activities*
CS 28-v	B	As per paragraph 10.1 of AS 18, Related party is defined as 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.

Case Scenario 29 (MODEL TEST PAPER 2)

[Buy – back]

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing. Capital Structure Overview:

Equity Share Capital: The company has a total of Rs 30,00,000 invested in equity shares, each valued at Rs 10 and fully paid.

Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling Rs49,00,000, comprising contributions from various sources including General Reserve (Rs 32,50,000), Security Premium Account (Rs 6,00,000), Profit & Loss Account (Rs 4,30,000), and Revaluation Reserve (Rs 6,20,000).

Loan Funds: The company has acquired loan funds amounting to Rs 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision: Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of Rs30 per share. In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations. Based on the above information, answer the following questions.

(i) What is the minimum equity Kumar Ltd. needs to maintain after buyback, according to the Debt Equity Ratio Test?

(a) Rs 12,95,000

(b) Rs 21,00,000

(c) Rs 32,50,000

(d) Rs 6,00,000

(ii) What is the maximum permitted buy-back of equity for Kumar Ltd.?

(a) Rs 38,85,000

(b) Rs 42,00,000

(c) Rs 12,95,000

(d) Rs 59,85,000

(iii) How many shares of Kumar Ltd. can be bought back at Rs 30 per share according to the Debt Equity Ratio Test?

(a) 43,000

(b) 1,29,500

(c) 2,00,000

(d) 78,000

Particulars	₹
(a) Loan funds	42,00,000
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	21,00,000
(c) Present equity shareholders fund (₹ in crores)	72,80,000
(d) Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000 - 12,95,000)
(e) Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f) Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 + 6,00,000 + 4,30,000)	42,80,000
Total	72,80,000

2. Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

(72,80,000-x)-21,00,000=y - (1)

Since 51,80,000-x = y

Equation 2 ($\frac{Maximum\ buyback}{Offer\ price\ for\ buy\ back}$x Nominal Value)

= Nominal value of the shares bought – back to be transferred to CRR

= (y/30*10)=x

3x=y

x = ₹12,95,000 crores and y

= ₹38,85,000 crores

Question	Answer	Insight
CS 29-i	B	Refer above workings
CS 29-ii	A	Refer above workings
CS 29-iii	B	Refer above workings

Case Scenario -30(MODEL TEST 3)

[Buy-back]

MBB Ltd. has the following particulars:

Particulars	Rs (lacs)
10% Preference Share Capital (Rs 10 each)	2,500
Equity Share Capital of Rs 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value Rs 1,500 lacs)	3000

The company decides to redeem all it's preference shares at a premium of 10% and buys back 25% of equity shares @ Rs 15 per share. Investments amounting to Market Value of Rs 1,000 lakhs sold at Rs 3,000 lakhs and raises a bank loan of Rs 2,000 lakhs. Answer the following questions based on above:

(i) The amount of Profit/Loss on Sale of Investment is:

(a) Rs 1,500 lakhs Profit

(b) Rs 1,000 lakhs Profit

(c) Rs 2,000 lakhs Loss

(d) Rs 1,000 lakhs Loss

(ii) Securities Premium available for Buyback after redemption of Preference Shares

(a) Rs 550 lakhs

(b) Rs 800 lakhs

(c) Can't utilize securities premium for buyback

(d) Rs 350 lakhs

(iii) Total amount to be transferred to Capital Redemption Reserve:

(a) Rs 2,000 lakhs

(b) Rs 4,500 lakhs

(c) Rs 2,500 lakhs

(d) Rs 1,750 lakhs

(iv) Cash balance after buyback

(a) Rs 1,150 lakhs

(b) Rs 2,200 lakhs

(c) Rs 3,250 lakhs

(d) Rs 900 lakhs

CASE BASED MCQ

Question	Answer	Insight
CS 30-i	B	Sale Proceeds = ₹3,000L Book Value (not Market Value) = ₹2,000L → Profit = ₹3,000L – ₹2,000L = ₹1,000L
CS 30-ii	B	Preference Shares Redeemed at 10% premium → Premium = 10% of ₹2,500L = ₹250L → This premium can be adjusted from P&L or General Reserve, not Securities Premium necessarily → Securities Premium of ₹800L remains fully available
CS 30-iii	B	Preference Share Capital Redeemed = ₹2,500L → CRR for full amount Equity Shares Buyback = 25% of ₹8,000L = ₹2,000L → Face value = ₹10/share → 2,00,000 shares × ₹10 = ₹2,000L → CRR needed = Face Value of shares bought back = ₹2,000L → Total CRR = ₹2,500L + ₹2,000L = ₹4,500L
CS 30-iv	D	Opening Cash = ₹1,650L Add: Investment Sale = ₹3,000L Add: Bank Loan = ₹2,000L → Total inflow = ₹6,650L Less: Redemption of Pref Shares = ₹2,500L + ₹250L (premium) = ₹2,750L Less: Equity Buyback = 2,00,000 shares × ₹15 = ₹3,000L → Total Outflow = ₹5,750L(2750L+3000L) Net Cash = ₹6,650L – ₹5,750L = ₹900L

Case Scenario -31(ICAI BOOK LET)

[AS 7]

XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 20X1. The expected completion time is 3 years. XY Ltd. incurred a cost of Rs 30 lakh up to 31st March 20X2. It is expected that additional costs of Rs. 90 lakh. Total contract value is Rs 112 lakh. As at 31st March 20X2, XY Ltd. has billed GH Ltd. For Rs. 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

(i) Revenue to be recognized by XY Ltd. for the year ended 31st March 20X2 is

(a) 28
(b) 42
(c) 30
(d) 32

(ii) Total expense to be recognised in Year 1 is

(a) 30
(b) 120
(c) 38
(d) 36

(iii) Revenue to be recognised for year 2 is

(a) 84
(b) 42
(c) 56
(d) 28

Question	Answer	Insight
CS 31-i	A	Percentage of completion at end of Year 1= Cost incurred till year 1/total estimated cost = 30 lakhs/30 + 90 lakhs= 30/120 = 25% Contract revenue = ₹112 Lakhs Revenue to be recognised = 25% of 112 lakh = ₹28 lakhs
CS 31-ii	D	• Total contract cost = ₹120 lakh • Contract value = ₹112 lakh • Expected loss = ₹8 lakh • As per AS 7 para 35, entire foreseeable loss should be recognized immediately, regardless of work stage So, in Year 1: • Revenue recognized = ₹28 lakh • Loss = ₹8 lakh • Total expense to recognize = ₹28 + ₹8 = ₹36 lakh
CS 31-iii	C	Cumulative percentage of completion by end of Year 2 = 75% (given) Cumulative revenue till Year 2 = 75% of ₹112 lakh = ₹84 lakh Revenue already recognized in Year 1 = ₹28 lakh So, revenue for Year 2 = ₹84 lakh – ₹28 lakh = ₹56 lakh

Case Scenario 32(MODEL TEST 3)

[AS – 26]

On April 1, 2022, X Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is Rs 25,00,000 and the time required is 15 months. The company was also required to pay Rs 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded Rs 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to X Limited for Rs 7,00,000.

(i) On which date the Intangible asset should be recognised:

(a) April 2022 (When it was decided that SAP ERP is to be implemented)

(b) June 2022 (When the implementation work started)

(c) September 2023 (When the implementation work should have completed as per agreed terms)

(d) May 2024 (When the SAP actually got implemented)

(ii) At what amount the SAP ERP should be initially recognised as 'intangible asset:

(a) Rs 25,00,000

(b) Rs 26,00,000

(c) Rs 23,00,000

(d) Rs 32,00,000

(iii) How should the annual maintenance and updation expenses should be accounted for:

(a) Should be capitalised with 'Intangible Asset'

(b) Should be recognised as a separate 'Intangible Asset'

(c) Should be recognised as expense in Profit and Loss annually.

