

# CA INTERMEDIATE

Advanced Accounting

Case Scenarios

-By CA Nitin Goel



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**Note: Case Scenarios 1 to 35 are covered by ICAI in their Case Scenario Booklet**

### Case Scenario 1 (RTP May 2024)

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 equipment's/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. Nationalizations or privatization by government ✗
- II. Out of court settlement of a legal claim ✓
- III. Rights issue of equity shares ✗
- IV. Strike by workforce ✗
- V. Announcing a plan to discontinue an operation ✗

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

RTS has a subsidiary, 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.

1. 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?
  - 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.
  - 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.
  - Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
  - 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.

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

- LPP should record net amount of commission earned by it.
- LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement 9,700 moulds 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.
- 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**
- LPP may record this on net or gross basis depending on its accounting policy

3. 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?

- ii and v
- ii**
- v
- i, iii and iv

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

- Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct **✗**
- Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct. **✗**
- 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. **✗**
- 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.** **✓**

### **Answer Key:**

#### **1. Option (b)**

As per AS 9, revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.

#### **2. Option (c)**

As per AS 9, LPP is acting as the principal and hence gross basis of accounting would be followed.

#### **3. Option (b)**

As per AS 4, Events occurring after the balance sheet date are those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. All the events other than (ii) occurred only after the balance sheet date and those events did not provide any further evidence of conditions that existed at the balance sheet date.

#### **4. Option (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 is 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 (RTP Sep 2024)

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

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

1. How much revenue should be recognised by the Company as on March 31, 2024:

- (a) ₹ 2,25,000
- (b) ₹ 2,17,500
- (c) ₹ 2,00,000
- (d) ₹ 2,30,000

$$\begin{aligned} 45000 \times 5 \\ = 225000 \end{aligned}$$

$$\begin{array}{r} 45000 - 500 = 44500 \\ \hline \text{AC} \quad \quad \quad \text{Inst. fees} \\ 43500 \quad \quad \quad 1000 \end{array}$$

2. How much revenue should be recognised by the Company in the financial year 2024-25:

- (a) ₹ 5000
- (b) ₹ 2,20,000
- (c) ₹ 10,000
- (d) ₹ 2,40,000

$$1000 \times 5 = 5000$$

3. What will be the accounting for trade discount:

- (a) The same will be recognised separately in the profit and loss
- (b) The trade discounts are deducted in determining the revenue
- (c) Trade discount will be recognised after one year, when the warranty will be over
- (d) Trade discount will be recognised after installation is complete

4. Is the Company required to do any accounting for 1 year warranty provided by it:

- (a) No accounting treatment is required till some warranty claim is actually received by the Company
- (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29
- (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made
- (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision

**Answer Key:****1. Option (b)**

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:  $5 * (\text{₹ } 45000 - 500 - 1000) = \text{₹ } 2,17,500$

**2. Option (a)**

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.)

**3. Option (b)**

As per AS 9, trade discount should be deducted in determining revenue.

**4. Option (b)**

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 (MTP May 2024)

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

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

Based on the above information, answer the following questions.

1. 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 ✓

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

- (a) ₹ 3,00,000
- (b) ₹ 2,00,000
- (c) ₹ 7,00,000
- (d) ₹ 6,00,000

$$\text{₹} 25,00,000 \times 12\% \times \frac{8}{12} \rightarrow 12M - 4M \text{ work stopped}$$

3. The total cost of plant as on march 31, 2024 will be:

- (a) ₹ 85,00,000
- (b) ₹ 98,00,000
- (c) ₹ 93,00,000
- (d) ₹ 95,00,000

$$50L + 35L + 2L + 6L = 93L$$

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

- (a) ₹ 4,30,000
- (b) ₹ 9,30,000
- (c) ₹ 9,80,000
- (d) Nil

**Answer Key:****1. Option (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.

**2. Option (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 ( $\text{₹ } 25,00,000 * 12\% * 8/12$ )

**3. Option (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.

**4. Option (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 4 (MTP May 2024)

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

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

1. In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:
  - (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
2. In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
  - (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
3. 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
4. In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
  - (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
5. Is any specific disclosures required to be made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
  - (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements
  - (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
  - (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
  - (d) No specific disclosures are required

**Answer Key:****1. Option (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.

**2. Option (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.

**3. Option (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.

**4. Option (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.

**5. Option (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.

AS12

Case Scenario 5 (MTP Sep 2024)

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

Answer the following questions based on the above information:

1. The land received from Government, free of cost should be presented at:
  - (a) ₹ 75 Lakhs
  - (b) ₹ 30 Lakhs
  - (c) ₹ 10 Lakhs
  - (d) ₹ 45 Lakhs
2. As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
  - (a) It should be recognised in the profit and loss statement as per the related cost
  - (b) It will be treated as capital reserve
  - (c) It will be treated as deferred income
  - (d) It will not be recognised in the financial statements
3. As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
  - (a) Capital Reserve
  - (b) Shareholders Fund
  - (c) Deferred Income
  - (d) Income in statement of profit and loss as received.
4. Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
  - (a) Land received as Grant
  - (b) Government Grant of ₹ 30 Lakhs
  - (c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
  - (d) Noe of the above

**Answer Key:****1. Option (c)**

As per Paragraph 7 of AS 12 states that Non-monetary assets given free of cost are recorded at a nominal value.)

**2. Option (b)**

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.)

**3. Option (c)**

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

**4. Option (c)**

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 6 (MTP Sep 2024)

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

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

- (a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
- (b) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spent on purchase of machinery.
- (c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
- (d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

2. At what amount, the machinery should be recognised in the financial statements:

- (a) ₹ 400,000
- (b) ₹ 10,30,000
- (c) ₹ 600,000
- (d) ₹ 10,00,000

3. How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:

- (a) Cash flows from Operating Activities
- (b) Cash flows from Investing Activities
- (c) Cash flows from Financing Activities
- (d) No disclosure in Cash Flow Statement

4. How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

- (a) Cash flows from Operating Activities
- (b) Cash flows from Investing Activities
- (c) Cash flows from Financing Activities
- (d) No disclosure in Cash Flow Statement

*Earlier opinion  
Correct*

*ICAI Revised  
opinion*

Interest on Income tax paid : *Operating*

*Financing*

Interest on Income tax refund : *Operating*

*Investing*

**Answer Key:****1. Option (c)**

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.

**2. Option (d)**

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.

**3. Option (b)**

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.

**4. Option (b)**

These interests 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 7 (MTP May 2024)**

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

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

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

The Company is evaluating below mentioned schemes:

- i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

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

1. 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
2. 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
3. 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

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

- ADI Ltd. would use the 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.
- 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%.
- ✓ 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.
- ✗ 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.

### Answer Key:

#### 1. Option (a)

As per the requirements of AS 9, SEAS Ltd is acting as a principal and not an agent. Therefore, it would recognize revenue on gross basis.

#### 2. Option (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.

#### 3. Option (c)

As per the requirements of AS 5, the following are not considered as changes in accounting policies:

- 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
- 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.

#### 4. Option (c)

Since ADI Ltd hold 23% ASOC Ltd, it would do equity accounting in respect of ASOC Ltd as per AS 23.

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 8 (MTP May 2024)**

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

	₹
Preparation and levelling of the land	✓ 80,000
Employment costs of the construction workers (per month)	✓ 29,000
Purchase of materials for the construction	✓ 21,24,000
Cost of relocating employees to new factory for work	✗ 60,000
Costs of inauguration ceremony on 1st January, 2023	✗ 80,000
Overhead costs incurred directly on the construction of the factory (per month)	✓ 25,000 <del>8M</del>
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only and raised objection for the balance amount.	✗

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

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

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

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

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

- (a) ₹ 2,00,000 incurred as legal cost
- (b) ₹ 60,000 – costs of relocating employees ✗
- (c) ₹ 80,000 costs of inauguration ceremony ✗
- (d) ₹ 24,000 – allocated general overhead cost ✗

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

- (a) ₹ 2,90,000 
$$₹ 9100 \times 8 = 232000$$
- (b) ₹ 3,48,000
- (c) ₹ 2,32,000
- (d) ₹ 29,000

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

- (a) ₹ 1,89,000
- (b) ₹ 1,68,000
- (c) ₹ 1,44,000 
$$28L \times 9-1 \times 9/12 = 189000$$
- (d) ₹ 1,64,000 
$$(25000)$$

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

(a) ₹ 30,00,000  
 ✓ (b) ₹ 57,78,125  
 (c) ₹ 27,78,125  
 (d) ₹ 58,00,000

*Dep.*  

$$5800000 - 21875 = 5778125$$

**Answer Key:**

**1. Option (a)**

Legal costs of 2,00,000 are directly attributable to the acquisition of land and are already included in the cost of the land, not the factory building.