(d) No accounting is required

(iv) During the implementation period, how the expenditure incurred will be accounted for:

(a) It will be expensed in profit and loss as and when incurred

(b) It will be recognised as an asset 'Intangible asset under development'

(c) It will only be disclosed in notes to accounts and will be recognised when complete

(d) It will be recognised as an item of Property, Plant and Equipment

Question	Answer	Insight
CS 32-i	D	As per AS 26, intangible assets are recognized only when available for use, i.e., after implementation is complete.
CS 32-ii	C	Rs 25,00,000 less the amount refunded i.e. Rs 200,000 = Rs 23,00,000
CS 32-iii	C	As per paragraph 59 of AS 26, subsequent expenditure on an intangible asset after its completion should be recognised as expense as it is only normal maintenance expense
CS 32-iv	B	Till the asset is complete it will be recognised as 'intangible asset under development' till the same is available for use.

zCase Scenario 33(MODEL PAPER 4)

[Buy-back]

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of Rs 10 each fully paid up	Rs 17,00,000
Reserves & Surplus:	
Revenue Reserve	Rs 23,50,000
Securities Premium	Rs 2,50,000
Profit & Loss Account	Rs 2,00,000
Infrastructure Development Reserve	Rs 1,50,000
Secured Loan:	
9% Debentures	Rs 38,00,000
Unsecured Loan	Rs 8,50,000
Property, Plant & Equipment	Rs 58,50,000
Current Assets	Rs 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of Rs 10 each fully paid up on April 1, 2024, at Rs 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets. Answer the following questions based on the above information:

(a)As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed

i 20% of its total paid-up capital and free reserves

ii 25% of its total paid-up capital and free reserves

iii 25% of its total paid-up capital

iv 20% of its total paid-up capital

(b) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(c) What is the maximum number of shares that can be bought back according to the Resources Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(d) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

Question	Answer	Insight
CS 33-a	**ii**	As per Section 68(2) of Companies Act, 2013, maximum buy-back allowed in a financial year is 25% of the aggregate of paid-up capital and free reserves.
CS 33-b	**ii**	According to the Shares Outstanding Test, the maximum number of shares that can be bought back is 25% of the shares outstanding. With 1,70,000 shares outstanding, 25% equals 42,500 shares.
CS 33-c	**iii**	According to the Resources Test, the maximum permitted limit is 25% of the equity paid-up capital plus free reserves. Calculating this gives 25% of Rs 45,00,000 (Rs 17,00,000 + Rs 28,00,000), which is Rs 11,25,000. At Rs 30 per share, this equals 37,500 shares.
CS 33-d	**iv**	According to the Debt Equity Ratio Test, the maximum number of shares that can be bought back is determined by ensuring that the company's post-buyback loans do not exceed twice the equity shareholders' funds. This calculation shows a maximum buyback of 54,375 shares

Case Scenario 34(MODEL PAPER 4)

[AS-12]

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at Rs 75 lakhs, while the nominal value is Rs 10 lakhs. Additionally, the company received a government grant of Rs 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received Rs 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants. Answer the following questions based on the above information:

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

(i) Rs 75 Lakhs

(ii) Rs 30 Lakhs

(iii) Rs 10 Lakhs

(iv) Rs 45 Lakhs

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

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

(ii) It will be treated as capital reserve.

(iii) It will be treated as deferred income.

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

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

(i) Capital Reserve

(ii) Shareholders Fund

(iii) Deferred Income

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

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

(i) Land received as Grant

(ii) Government Grant of Rs 30 Lakhs

(iii) Government Grant of Rs 15 Lakhs with a condition to purchase machinery

(iv) None of the above

Question	Answer	Insight
CS 34-a	iii	As per Paragraph 7 of AS 12 states that Non-monetary assets given free of cost are recorded at a nominal value.)
CS 34-b	ii	As per Paragraph 10.1 of AS 12, where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.)
CS 34-c	iii	As per Paragraph 8.4 of AS 12 states that under the other method, grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset. As there are two methods of presentation allowed, we have used 'may' in the question
CS 34-d	iii	As per Paragraph 8.4 of AS 12 states that grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.

Case Scenario -35(MODEL PAPER 4)

[AS-3]

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

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

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

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

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

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

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

(i) Rs 400,000

(ii) Rs 10,30,000

(iii) Rs 600,000

(iv) Rs 10,00,000

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

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

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

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

Question	Answer	Insight
CS 35-a	iii	As per AS 3, Interest paid to vendor for acquiring fixed asset under deferred payment basis should be presented as financing activities and Principal sum payment under deferred payment basis for acquisition of fixed assets should be presented as investing activities.
CS 35-b	iv	As per paragraph 6 of AS 16, 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. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred. In this case, the machinery has been purchased and it is readily usable, thus, it is not a qualifying asset and thus, interest cost should not be capitalised
CS 35-c	ii	As per Paragraph 34 of AS 3, Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. The sale of PPE is cash flow from investing activities and accordingly, taxes paid on same should be disclosed as investing activities.
CS 35-d	ii	These interest pertain to income taxes and are not arising from the principle revenue-producing activities, therefore, should be disclosed as per paragraph 30 of AS 3.

Case Scenario -36(MODEL PAPER 5)

[AS 17 - Segment Reporting, AS 10, AS 26]

AB Ltd. is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March. Additional details for the financial year ending 31st March 2024 are provided below: Segment Information AB Ltd. has identified five segments. The details are as follows:

Segment	Sale		Total sale	Profit	Asset
	Export	Domestic			
K	54,00,000	-	54,00,000	4,50,000	9,00,00,000
L	1,12,50,000	36,00,000	1,48,50,000	13,50,000	2,25,00,000
M	2,02,50,000	-	2,02,50,000	22,50,000	3,15,00,000
M	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	40,50,000	9,00,000	6,75,00,000
			5,94,00,000	63,00,000	25,65,00,000

Additional Information

1. **Machinery Purchase**

On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year .The applicable tax rate is 30%.

2. **Trademark and Process Development:**

AB Ltd. introduced a new manufacturing process and incurred the following costs:

o Trademark acquisition: ₹70,00,000

o Product promotion: ₹2,00,000

o Employee benefits for testing: ₹3,00,000

3. **Government Grant:**

AB Ltd. was engaged in the process of development of a manufacturing unit in one of

the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is Rs 700 lakhs against which the government provided a grant of Rs 500 lakhs & this grant was in nature of the promoter's contribution.

Based on the information given in above Case Scenario, answer the following Question

(i) Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?

(a) Segment M

(b) Segment M, N & L

(c) Segment L, M, N & O

(d) All Segment

(ii) What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1st April 2023?

(a) Create DTA Rs 75,000

(b) Reverse DTA Rs 75,000

(c) Create DTL Rs 75,000

(d) Reverse DTL Rs 75,000

(iii) What is the total cost that should be capitalized for a trademark related to the new process?

(a) Rs 75,00,000

(b) Rs 73,00,000

(c) Rs 72,00,000

(d) Rs 70,00,000

(iv) How should subsidy received be accounted in the books of the company?

(a) Credit into capital reserve

(b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.

(c) Both A & B are permitted

(d) Credit it to General Reserve.