**2. Option (c)**

Employment costs of ₹ 29,000 per month incurred from May 2022 to December 2022 (8 months) would be capitalized, as these are directly attributable to construction. Employment cost capitalized =  $29,000 \times 8 = 2,32,000$

**3. Option (d)**

**4. Option (b)**

**For Answer 3 & 4**

Cost:	
Land	30,00,000
Preparation, levelling	80,000
Materials	21,24,000
Costs of Construction workers ( $29,000 \times 8$ months)	2,32,000
Direct overhead ( $25,000 \times 8$ months)	2,00,000
Allocated overheads	Nil
Relocation costs, costs of inauguration	Nil
Net borrowing costs (1,89,000 less 25,000)	1,64,000
<b>Total</b>	<b>58,00,000</b>

**Carrying amount:**

	Land	Factory
	<b>30,00,000</b>	<b>28,00,000</b>
Depreciation:		
Land	Nil	8,750
Roof ( $28,00,000 \times .25 \times 1/20 \times 3/12$ )		13,125
Remaining factory ( $28,00,000 \times .75 \times 1/40 \times 3/12$ )	-	(21,875)
		27,78,125

Case Scenario 9 (MTP May 2024)

Kesar 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 ₹ 10 each at a price of ₹ 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, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

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

- A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures - ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

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

1. By using the Shares Outstanding Test the number of shares that can be bought back

- (a) 1,25,000
- (b) 31,250
- (c) 25,000
- (d) 30,000

$$125000 \times 25\% = 31250 \text{ sh.}$$

2. By using the Resources Test determine the number of shares that can be bought back:

- (a) 25,000
- (b) 31,250
- (c) 28,750
- (d) 39,062

$$125000 + 187500 = 312500$$

$$\times 25\% = 781250$$

$$\div 2 = 39062$$

3. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

- (a) 25,000
- (b) 31,250
- (c) 28,750
- (d) 39,062

4. On the basis of all three tests determine Maximum number of shares that can be bought back:

- (a) 25,000
- (b) 31,250
- (c) 28,750
- (d) 39,062

$$\frac{\text{Debt}}{\text{Equity}} \leq 2 \quad \text{Minimum Eq. after BB} = \frac{452500}{2} = 226250$$

$$\text{Present Equity} = 312500 - 226250 = 28750 \text{ sh.}$$

$$\frac{20 + 10}{2} \downarrow \text{Nom. value}$$

**Answer Key:****1. Option (b)****Shares Outstanding Test**

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

**2. Option (d)****Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	(Shares)
Paid up capital (₹)	1,25,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062

**3. Option (c)****Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back.**

Particulars	(Shares)
(a) Loan funds (₹) (18,75,000 + 10,00,000 + 16,50,000)	45,25,000
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c) Present equity/shareholders fund (₹)	31,25,000
(d) Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e) Maximum permitted buy-back of Equity (₹) [(d) – (b)]	5,75,000
(f) Maximum number of shares that can be bought back @ ₹ 20 per share	28,750 shares

**Working Note**

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

$$(31,25,000 - x) - 22,62,500 = y$$

$$\text{Since } 8,62,500 - x = y \quad (1)$$

$$\text{Equation 2 : } \left( \frac{\text{Maximum buy-Back}}{\text{Offer Price for buy-back}} \times \text{Nominal Value} \right)$$

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

$$= \left( \frac{y}{20} \times 10 \right) = x$$

$$2x = y \quad (2)$$

$$x = ₹ 2,87,500 \text{ and } y = ₹ 5,75,000$$

**4. Option (c)****Summary statement determining the 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 10 (MTP May 2024)**

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 ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- **Reserves & Surplus:** Kumar Ltd. has accumulated reserves and surplus totaling ₹ 49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- **Loan Funds:** The company has acquired loan funds amounting to ₹ 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 ₹ 30 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.

1. What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?

(a) ₹ 12,95,000  
 (b) ₹ 21,00,000  
(c) ₹ 32,50,000  
(d) ₹ 6,00,000

2. What is the maximum permitted buy-back of equity for Kumar Ltd.?

(a) ₹ 38,85,000  
(b) ₹ 42,00,000  
(c) ₹ 12,95,000  
(d) ₹ 59,85,000

$$129500 \times 30 = 3885000$$

3. How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?

(a) 43,000  
 (b) 12,95,000  
(c) 2,00,000  
(d) 78,000

$$\text{Minimum Equity after BB} = \frac{\text{Debt}}{2} = \frac{4200000}{2} = 2100000$$

$$: 72800$$

Present Equity =

$$\text{No. of sh.} = \frac{72800 - 2100000}{30 + 10} = 129500 \text{ sh.}$$

**Answer Key:**

1. Option (b)
2. Option (b) (a)
3. Option (b)

**For 1, 2 & 3:****Debt Equity Ratio Test**

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

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

$$\text{Since } 51,80,000 - x = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

$$\text{Equation 2 : } \left( \frac{\text{Maximum buy-Back}}{\text{Offer Price for buy-back}} \times \text{Nominal Value} \right)$$

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

$$= \left( \frac{y}{30} \times 10 \right) = x$$

$$3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ and}$$

$$y = ₹ 38,85,000$$

Case Scenario 11 (MTP Sep 2024)

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

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve:	₹ 23,50,000
Securities Premium:	₹ 2,50,000
Profit & Loss Account:	₹ 2,00,000
Infrastructure Development Reserve:	₹ 1,50,000

Secured Loan:

9% Debentures:	₹ 38,00,000
Unsecured Loan:	₹ 8,50,000
Property, Plant & Equipment:	₹ 58,50,000
Current Assets:	₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 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:

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

- (a) 20% of its total paid-up capital and free reserves
- (b) 25% of its total paid-up capital and free reserves
- (c) 25% of its total paid-up capital
- (d) 20% of its total paid-up capital

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

- (a) 35,000 shares
- (b) 42,500 shares
- (c) 37,500 shares
- (d) 54,375 shares

$$1700000 \times 25\% = 425000$$

3. What is the maximum number of shares that can be bought back according to the Resources Test?

- (a) 35,000 shares
- (b) 42,500 shares
- (c) 37,500 shares
- (d) 54,375 shares

$$1700000 + 280000 = 450000$$

$$\times 25\% = 112500 \div 30 \\ = 37500 \text{ sh.}$$

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

- (a) 35,000 shares
- (b) 42,500 shares
- (c) 37,500 shares
- (d) 54,375 shares

$$\text{Min. Equity} = \frac{4650000}{2} = 2325000$$

$$\text{Present Eq.} = 4500000$$

$$\frac{4500000 - 2325000}{30 + 10} = 54375 \text{ shares}$$

**Answer Key:****1. Option (b)**

As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves.

**2. Option (b)**

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.

**3. Option (c)**

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 ₹ 45,00,000 (₹ 17,00,000 + ₹ 28,00,000), which is ₹ 11,25,000. At ₹ 30 per share, this equals 37,500 shares.

**4. Option (d)**

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 12 (MTP Sep 2024)

Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

- The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.
- Assume that there is no opening stock.

Answer the following questions based on above:

1. What will be the cost of material:

(a) ₹ 36,00,000  
 (b) ₹ 34,00,000  
 (c) ₹ 39,00,000  
 (d) ₹ 31,00,000

$$(170 - 15) \times 20000 = 310000$$

$$+ \frac{50000}{360000}$$

2. what will be the value of the closing stock:

(a) ₹ 1,70,000  
 (b) ₹ 1,85,500  
 (c) ₹ 2,38,000  
 (d) ₹ 2,59,700

$$1400 \times 185.57 = 259798$$

$$\text{Units} = 20000 \text{ kg} - 37 = 19400 \text{ kg}$$

$$\text{Cost/kg} = \frac{360000}{19400} = 185.57$$

$$\text{Clos. stock} = 19400 - 17600 = 1400 \text{ kg}$$

3. What will be the cost per Kg of raw material:

(a) ₹ 180  
 (b) ₹ 183.6  
 (c) ₹ 185.5  
 (d) ₹ 189.4

4. How much amount as abnormal loss will be debited in P&L:

(a) ₹ 72,000 approx  
 (b) ₹ 73,440 approx  
 (c) ₹ 74,200 approx  
 (d) ₹ 75,760 approx

$$400 \times 185.5 = 74200$$



$$19400 - 1400$$

**Answer Key:**

1. Option (a)
2. Option (d)
3. Option (c)
4. Option (c)

**For 1,2 3 & 4****Cost of Material**

20,000 kg @ ₹ (170-15)	= ₹ 31,00,000
Direct cost	= ₹ 5,00,000
Total cost	= ₹ 36,00,000

**Units**

Units purchased	= 20,000 Kg
Normal loss @3%	= 600 Kg
Units received	= 19,000 Kg
Abnormal loss (20,000-600-19000)	= 400 Kg

**Cost per unit**

₹ 36,00,000/19,400 units	= ₹ 185.5 per unit
--------------------------	--------------------

**Abnormal loss to be charged to profit and loss**

$$= 400 \text{ Kg} * ₹ 185.5 = ₹ 74,200$$

**Value of closing stock**

Closing units = 19,000-17,600	= 1400 units
Value = 1400 * ₹ 185.5	= 2,59,700

Case Scenario 13 (MTP Sep 2024)