Question	Answer	Insight
CS 36-i	D	As per AS 17, a segment is reportable if it meets any one of the quantitative thresholds (10% of revenue, assets, or results). All segments (K to O) qualify → all are reportable..
CS 36-ii	C	Book value of machinery at the end of year 1: ₹15,00,000 – depreciation ₹7,50,000 = ₹7,50,000. Tax base: ₹15,00,000 – ₹10,00,000 = ₹5,00,000. Temporary difference: ₹2,50,000. DTL is created @ 30% on ₹2,50,000 = ₹75,000.
CS 36-iii	B	Cost to be capitalized for trademark: Cost – ₹70,00,000 Testing expenses – ₹3,00,000 Total – ₹73,00,000 Expenses on promoting the new product are not capitalized.
CS 36-iv	A	Grant is in the nature of promoter's contribution → to be credited to Capital Reserve and not routed through P&L as per AS 12..

Case Scenario -37(MODEL PAPER 5)

[AS – 28 + AS 11 + AS 10 + AS 23]

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.

G Ltd. incurred the following costs:

The basic price of machinery Rs 50,00,000

Initial delivery & handling cost Rs10,00,000

Cost of site preparation Rs5,00,000

The interest charge for deferred credit paid to the supplier Rs1,00,000.

The present value of estimated dismantling costs to be incurred after 15 years is Rs 5,00,000. Operating losses after commercial production Rs 4,00,000. The plant was ready for its intended use on 1st July 2023 but commercial production started on 1st August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US $ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under: On 1.4.2023 1 US $ = Rs 80 31.03.2024 1 US$ = Rs 82.50

G Ltd., acquired a machine on 1st April, 2018 for Rs 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.

G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its

recoverable value came down to Rs 6 lakhs. The company sold the asset as on 1 May 2024 for Rs 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for Rs 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular

Share capital 15,00,000

Reserve & Surplus (includes current year profit for 3 months) 8,50,000

Build ltd. paid a dividend of Rs 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to Rs 4,80,000 (assume profit to be accure evenly) Based on the information given in above Case Scenario, answer the following Question

(i) What is the carrying value of machinery on 31.3.2024 installed in the plant?

(a) Rs 65,33,333

(b) Rs 64,75,000

(c) Rs 69,06,667

(d) Rs 68,45,000

(ii) What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?

(a) Rs 1,56,250 exchange loss and Rs 50,00,000 of foreign loan.

(b) Rs 1,56,250 exchange gain and Rs 51,56,250 of foreign loan.

(c) Rs 1,56,250 exchange gain and Rs 50,00,000 of foreign loan.

(d) Rs 1,56,250 exchange loss and Rs 51,56,250 of foreign loan.

(iii) What is the amount of impairment loss on 31.3.2024?

(a)Rs 5.5 lakh

(b)Rs 7.2 lakh

(c)Rs 4.8 lakh

(d)Rs 3 lakh

(iv) What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?

(a) Rs 14,00,000

(b) Rs 8,22,500

(c) Rs 13,47,500

(d) Rs 14,52,500

<table>
<tr><th>Question</th><th>Answer</th><th>Insight</th></tr>
<tr><td>CS 37-i</td><td>B</td><td>
<table>
<tr><th>Particulars</th><th>₹</th></tr>
<tr><td>Cost of machinery to be capitalized</td><td>70,00,000</td></tr>
<tr><td>(Excludes interest as the asset is not a qualifying asset and operating loss) (₹50,00,000 + ₹10,00,000 + ₹5,00,000 + ₹5,00,000) Machinery ready for intended use on 1.7.2023 and life is 10 years.
Therefore, depreciation for 9 months:
₹70,00,000 × 1/10 × 9/12 = ₹5,25,000</td><td></td></tr>
<tr><td>Carrying value of machine as on 31.03.2024</td><td>64,75,000</td></tr>
</table>
</td></tr>
<tr><td>CS 37-ii</td><td>D</td><td>Exchange loss = 62,500 x 2.50= 1,56,250 This loss will be added to the value of the foreign loan amount. So, the foreign loan amount will be increase by ` 1,56,250.</td></tr>
<tr><td>CS 37-iii</td><td>C</td><td>
<table>
<tr><th>Particulars</th><th>₹ in lakh</th></tr>
<tr><td>Cost of the asset on 1.4.2017</td><td>25.0</td></tr>
<tr><td>Less: Depreciation for 4 years (2017–18 to 2020–21)</td><td>(12.5)</td></tr>
<tr><td>Carrying amount as on 31.3.2021</td><td>12.5</td></tr>
<tr><td>Add: Upward revaluation (credited to revaluation reserve)</td><td>5.5</td></tr>
<tr><td>Revalued carrying amount</td><td>18.0</td></tr>
<tr><td>Less: Depreciation for 2 years (2021–22 and 2022–23)</td><td>(7.2)</td></tr>
<tr><td>Carrying amount as on 31.3.2023</td><td>10.8</td></tr>
<tr><td>Less: Recoverable amount</td><td>(6.0)</td></tr>
<tr><td>Impairment Loss</td><td>4.8</td></tr>
</table>
</td></tr>
<tr><td>CS 37-iv</td><td>C</td><td>
<table>
<tr><th>Particulars</th><th>Amount (₹)</th></tr>
<tr><td>Amount paid for investment in Build Ltd.</td><td>14,00,000</td></tr>
<tr><td>Less: Pre-acquisition dividend</td><td>(52,500)</td></tr>
<tr><td>Carrying amount as on 31.03.2024</td><td>13,47,500</td></tr>
</table>
</td></tr>
</table>

Case Scenario -38(MODEL PAPER 5)

[Buy-back]

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2024:

Particulars	₹
(1) Equity Share Capital (Shares of ₹10 each fully paid)	24,00,000
(2) Reserves and Surplus	
General Reserve	20,50,000
Securities Premium Account	7,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	20,00,000
Revaluation reserve	1,70,000
Total Reserves and Surplus	51,70,000
(3) Loan Funds	52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2024 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is Rs 25. You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements. You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either Rs 1,200 crores or Rs 1,500 crores. Assuming that the entire buy-back is completed by 09.12.2024. Based on the information given in above Case Scenario, answer the following Question

(i) What is the maximum number of shares to be bought back as per debt-equity ratio?

(a) 1,12,000 shares

(b) 80,000 shares

(c) 54,000 shares

(d) 60,000 shares

(ii) What is the maximum permitted equity as per debt- equity ratio test.

(a) 20,00,000 shares

(b) 28,00,000 shares

(c) 15,00,000 shares

(d) 13,50,000 shares

(iii) What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?

(a) 48,000

(b) 48,60,000

(c) 42,80,000

(d) 46,00,000

Hello Future CAs

(iv) What is the maximum number of shares that can be buy back as per resource test?

(a) 54,000

(b) 75,700

(c) 55,700

(d) 74,000

Reason for I,ii,iii and iv

Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	2,40,000
25% of the shares outstanding	60,000

Resources Test

Particulars	Amount
Paid up capital (₹)	24,00,000
Free reserves (₹)	30,00,000
Shareholders' funds (₹)	54,00,000
25% of Shareholders' fund (₹)	13,50,000
Buy-back price per share (₹)	25
Number of shares that can be bought back (shares)	54,000

Debt Equity Ratio Test

Particulars	When loan fund is
(a) Loan funds (₹)	52,00,000
(b) Minimum equity to be maintained after buy-back at 2:1 (₹)	26,00,000
(c) Present equity shareholders fund (₹ in crores)	54,00,000

Particulars	When loan fund is
(d) Future equity shareholder fund (₹)	54,00,000 – 8,00,000 = 46,00,000
(e) Maximum permitted buy-back of Equity (₹) [(d) – (b)]	20,00,000 (by simultaneous equation)
(f) Maximum number of shares that can be bought back @ ₹30 per share	80,000 (by simultaneous equation)

Calculation shown:

(54,00,000-x)-26,00,000 = y

= (y/25 x 10)= x

X = ₹8,00,000

Y = ₹20,00,000

Question	Answer	Insight
CS 38-i	B	Refer above workings
CS 38-ii	A	Refer above workings
CS 38-iii	D	Refer above workings .
CS 38-iv	A	Refer above workings .