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

$$\text{POR } 10\% = 250$$

$$\text{PL} \times 250 = 200$$

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:

1. 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

$$\text{Loss} = \frac{3000}{1500} \times 1000 = 2000$$

$$\text{Sale} = \frac{3000}{1000}$$

2. 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

$$\text{Profit} = \frac{3000}{1000}$$

3. Cash balance after buyback

(a) ₹ 1,150 lakhs  
 (b) ₹ 2,200 lakhs  
 (c) ₹ 3,250 lakhs  
 ✓ (d) ₹ 900 lakhs

$$1650 + 3000 + 800 - 2750 - 3000 \\ = (2500 + 100) (200 \times 15)$$

Answer Key:

## 1. Option (b)

The market value of investment

Particulars	₹ (lakh)
Sale value of investment	3,000
Less: The cost value of investment ( $3,000/1,500 \times 1,000$ )	2,000
Profit	1,000

## 2. Option (a)

Particulars	₹ (lakh)
Securities premium	800
Less: premium on redemption of preference shares	250
Balance available	550

## 3. Option (d)

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

**Case Scenario 14 (MTP Sep 2024)**

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 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 ₹ 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 Hello Limited for ₹ 7,00,000.

1. On which date the Intangible asset should be recognised:
  - April 2022 (When it was decided that SAP ERP is to be implemented)
  - June 2022 (When the implementation work started)
  - September 2023 (When the implementation work should have completed as per agreed terms)
  - May 2024 (When the SAP actually got implemented)
2. At what amount the SAP ERP should be initially recognised as 'intangible asset':
  - ₹ 25,00,000
  - ₹ 26,00,000
  - ₹ 23,00,000
  - ₹ 32,00,000

$25L - 2L = 23L$
3. How should the annual maintenance and updation expenses should be accounted for:
  - Should be capitalised with 'Intangible Asset'
  - Should be recognised as a separate 'Intangible Asset'
  - Should be recognised as expense in Profit and Loss annually.
  - No accounting is required
4. During the implementation period, how the expenditure incurred will be accounted for:
  - It will be expensed in profit and loss as and when incurred
  - It will be recognized as an asset 'Intangible asset under development'
  - It will only be disclosed in notes to accounts and will be recognised when complete
  - It will be recognised as an item of Property, Plant and Equipment

**Answer Key:****1. Option (d)**

As per the provision of AS 26.

**2. Option (c)**

₹ 25,00,000 less the amount refunded i.e. ₹ 200,000 = ₹ 23,00,000

**3. Option (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.

**4. Option (b)**

Till the asset is complete it will be recognised as 'intangible asset under development' till the same is available for use.

Case Scenario 15 (MTP Jan 2025)

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 = ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00,000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US\$ 1 = ₹ 81.1.

On 31st March 2024, exchange rate was US\$ 1 = ₹ 83.3

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

- (a) ₹ 700,000
- (b) ₹ 7,14,978 approx
- (c) ₹ 7,34,383 approx
- (d) ₹ 7,50,000 approx

$$\frac{700000}{79.4} \times 83.3 = 734383$$

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

- (a) Gain of ₹ 34,383 approx
- (b) Loss of ₹ 34,383 approx
- (c) Gain of ₹ 19,395 approx
- (d) Loss of ₹ 19,395 approx

$$734383 - 700000 = 34383$$

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

- (a) ₹ 10,00,000
- (b) ₹ 10,27,127 approx
- (c) ₹ 9,79,002 approx
- (d) ₹ 10,79,002 approx

$$\frac{1000000}{81.1} \times 83.3 = 1027127$$

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

- (a) Gain of ₹ 48,087 approx
- (b) Loss of ₹ 48,087 approx
- (c) Gain of ₹ 27,127 approx
- (d) Loss of ₹ 27,127 approx

$$1027127 - 1000000 = 27127$$

Answer Key:

1. Option (c)

2. Option (a)

3. Option (b)

4. Option (d)

Trade Receivable

	Foreign Currency Rate	In INR
Initial recognition of Trade Receivables = US\$ 8816 (7,00,000/79.4)	US \$ 1 = 79.4	700,000
Rate on 31 <sup>st</sup> March	US \$ 1 = 83.3	7,34,383
Exchange Difference Gain US \$8816* (83.3-79.4)		34,383

Loan

	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 31 <sup>st</sup> March	US \$ 1 = 83.3	10,27,127
Exchange Difference Loss US \$12330* (83.3-81.1)		27,127