Case Scenario -39(MODEL PAPER 6)

[AS 11]

Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US$ 1= Rs 79.4. The Company also took a loan from U.S Company for Rs 10,00000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US$ 1= Rs 81.1. On 31st March 2024, exchange rate was US$ 1 = Rs 83.3

a. What will be the closing balance of Trade Receivables on 31st March 2024:

(i) Rs 700,000

(ii) Rs 7,14,978 approx

(iii) Rs 7,34,383 approx

(iv) Rs 7,50,000 approx

b. How much is the reporting difference (gain or loss) in case of Trade Receivable:

(i) Gain of Rs 34,383 approx

(ii) Loss of Rs 34,383 approx

(iii) Gain of Rs 19,395 approx

(iv) Loss of Rs 19,395 approx

c. What will be the closing balance of Loan as on 31st March 2024:

(i) Rs 10,00,000

(ii) Rs 10,27,127 approx

(iii) Rs 9,79,002 approx

(iv) Rs 10,79,002 approx

d. How much is the reporting difference (gain or loss) in case of Loan:

(i) Gain of Rs 48,087 approx

(ii) Loss of Rs 48,087 approx

(iii) Gain of Rs 27,127 approx

(iv) Loss of Rs 27,127 approx

Reason for a, b, c, & d:

Trade receivable

Description	Foreign Currency Rate	In INR
Initial recognition of Trade Receivables = US$ 8816 (7,00,000 / 79.4)	US $1 = ₹79.4	₹7,00,000
Rate on 31st March	US $1 = ₹83.3	₹7,34,383
Exchange Difference Gain (US $8816 × (83.3 – 79.4))	–	₹34,383

Loan

Description	Foreign Currency Rate	In INR
Initial recognition of Loan = US$ 12330 (10,00,000 / 81.1)	US $1 = ₹81.1	₹10,00,000
Rate on 31st March	US $1 = ₹83.3	₹10,27,127
Exchange Difference Loss (US $12330 × (83.3 – 81.1))	–	₹27,127

Question	Answer	Insight
CS 39-a	iii	Refer above workings
CS 39-b	i	Refer above workings
CS 39-c	ii	Refer above workings
CS 39-d	iv	Refer above workings

Case Scenario 40(MODEL PAPER 6)

[AS 13]

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ Rs 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders. X Ltd. sold 1000 shares in September 2024 at Rs 110 each. After issue of bonus, shares were quoted at Rs 95. In December 2024, the shares were quoted at Rs 70.

a. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:

(i) Rs 3,03,000

(ii) Rs 2,27,250

(iii) Rs 3,00,000

(iv) Rs 3,30,000

b. What is the cost of bonus shares:

(i) Rs 1,00,000

(ii) Rs 1,10,000

(iii) Nil

(iv) Rs 1,01,000

c. What is the profit on sale of Bonus Shares:

(i) Rs 100,000

(ii) Rs 75,750

(iii) Rs 34,250

(iv) Rs 1,01,000

d. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:

(i) Rs 2,10,000

(ii) Rs 2,27,250

(iii) Rs 2,20,000

(iv) Rs 3,00,000

Reason for a, b, c, and d:

Cost of 3,000 shares
= 3,000 shares at ₹100 each plus 1% brokerage on the purchase value
= ₹3,03,000

Bonus shares
= 1,000 shares received at no cost

Profit on sale of 1,000 shares:
Selling price of 1,000 shares at ₹110 each
Minus proportionate cost of 1,000 shares based on total cost of ₹3,03,000 for 4,000 shares
= ₹1,10,000 minus ₹75,750
= ₹34,250

Carrying value of 3,000 shares:
Based on the proportionate cost from 4,000 total shares (3000/4000*3,03,000)
= ₹2,27,250

Market value of shares:
3,000 shares at ₹95 each
= ₹2,85,000

Cost being lower than the market price, therefore shares are carried forward at cost.

Question	Answer	Insight
CS 40-a	ii	Refer above workings.
CS 40-b	iii	Refer above workings.
CS 40-c	iii	Refer above workings.
CS 40-d	i	Refer above workings..

Case Scenario 41(MODEL PAPER 6)

[AS 23]

Sun Limited has acquired 40% share in Moon Ltd. for Rs 500,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of Rs 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of Rs 4,00,000 and declared dividend for Rs 90,000 on 15.09.2024.

a. With respect to relationship between Companies, it can be said that:

(i) Star Ltd. is associate of Sun Ltd.

(ii) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.

(iii) Moon Ltd. is an associate of Sun Ltd.

(iv) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

b. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?

(i) Rs 5,00,000

(ii) Rs 5,80,000

(iii) Rs 4,68,000

(iv) Rs 5,32,000

c. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?

(i) Rs 9,00,000

(ii) Rs 5,88,000

(iii) Rs 4,52,000

(iv) Rs 6,20,000

d. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) participation in policy making processes

(b) interchange of managerial personnel

(c) right to receive dividend

(d) provision of essential technical information

(i) All the statements are correct

(ii) Statements (a), (b) and (c) are correct

(iii) Statements (b), (c) and (d) are correct

(iv) Statements (a), (b) and (d) are correct

<table>
<tr><th>Question</th><th>Answer</th><th>Insight</th></tr>
<tr><td>CS 41-a</td><td>iii</td><td>(Sun ltd has indirect holding in Star Ltd of (40%of 40%) 16%) thus, star limited is not an associate of Sun Limited.</td></tr>
<tr><td>CS 41-b</td><td>iii</td><td>
<table>
<tr><th>Particulars</th><th>Amount (₹)</th></tr>
<tr><td>Amount paid for investment in Associate (on 01.07.23)</td><td>5,00,000</td></tr>
<tr><td>Deduct: Pre acquisition dividend (40% × 80,000)</td><td>(32,000)</td></tr>
<tr><td>Carrying amount of Investment as on 31.03.2024</td><td>4,68,000</td></tr>
</table>
</td></tr>
<tr><td>CS 41-c</td><td>ii</td><td>(Carrying amount as per Separate Financial Statements (₹ 4,68,000) plus 9 months share in profit for the year (₹ 4,00,000 × 40% × 9/12) ₹ 1,20,000 = ₹ 5,88,000).</td></tr>
<tr><td>CS 41-d</td><td>iv</td><td>Statements (a), (b) and (d) are correct
Reason:
(Paragraph 5 of AS 23 does not include right to receive dividend)</td></tr>
</table>

Case Scenario -42(MODEL PAPER 7)

[AS 10]

Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

• The cost of land acquired for Project is Rs 10 crore

• Cost of construction incurred is Rs 25 crores.

• The Company also incurred cost of Rs 10 lacs for various administrative meetings in relation to planning of the building.

• The construction of building completed and at the end of the year 1, the net realisable value of the building was Rs 40 crore.

• At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.

• The Company further incurred Rs 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.

• Ignore the effect of depreciation, if any.

In view of above information, answer the following issues:

(i) At the end of Year 1, how the building should be classified:

(a) Inventory

(b) Investments

(c) Property, Plant and Equipment

(d) Intangible Asset

(ii) At the end of Year 1, at value Project should be recognised:

(a) Rs 40 Crore

(b) Rs 35 Crore

(c) Rs 35.10 Crore

(d) Rs 25 Crore

(iii) At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:

(a) Inventory

(b) Investments

(c) Property, Plant and Equipment

(d) Intangible Assets

(iv) At the end of Year 2, the Project should be valued at:

(a) Rs 40 Crore

(b) Rs 35.50 Crore

(c) Rs 35.10 Crore

(d) Rs 25 Crore

Question	Answer	Insight
CS 42-i	**A**	At the end of Year 1, the building was intended for sale in normal course of business → classified as Inventory under AS 2.
CS 42-ii	**B**	Inventory is valued at lower of cost or NRV. Cost = ₹10 Cr (land) + ₹25 Cr (construction) = ₹35 Cr. NRV = ₹40 Cr → so record at cost ₹35 Cr. Admin meeting cost ₹10L is not directly attributable.
CS 42-iii	**C**	In Year 2, purpose changed from sale to own use (corporate office) → reclassified as PPE under AS 10.
CS 42-iv	**B**	Cost = ₹35 Cr (original) + ₹0.5 Cr (necessary modifications for usage) = ₹35.5 Cr. Since changes are essential for the asset to be usable, they are capitalized under AS 10.

Case Scenario -43(MODEL PAPER 7)

[AS 12+ AS 10]

Supercool ltd. is a manufacturing company, engaged in manufacturing ecofriendly equipment. On April 1, 2023, the Company received a grant of Rs 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government. The Company also borrowed Rs 10 crore from financial Institutions and interest paid on the same during the year is Rs 1 lac. The Company acquired plant and machinery from the funds for Rs 10 crore and Rs 1 crore was spent on its installation and assembly. Rs 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent Rs 50 lacs on revenue expenditure. The Plant and Machinery was ready for its intended use on September 30, 2023) The depreciation on plant and machinery is charged @10%.

(i) The grant of Rs 20 crores received by the Company should be presented as:

(a) Grants related to Revenue

(b) Grants related to Specific Fixed Assets

(c) Capital Reserve

(d) Other Income

(ii) At what value the plant and machinery acquired should be recognised as at 31st March 2024:

(a) Rs 11.10 Crore

(b) Rs 11 Crore

(c) Rs 10.54 Crore

(d) Rs 11.60 Crore

(iii) The revenue expenditure of Rs 50 lacs should be recognised as:

(a) Part of Plant and Machinery

(b) Part of Grant

(c) Revenue expenditure in the Profit and Loss

(d) Deducted from loan

(iv) Which of the following statement is true:

(a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.

(b) Plant and Machinery belongs to Financial Institution

(c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment

(d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

Question	Answer	Insight
CS 43-i	C	The grant of ₹20 Cr is not tied to any specific asset and is provided for general purposes without repayment → classified as Promoter's Contribution → credited to Capital Reserve (AS 12).
CS 43-ii	C	Total cost = ₹10 Cr (asset) + ₹1 Cr (installation) + ₹0.10 Cr (professional fees) = ₹11.10 Cr
CS 43-iii	C	Revenue expenditure of ₹50 lakhs is not capitalizable under AS 10 → charged to Profit & Loss account.
CS 43-iv	C	Though the asset is funded partly by loan and grant, the plant is owned and used by the company → to be shown under Property, Plant and Equipment (AS 10).

Case Scenario -44(ICAI BOOKLET)

[AS 17]

Madura Electric Vehicles Ltd. is engaged in the following business activities:

- Segment A: Manufacturing and selling of e-scooters
- Segment B: Battery leasing services
- Segment C: Charging infrastructure installations
- Segment D: Financial consultancy to startups

For FY 2024–25, the segment data (in ₹ crores) is as follows:

Segment	Revenue	Result (Profit/Loss)	Assets
A	600	80	1,200
B	150	10	300
C	50	(5)	100
D	30	1	60
Unallocated	–	(2)	40

Additional Info:

- Total revenue = ₹830 crores (includes ₹50 crores inter-segment revenue)
- Total assets (including unallocated) = ₹1,700 crores
- Interest income of ₹3 crores is reported under unallocated items
- Inter-segment transfers are priced at cost plus 10%
- The company identifies business segments as primary format

(i) Based on AS 17, which of the segments qualify as reportable segments based on revenue, result, or assets test?

A. A and B only
B. A, B, and C
C. A, B, and D
D. All four segments

(ii) Is the inclusion of inter-segment revenue of ₹50 crores in the segment revenue appropriate for identifying reportable segments?

A. Yes, total revenue includes it
B. No, it should be excluded
C. Yes, but disclosure of inter-segment revenue must be made
D. Depends on management discretion

(iii) Under AS 17, how should unallocated income like interest income be treated in segment reporting?

A. Allocate to segments based on revenue proportion
B. Disclose separately as unallocated
C. Ignore for segment purposes
D. Allocate to most profitable segment

(iv) Which of the following must be disclosed mandatorily for each reportable segment as per AS 17?

A. Revenue, Results, and Liabilities
B. Revenue, Assets, and Inter-segment Transfers
C. Revenue, Results, and Assets
D. Revenue and Capital Employed only

(v).The pricing of inter-segment transfer at cost plus 10% must be:

A. Adjusted to market price for segment reporting
B. Ignored in internal segment reporting
C. Disclosed along with the basis of transfer pricing
D. Considered unethical

(vi) As per the given data, management has identified Segments A, B, and D as reportable. Based on AS 17 requirements, is any further segment identification necessary to comply with disclosure principles?

A. Yes, Segment C must also be reported due to its asset base

B. No, because the combined external revenues of identified segments are adequate

C. Yes, since the number of reportable segments is less than four

D. No, since segment profit of unreported segment is below 10% threshold

Question	Answer	Insight
CS 44-i	C	Quantitative thresholds (10%) for revenue, results (profit/loss), and assets. • 10% of total revenue = 83 → A (600) and B (150) qualify • 10% of total result (max of |80|) = 8 → A (80), B (10), D (1) qualify 10% of total assets = 170 → A (1,200) qualifies → A, B, and D qualify on different parameters.
CS 44-ii	C	Inter-segment revenue must be included for identifying thresholds but also separately disclosed as per AS 17.
CS 44-iii	B	Unallocated items are not attributable to any segment and should be shown separately.
CS 44-iv	C	Minimum disclosure requirements for primary segments: Revenue, Segment Result, and Segment Assets are mandatory.
CS 44-v	C	AS 17 requires disclosure of the basis of inter-segment transfer pricing (cost, market, negotiated etc.).
CS 44-vi	B	AS 17 requires that the total external revenue of all reportable segments must be at least 75% of the entity's total external revenue. Here, Segments A, B, and D together account for the full ₹780 crores of external revenue. Therefore, disclosure is sufficient.

Case Scenario -45(ICAI BOOKLET)

[AS 7]

Sigma Builders Pvt. Ltd. enters into a contract with Alpha Developers Ltd. on 1st January 20X1 to construct a 5-storied residential complex. The construction is to be completed within three years, by 31st December 20X3. The contract terms include the following provisions:

♦ Fixed Price: ₹ 5 crore
♦ Material Cost Escalation: 20% of the increase in material costs during the contract period.
♦ Labour Cost Escalation: 30% of the increase in minimum wages during the contract period.
♦ Early Completion Incentive: ₹ 50 lakh if the project is completed in less than 2 years and 10 months.
♦ Delay Penalty: ₹ 20 lakh if the project is delayed beyond 3 years and 2 months.