Case Scenario 16 (MTP Jan 2025)

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 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 ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70. ✓

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

- (a) ₹ 3,03,000
- (b) ₹ 2,27,250
- (c) ₹ 3,00,000
- (d) ₹ 3,30,000

<u>No.</u>	<u>Amt-</u>
3000	303000
1000	-
4000	303000
(1000)	(75750)
3000	227250

2. What is the cost of bonus shares:

- (a) ₹ 1,00,000
- (b) ₹ 1,10,000
- (c) Nil
- (d) ₹ 1,01,000

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

- (a) ₹ 100,000
- (b) ₹ 75,750
- (c) ₹ 34,250
- (d) ₹ 1,01,000

$$1000 \times 110 = 110000$$

$$(75750)$$

$$\text{Profit} \quad \underline{34250}$$

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

- (a) ₹ 2,10,000
- (b) ₹ 2,27,250
- (c) ₹ 2,20,000
- (d) ₹ 3,00,000

$$\text{Cost} = 227250$$

$$\text{M.V.} = 3000 \times 70 = 210000$$

$$\text{Lower} = 210000$$

Answer Key:

1. Option (b)
2. Option (c)
3. Option (c)
4. Option (a)

$$\text{Cost of 3,000 shares} = (3,000 \times 100) + 1\% (3,000 \times 100) = ₹ 3,03,000$$

$$\text{Bonus shares} = 1,000 \text{ at no cost}$$

Profit on sale of 1,000 shares:

$$(110 \times 1,000) - (1,000 / 4,000 \times 3,03,000) = 1,10,000 - 75,750 = ₹ 34,250$$

$$\text{Carrying value of 3000 shares} = 3,000 / 4,000 \times 3,03,000$$

$$= ₹ 2,27,250$$

$$\text{Market value of shares} = 3,000 \times 95 = ₹ 2,85,000$$

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

Case Scenario 17 (MTP Jan 2025)

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 5,00,000 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 ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

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

- (a) Star Ltd. is associate of Sun Ltd.
- (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
- (c) Moon Ltd. is an associate of Sun Ltd.
- (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

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

- (a) ₹ 5,00,000
- (b) ₹ 5,80,000
- (c) ₹ 4,68,000
- (d) ₹ 5,32,000

$$\begin{array}{r}
 \text{5,00,000} \\
 - \text{Pre Aq. Div.} \quad (32,000) \\
 \hline
 \text{4,68,000}
 \end{array}
 \quad (80,000 \times 40\%) \times 9/12$$

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

- (a) ₹ 9,00,000
- (b) ₹ 5,88,000
- (c) ₹ 4,52,000
- (d) ₹ 6,20,000

$$\begin{array}{r}
 \text{4,68,000} \\
 + \text{Post} \quad (12,000) \quad (4,00,000 \times 9/12) \times 40\% \\
 \hline
 \text{5,88,000}
 \end{array}
 \quad \text{1/7 to 3/3}$$

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

- i. Participation in policy making processes
- ii. Interchange of managerial personnel
- iii. Right to receive dividend
- iv. Provision of essential technical information
- (a) All the statements are correct
- (b) Statements (i), (ii) and (iii) are correct
- (c) Statements (ii), (iii) and (iv) are correct
- (d) Statements (i), (ii) and (iv) are correct

Answer Key:1. Option (c)

Sun Ltd. has indirect holding in Star Ltd. of (40% of 40%) 16%, thus, star limited is not associate of Sun Limited.

2. Option (c)

Amount paid for investment in Associate (on 01.07.23)	5,00,000
Deduct: Pre acquisition dividend (40% x 80,000)	(32,000)
Carrying amount of Investment as on 31.03.2024	4,68,000

3. Option (b)

Carrying amount as per Separate Financial Statements (₹ 4,68,000) plus 9 months share in profit for the year (₹ 4,00,000 x 40% x 9/12) ₹ 1,20,000 = ₹ 5,88,000

4. Option (d)

Paragraph 5 of AS 23 does not include right to receive dividend

Case Scenario 18 (MTP Jan 2025)

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for ₹ 600 lakhs and FA 2 is being carried at ₹ 300 lakhs.

As at 31st March 2024, the value in use for FA 1 is ₹ 500 lakhs and the net selling price is ₹ 550 lakhs. The Company did upward revaluation last year for ₹ 20 lakhs for FA 1.

As at 31st March 2024, the value in use for FA 2 is ₹ 350 lakhs and net selling price is ₹ 320 lakhs.