At the start of the project, Sigma believes it can complete the construction in 2 years and 8 months. The project was ultimately completed in 2 years and 9 months.

The following additional details are relevant:

♦ Labour Cost: Initially estimated at ₹ 1.20 crore based on minimum wages but increased by 25% during the project period.
♦ Material Cost: Increased by 40% during the project due to market conditions, resulting in a total increase of ₹ 80 lakh.

In 20X2, Alpha Developers requested Sigma Builders to increase the scope of the project by constructing an additional floor, leading to an increase in the fixed contract fee by ₹ 1 crore. Sigma incurred ₹ 20 lakh in obtaining local authority approvals for this variation, which it will recover from Alpha Developers in addition to the fixed fee increase.

(i) What is the total contract revenue excluding variations, claims, and incentives?

(a) ₹ 5 crore
(b) ₹ 5.40 crore
(c) ₹ 5.70 crore
(d) ₹ 6.20 crore

(ii) How should Sigma Builders account for the early completion incentive of ₹ 50 lakh?

(a) Recognize only after the project is completed.
(b) Recognize as revenue progressively since the completion date is predictable.
(c) Recognize at the end of the project if Sigma Builders is eligible for it.
(d) Do not recognize, as it depends on external factors.

(iii) What is the revised total contract revenue after considering variations and claims?

(a) ₹ 6.40 crore
(b) ₹ 7.20 crore
(c) ₹ 7.40 crore
(d) ₹ 7.60 crore

(iv) How should Sigma Builders account for the ₹ 20 lakh spent on obtaining approvals for the additional floor?

(a) Capitalize the cost as part of the project expense.
(b) Charge it to the profit and loss account.
(c) Include it as a claim recoverable from Alpha Developers.
(d) Record it separately as deferred expenditure.

Question	Answer	Insight
CS 45-i	D	Reason: The total revenue includes the fixed price (₹ 5 crore) plus adjustments for material and labour cost escalations and the early completion incentive. ♦ Fixed Price: ₹ 5 crore ♦ Material Cost Recovery: (to the extent of) 20% = ₹ 0.40 crore ♦ Labour Costs Recovery (Actual increase is less than 30%) (1.20 crore × 25%) = ₹ 0.30 crore ♦ Early Completion Incentive: ₹ 0.50 crore ♦ Total: ₹ 6.20 crore
CS 45-ii	B	As per AS 7 Construction Contracts, incentives for early completion can be recognized as revenue when the company has sufficient evidence of achieving the performance condition (completion in less than 2 years and 10 months). Since Sigma reasonably estimated early completion, progressive recognition is appropriate.
CS 45-iii	C	The total revenue includes the base contract revenue and adjustments for additional scope and recoverable claims: • Base Revenue: ₹ 6.20 crore • Variation for Additional Floor: ₹ 1 crore • Claims for Local Authority Approvals: ₹ 20 lakh • Total: ₹ 7.40 crore
CS 45-iv	C	The ₹ 20 lakh spent for approvals is recoverable as per the contract terms, so it should be accounted as a claim receivable and added to the total contract revenue.

Case Scenario -46(ICAI Booklet)

[AS 20]

K Ltd. had 2,50,000 shares outstanding before a rights issue. On 30-06-20X2, the company offered 2 new shares for every 5 held (i.e., 1,00,000 new shares) at a rights issue price of ₹98.

The fair value of one equity share immediately before the rights issue was ₹102. Net Profit to equity shareholders:

FY 20X1–20X2 = ₹50,00,000

FY 20X2–20X3 = ₹75,00,000

You are required to compute basic EPS for both years as per AS 20.

(i) What is the theoretical ex-rights fair value per share (TERP) based on AS 20?

A. ₹100.00
B. ₹100.86
C. ₹98.00
D. ₹102.00

(ii) What is the adjustment factor for restating previous year's EPS due to rights issue?

A. 1.00
B. 1.01
C. 1.0132
D. 1.05

(iii) What is the restated weighted average number of shares for 20X1–20X2?

A. 2,50,000
B. 2,52,500
C. 3,50,000
D. 2,80,000

(iv) What is the restated basic EPS for 20X1–20X2?

A. ₹20.00
B. ₹19.80
C. ₹18.23
D. ₹20.40

(v)What is the basic EPS for 20X2–20X3 considering timing of the rights issue on 30-06-20X2?

A. ₹21.43
B. ₹23.03
C. ₹22.00
D. ₹24.17

Question	Answer	Insight
CS 46-i	**B**	TERP = (2,50,000×₹102)+(1,00,000×₹98)(2,50,000 × ₹102) + (1,00,000 × ₹98)(2,50,000×₹102)+(1,00,000×₹98) ÷ 3,50,000 = ₹(2,55,00,000 + 98,00,000) ÷ 3,50,000 = ₹100.86 Used to compute adjustment factor for restating EPS.
CS 46-ii	**B**	Adjustment factor = Fair value before rights ÷ TERP = ₹102 / ₹100.86 = 1.01 (rounded) Used to restate prior year EPS to ensure comparability
CS 46-iii	**B**	Since the rights issue is bonus-like (at a discount), apply adjustment factor to all 2,50,000 shares: 2,50,000 × 1.01 = 2,52,500
CS 46-iv	**B**	EPS = ₹50,00,000 ÷ 2,52,500 = ₹19.80 Restated using the adjusted number of shares.
CS 46-v	**B**	WANS = (2,50,000 × 1.01 × 3/12) + (3,50,000 × 9/12) = 63,125 + 2,62,500 = 3,25,625 shares EPS = ₹75,00,000 ÷ 3,25,625 = ₹23.03

Case Scenario -47(ICAI BOOKLET)

[AS 19]

Ketan Private Limited has entered into a finance lease agreement with Mehra Ltd. for acquiring machinery. The lease term is four years, and the machinery's fair value at the inception of the lease is ₹ 20,00,000. The annual lease rent is ₹ 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of ₹ 1,25,000 and an expected residual value of ₹ 3,75,000. The implicit interest rate for the lease is 15%. The discounted rates for the first to fourth years are 0.8696, 0.7561, 0.6575, and 0.5718, respectively.

(i) What is the total amount of the minimum lease payments over the lease term?
(a) ₹ 20,00,000
(b) ₹ 25,00,000
(c) ₹ 26,25,000
(d) ₹ 27,50,000

(ii) What is the present value of the minimum lease payments using the implicit interest rate?
(a) ₹ 20,00,000
(b) ₹ 18,55,850
(c) ₹ 19,50,000
(d) ₹ 17,80,000

(iii) At what value should the lease asset and corresponding lease liability be recognized in the books of Ketan Private Limited at the inception of the lease?
(a) ₹ 20,00,000
(b) ₹ 18,55,850
(c) ₹ 19,50,000
(d) ₹ 17,80,000

(iv) What is the present value of the lease payments for the 1st year?
(a) ₹ 6,25,000
(b) ₹ 5,43,500
(c) ₹ 4,72,563
(d) ₹ 4,10,937

Reason for i,ii,iii and iv

Year	Minimum Lease Payment (₹)	Implicit Interest Rate (15%)	Present Value (₹)
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
	Total: ₹ 26,25,000		**₹ 18,55,850**

Present value of minimum lease payments = ₹ 18,55,850, which is less than the fair value at the inception of the lease (₹ 20,00,000). Therefore**,** the asset and corresponding lease liability should be recognized at ₹ 18,55,850 as per AS 19**.**

Question	Answer	Insight
CS 47-i	C	Refer above workings
CS 47-ii	B	Refer above workings
CS 47-iii	B	Refer above workings
CS 47-iv	B	Refer above workings

Case Scenario -48 (Own Research)

[AS 4&5, AS 29, AS 18]

Mara Ltd, a listed company in the tech-manufacturing sector, closed its books for FY 2024–25 on 31st March. On 27th March, it entered a contract with Thanga Ltd, promoted by the Chairman's daughter and managed by individuals overlapping with Mara Ltd's management. The agreement required Mara Ltd to spend ₹4 crores upfront on R&D customization, recoverable through future product pricing. Around the same period, the CFO discovered that a government grant of ₹2.5 crores received in January 2024 had been incorrectly credited to Capital Reserve and never routed through profit or loss. Management is unsure whether this should be adjusted in the current year or disclosed separately.

During FY 2024–25, the company availed ₹90 lakhs worth of design services from Sketch Studio, a partnership firm where the CEO's brother-in-law is a partner. There is no ownership interest. The company had not disclosed this in related party notes.

On 26th March, a foreign subsidiary of Mara Ltd received a penalty notice of ₹6 crores for environmental violations. Legal counsel at the time considered the outcome uncertain but leaning negative. On 12th April, the judgment went against the subsidiary, and the fine became legally payable.

CASE BASED MCQ

1. What is the most appropriate treatment of the ₹4 crores spent under the agreement with Thanga Ltd in Mara Ltd's financial statements for FY 2024–25?

(a) Capitalise the amount as development expenditure recoverable in future under AS 26

(b) Recognise a provision under AS 29 as the obligation arises from a legally binding contract

(c) Disclose only under AS 18 as a related party transaction and defer recognition until actual supply begins

(d) Treat it as a contingent liability since future supply and recovery are uncertain

2. How should the ₹2.5 crore R&D grant error from January 2024 be treated in FY 2024–25 financials?

(a) Treat as an extraordinary item in the current year under AS 5
(b) Treat it as a prior period item and disclose it separately in FY 2024–25
(c) Include it in other income for FY 2024–25 since retrospective correction is not permitted
(d) Ignore it because it was adjusted in capital reserve and has no further effect

3. Should the ₹90 lakh transaction with Sketch Studio be disclosed under AS 18?

(a) Yes, because even though "brother-in-law" isn't named, substance over form requires disclosure
(b) No, since AS 18 does not list "brother-in-law" and there is no ownership interest
(c) Yes, but only if the CEO has financial interest in Sketch Studio
(d) No, as it is a one-time service below materiality threshold

4. How should Mara Ltd deal with the penalty judgment received on 12th April 2025 in its standalone books?

(a) Recognise a provision in FY 2024–25, as the judgment is post-BS but confirms prior risk
(b) Disclose as a non-adjusting event since the judgment came after year-end and involved a subsidiary
(c) Ignore it completely in standalone as it pertains to the subsidiary's books only
(d) Adjust as an event occurring after the balance sheet date that provides evidence of a condition existing on 31st March

Question	Answer	Insight
CS 48-i	**B**	The contract creates a binding obligation. Even though recovery is future-linked, Mara Ltd. must recognize a provision under AS 29 for the ₹4 crore outlay.
CS 48-ii	**B**	Incorrect classification of R&D grant to Capital Reserve is an error from prior year. As per AS 5, this is a prior period item and must be disclosed separately in FY 2024–25.
CS 48-iii	**B**	No, since AS 18 does not list "brother-in-law" and there is no ownership interest
CS 48-iv	**D**	The legal judgment post-year-end confirms a risk existing on 31st March, making it an adjusting event under AS 4 → provision required in FY 2024–25.

Case Scenario -49(Own Research)

[Internal Reconstruction]

Annamalai Ltd, a public company with a paid-up capital of ₹90 lakhs (9,00,000 equity shares of ₹10 each fully paid), had accumulated losses of ₹45 lakhs, Preliminary Expenses of ₹9 lakhs, and Plant & Equipment shown at ₹80 lakhs, though its fair value was ₹62 lakhs. Sundry Debtors included ₹6 lakhs considered irrecoverable. The company proposed a scheme of internal reconstruction effective 31st March 2025.

The scheme provided that:

(i) Equity shareholders shall surrender 1/3rd of their holding, but the face value per share shall remain unchanged.

(ii) The surrendered shares shall be cancelled without payment.

(iii) Debenture holders holding ₹30 lakhs agreed to waive ₹3 lakhs, and the balance would be converted into equity at face value.

(iv) All fictitious and intangible assets including preliminary expenses and debit balance of P&L should be written off.

(v) Assets to be revalued to their fair values.

(vi) Any balance in Capital Reduction A/c after all adjustments shall be transferred to Capital Reserve.

1. What will be the total equity share capital of Annamalai Ltd after the reconstruction scheme is fully implemented?

(a) ₹84 lakhs

(b) ₹90 lakhs

(c) ₹60 lakhs

(d) ₹87 lakhs

2. What will be the total credit to the Capital Reduction Account from all adjustments under the scheme?

(a) ₹45 lakhs

(b) ₹48 lakhs

(c) ₹54 lakhs

(d) ₹51 lakhs

3. What is the amount of equity share capital issued in exchange for debentures?

(a) ₹27 lakhs

(b) ₹30 lakhs

(c) ₹24 lakhs

(d) ₹27 lakhs

4. What amount will be transferred to Capital Reserve after all write-offs are completed using the Capital Reduction Account?

(a) ₹3 lakhs

(b) ₹6 lakhs

(c) ₹9 lakhs

(d) ₹0

Question	Answer	Insight
CS 49-i	D	Existing equity ₹90L × 2/3 = ₹60L (after 1/3rd surrender) + ₹27L fresh equity to debenture holders → Total new equity = ₹87L.
CS 49-ii	D	Capital Reduction Account credited by: ₹30L (share reduction) + ₹3L (debenture waived) + ₹18L (asset revaluation loss).
CS 49-iii	D	Debentures of ₹30L – ₹3L waived = ₹27L converted into equity at face value (no premium).
CS 49-iv	D	Capital Reduction A/c of ₹51L is fully utilised to write off ₹45L losses, ₹9L preliminary expenses, ₹6L bad debts, and revaluation loss of ₹18L. No surplus remains → no transfer to Capital Reserve.

Case Scenario -50 (Own Research)

[AS 18, AS 4, AS 5, AS 7]

Nila Ltd is engaged in industrial design and construction services. Mr. Guna is its CEO and also an independent director at Roja Pvt Ltd, a vendor supplying metal parts. Though he attends board meetings of both companies, he is not involved in pricing or operational decisions.

During FY 2024–25, Nila Ltd undertook a fixed-price construction contract for ₹12 crores, expected to complete in 18 months. By 31st March 2025, 40% of the contract was complete with ₹3.8 crores cost incurred. Unexpected rains in March delayed further billing. The client later agreed to compensate ₹60 lakhs for delay losses caused by their site's flooding on 10th April 2025.

Separately, the CFO found that in the previous year (FY 2023–24), ₹15 lakhs of warranty expenses were omitted due to a clerical error, though it related to products sold that year.

85% of Nila's packaging is supplied by Billa Packaging Ltd, and 60% of funding comes from Canara Bank, a government bank. A government nominee director sits on Nila Ltd's board.