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

- (a) ₹ 100 Lakhs
- (b) ₹ 50 Lakhs
- (c) ₹ 30 lakhs
- (d) Nil

$$\begin{aligned} RA &= 550 & CA &= 600 \\ IL &= 50 \\ &\quad \swarrow \quad \searrow \\ & 600 - 550 \end{aligned}$$

2. How much impairment loss will be charged to profit and loss for current year for FA 1:

- (a) ₹ 100 Lakhs
- (b) ₹ 50 Lakhs
- (c) ₹ 30 lakhs
- (d) Nil

$$\begin{aligned} 50L - 20L &= 30L \\ \text{Rev. Res.} & \quad \text{P&L} \end{aligned}$$

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

- (a) ₹ 50 Lakhs
- (b) ₹ 30 Lakhs
- (c) ₹ 20 lakhs
- (d) Nil

$$\begin{aligned} RA &= 350 & CA &= 300 \\ IL &: NIL \end{aligned}$$

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

- (a) ₹ 550 Lakhs
- (b) ₹ 530 Lakhs
- (c) ₹ 520 lakhs
- (d) ₹ 500 lakhs

$$600 - 50 = 550$$

Answer Key:

1. Option (b)
2. Option (c)
3. Option (d)
4. Option (a)

**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.

### Case Scenario 19

ADI Ltd (the Company), 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.

Having fulfilled all the conditions under the scheme, the Company on its investment of ₹ 50 crores in capital assets received ₹ 10 crores from the Government in January 2024 (financial year being 2023-24). The Company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31 March 2024.

ADI Ltd holds 51% in SHA Ltd. SHA Ltd is a joint venture of ADI Ltd due to a contractual agreement. ADI Ltd is engaged in the manufacturing business and it entered into a joint venture to get synergies in the same business. ADI Ltd and SHA Ltd hold 10% and 30% respectively in SHB Ltd.

As per the requirements of SEBI, ADI Ltd prepared results/accounts for the quarter ended 30 June 2024 and took following positions in respect of following accounting matters:

- i. Training expenses incurred during the quarter ended 30 June 2024 were allocated equally over the four quarters because the benefit was spread over the entire year and similarly some training expenses expected to be incurred in the last quarter have been estimated and equally allocated over the four quarters.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter.
- iii. Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
- iv. Incentives were provided to the customers if they purchase 1 million kgs of urea on an annual basis. It was expected that at least 50 customers would be able to achieve this target before the end of third quarter. No provision was made for this incentive during the quarter ended 30 June 2024 since ADI Ltd believed that the provision was not yet fructified.

ADI Ltd owns 60% holding in ANI Ltd, an unquoted entity. The government has recently announced an increase in interest rates. The increase will cause a fall in value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment.

SHB Ltd took a loan of USD 10,000 on 1 April 2023 for a specific project at an interest rate of 5% p.a. payable annually. On 1 April 2023, the exchange rate between the currency was ₹ 81 per USD. The exchange rate as at 31 March 2024 was ₹ 82 per USD. The corresponding amount could have been borrowed by SHB Ltd in local currency at an interest rate of 11% per annum as on 1 April 2023. ADI Ltd follows April to March as the financial year

1. In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?
  - (a) Accounting treatment desired by the company is correct.
  - (b) The subsidy should be credited to capital reserve.
  - (c) The subsidy should be treated as a capital grant.
  - (d) The accounting treatment should be as per the accounting policy of the company in relation to any grant. The company can choose any accounting policy in this respect.
2. Please suggest which one of the following options would be correct in respect of consolidated accounts of ADI Ltd as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.
  - (a) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method.
  - (b) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
  - (c) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB

Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.

(d) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would also be accounted for using equity method.

*ASIS*

3. Please share your views in respect of the accounting positions taken by ADI Ltd (Points i to iv) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.

- (a) Position taken in point ii was incorrect.
- (b) Positions taken in points ii and iv were incorrect.
- (c) Positions taken in points i and ii were incorrect.
- (d) Positions taken in points i, ii, iii and iv were incorrect.

4. Will there be any adjustment required in the financial statements of ADI Ltd because of abovementioned event (increase in interest rates by the Government) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.

- (a) The increase is an indication that ADI Ltd's holding in ANI Ltd might have increased. Hence ADI Ltd would require to increase the value of its interest in ANI Ltd.
- (b) No adjustment is required.
- (c) The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.
- (d) Whether to make any adjustment or not will depend on the accounting policy of ADI Ltd.

### Answer Key:

#### 1. Option (b)

As per AS 12, the grant is in the nature of promoter's contribution. 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.