1. Does Mr. Guna's directorship in both Nila Ltd and Roja Pvt Ltd make them related parties?

(a) Yes, common director implies influence

(b) No, because AS 18 excludes common directorship unless mutual policy influence exists

(c) Yes, if the director has access to operational data

(d) No, unless they share common shareholders too

2. How much revenue should Nila Ltd recognise for the construction contract in FY 2024–25?

Contract Value = ₹12 crores

Cost Incurred = ₹3.8 crores

Estimated Completion % = 40%

(a) ₹3.8 crores

(b) ₹6 crores

(c) ₹4.8 crores

(d) ₹4.2 crores

3. How should the ₹60 lakhs compensation (confirmed on 10th April) be treated?

(a) Adjust in FY 2025–26 since decision came post balance sheet

(b) Adjust in FY 2024–25 as it confirms a condition existing on 31st March

(c) Disclose in notes as a non-adjusting event

(d) Ignore until cash is received

4. How should the ₹15 lakhs of missed warranty expenses from FY 2023–24 be treated in FY 2024–25?

(a) As an extraordinary item

(b) As a prior period item to be disclosed separately

(c) As current year expense

(d) Not to be disclosed since it's non-cash

5. Should the 85% supply dependency on Billa Packaging Ltd be disclosed under AS 18?

(a) No, because AS 18 excludes sole supplier relationships even with economic dependence

(b) Yes, due to dominant transaction volume

(c) Yes, if Billa Ltd depends on Nila Ltd too

(d) No, but mention in management report

CASE BASED MCQ

Question	Answer	Insight
CS 50-1	B	AS 18 does not treat common directorship alone as sufficient for related party unless there is mutual control or significant influence.
CS 50-2	C	Construction contract under AS 7 → % completion = 40%; Revenue = ₹12 Cr × 40% = ₹4.8 Cr.
CS 50-3	B	Compensation confirmed post-BS, but relates to pre-existing condition (site flooding in March) → adjusting event under AS 4.
CS 50-4	B	Omitted warranty expense from FY 2023–24 → prior period item under AS 5, disclosed separately in FY 2024–25.
CS 50-5	A	Sole supplier / economic dependence does not make it a related party under AS 18 unless control/influence exists.

Case Scenario 51 – MTP September 2025 – series I

[AS 13]

Year 1

- **Mr. Lal purchased 1,000 equity shares of 100 each in a X Company @ 125 each from a stock broker who charged 2% brokerage. At the end of year 1 the market value of these shares is 1,50,000. He incurred 50 paise per 100 as cost of shares transfer stamps.**

- **He also purchased gold for 5,00,000 for holding for long term perspective and by year end its value became 5,50,000.**

Year 2

- **X Company issued bonus shares in the ratio of 1:1. At the end of year 2 market value of 2,000 shares of X Ltd. (including bonus shares) is still 1,50,000.**

- **At the end of year 2, value of gold purchased is 6,50,000**

- **Mr. Lal sold the bonus shares for 110 per share during the year. Answer the following questions on the basis of above information:**

1. At the end of year 1, what will be the value of the investment in equity shares in the financial statements?

(a) ₹1,28,125

(b) ₹1,25,000

(c) ₹1,50,000

(d) ₹1,52,500

2. At the end of year 2, what will be the value of the investment in equity shares in the financial statements?

(a) ₹1,28,125

(b) ₹1,25,000

(c) ₹1,50,000

(d) ₹1,52,500

3. At the end of year 2, what will be the value of the investment in Gold in the financial statements?

(a) ₹5,00,000

(b) ₹5,50,000

(c) ₹6,50,000

(d) None of the above

4. How much profit was earned on sale of bonus shares by Mr. Lal? (using proportionate cost basis)
(a) ₹1,10,000

(b) ₹64,062.50

(c) ₹45,937.50

(d) Nil

Question	Answer	Insight
CS 51-1	A	Purchase = ₹1L + ₹25K + ₹2,500 (brokerage) + ₹5 (stamps) = ₹1,28,125.
CS 51-2	A	Bonus shares at zero cost → original 1,000 shares still carried at ₹1,28,125.
CS 51-3	A	Long-term investments (gold) not revalued under AS 13 → carried at cost ₹5L.
CS 51-4	C	Bonus shares: 50% of ₹1,28,125 = ₹64,062.5; Sale: ₹1.1L → Profit = ₹45,937.5.

Case Scenario 52 – MTP September 2025 – series I

[AS 28]

A Company acquired an asset for Rs 60 Lakhs with useful life for 10 years. The remaining useful life of the asset now is 4 years and the current carrying amount is Rs 30 Lakhs which includes an upward revaluation of Rs 6 Lakhs done in the asset last year. Recoverable amount from the asset is 20 Lakhs.

1. At what value will the asset be carried in the balance sheet after considering the above facts?

(a) ₹22,50,000

(b) ₹24,00,000

(c) ₹20,00,000

(d) ₹18,00,000

2. What is the amount of impairment loss charged to the Statement of Profit and Loss?

(a) ₹10 Lakhs

(b) ₹8 Lakhs

(c) ₹6 Lakhs

(d) ₹4 Lakhs

3. What is the amount of depreciation to be charged to the Statement of Profit and Loss after considering the above facts?

(a) ₹5 Lakhs

(b) ₹8 Lakhs

(c) ₹6 Lakhs

(d) ₹4 Lakhs

4. What is the amount of revaluation reserve in respect of this asset?

(a) Nil

(b) ₹10 Lakhs

(c) ₹8 Lakhs

(d) ₹6 Lakhs

Question	Answer	Insight
CS 52-1	C	Carrying amount ₹30L > Recoverable ₹20L → write down to ₹20L.
CS 52-2	D	Total impairment = ₹10L; ₹6L adjusted from revaluation reserve → ₹4L hits P&L.
CS 52-3	A	Depreciation = ₹20L ÷ 4 years = ₹5L p.a. post-impairment.
CS 52-4	A	Entire ₹6L revaluation reserve adjusted due to impairment → balance = Nil.

Case Scenario 53 – MTP September 2025 – series I

[AS 16]

Gases Ltd. is installing a 2000 kms long gas pipeline for distribution of gasses (Project is a qualifying asset as per AS 16). For this purpose it borrowed funds for Rs 700 Lakhs at subsidised rates and has to pay annually an interest of Rs 70 Lakhs. The Company has also invested unused funds and is earning an income of Rs 7 Lakhs annually. During the next year the Company used all funds and no income is now being earned.

During the year 5, the Company has completed 1 stretch of 100 kms which is operational between two points and is capable of intended use.

1. For the year 1, how much borrowing cost should be capitalised to the project:

(a) ₹70 Lakhs

(b) ₹77 Lakhs

(c) ₹63 Lakhs

(d) ₹60 Lakhs

2. For the year 2, how much borrowing cost should be capitalised to the project:

(a) ₹70 Lakhs

(b) ₹77 Lakhs

(c) ₹63 Lakhs

(d) ₹65 Lakhs

3. For the year 5, how much borrowing cost should be expensed:

(a) ₹7 Lakhs

(b) ₹6 Lakhs

(c) ₹3.5 Lakhs

(d) Nil

4. For the year 5, how much borrowing cost should be capitalised to the project:

(a) ₹70 Lakhs

(b) ₹66.5 Lakhs

(c) ₹63 Lakhs

(d) ₹53 Lakhs

Question	Answer	Insight
CS 53-1	C	AS 16: Capitalize net borrowing cost = ₹70L – ₹7L investment income = ₹63L.
CS 53-2	A	In year 2, all funds used → no income → full interest ₹70L capitalized.
CS 53-3	C	100 km of 2000 km = 5% completed → ₹70L × 5% = ₹3.5L to P&L.
CS 53-4	B	₹70L – ₹3.5L expensed = ₹66.5L capitalized.