#### 2. Option (a)

ADI Ltd's investment in SHB Ltd would be treated as any other investment as per the requirements of AS 13. Further, SHB Ltd would be treated as an associate of SHA Ltd as per the requirements of AS 23 and therefore, for such investment equity method of accounting would be required to be followed.

#### 3. Option (d)

- i. Training expenses incurred during the quarter ended 30 June 2024 should be expensed in the same quarter and should not be deferred as per the accrual basis of accounting. Further, any future costs should not be recognized.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter is a future cost which should not be recognized.
- iii. Depreciation should be computed based on useful life and not budgets.
- iv. Provision for expense around incentives should have been recognized.

#### 4. Option (c)

Due to increase in the interest rates, there will be a fall in the value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment. This is an indicator for impairment as per AS 28 due to which ADI should do an impairment testing in respect of its investment in ANI Ltd.

Case Scenario 20

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.

1. 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

$$(62500 \times 4) + 12500 \\ = 262500$$

2. 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

$$(62500 \times 0.8696) + (12500 \times 0.5718) \\ 1855850$$

3. 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

$$1855850, or 2, L \downarrow$$

4. 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

$$62500 \times 0.8696 = 543500$$

Answer Key:

1. Option (c)
2. Option (b)
3. Option (b)
4. Option (b)

Year	Minimum Lease Payment in (₹)	Implicit interest rate (Discount 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	<u>7,50,000*</u>	0.5718	<u>4,28,850</u>
Total	<u>26,25,000</u>		<u>18,55,850</u>

Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹ 18,55,850 as per AS 19.

\* Minimum Lease Payment of 4<sup>th</sup> year includes guaranteed residual value amounting ₹ 1,25,000.

### Case Scenario 21 (PYQ Sep 2024)

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4,000 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 ₹ 1,00,000 to produce 1000 units of finished goods.

1,000 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 ₹ 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 1,500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹ 15,000 to install the asset at Factory premises.

Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024. The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

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 ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
- (b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
- (c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000
- (d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000

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

- (a) ₹ 2,92,500
- (b) ₹ 2,77,500
- (c) ₹ 3,05,000
- (d) ₹ 2,90,000

$$(1500 \times 125) + 90000 + 15000 = 292500$$

$$+ \text{Borr. Cost} (187500 \times 10\% \times 8/12) = \underline{\underline{305000}}$$

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) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c
- (b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
- (c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
- (d) Whole of ₹ 40,000 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 ₹ 72,000 and the dividend is deducted from the nominal value of investment.
- (b) Carrying amount of Investment as on 31st March, 2024 is ₹ 90,000 and the dividend is credited to Profit & Loss A/c.
- (c) Carrying amount of Investment as on 31st March, 2024 is ₹ 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.

**Answer Key:****1. Option (b)**

If the finished good cost is more than the expected selling price then Raw material is valued at Replacement cost. So Value of Raw Material will be 500 units @ ₹ 100 per unit and value of finished Goods will be ₹ 1,000 units @ 300 per unit

**Cost of finished Goods**

2,000 units of Raw Material @ 125 per unit	= ₹ 2,50,000 ✓
Labour Charges	= ₹ 1,00,000 ✓
For 1,000 units	= ₹ 3,50,000

Per unit Cost is ₹ 350 per unit so NRV is considered

4000 - 2000 - 1500

**2. Option (c)****Cost of Self Constructed Asset:**

Cost of raw material consumed (1500 units @ 125 per unit)	₹ 1,87,500
Add: Labour Charges	₹ 90,000
Add: Installation cost	₹ 15,000
Add: Borrowing cost (1,87,500 x 10% for 8 months)	₹ 12,500
	₹ 3,05,000

**3. Option (a)**

₹ 12,500 interest to be capitalised and Profit & Loss A/c.

₹ 27,500 interest to be charged to Profit & Loss A/c

Loan Proceeds ₹ 6,00,000 out of this ₹ 1,87,500 used for qualifying Assets and balance for Non qualifying Asset.

So Interest on ₹ 1,87,500 i.e. ₹ 12,500 capitalised to cost of Asset and interest on ₹ 4,12,500 i.e. ₹ 27,500 charged to profit and loss account.

**4. Option (d)**

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

Case Scenario 22 (PYQ Sep 2024)

Kay Ltd. sold goods of ₹ 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 ₹ 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 ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 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 31st March, 2024 is ₹ 75,000. Kay Ltd. makes provision for doubtful debts @ 5%.

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) ₹ 23,50,000
- (b) ₹ 1,50,000
- (c) ₹ 23,00,000
- (d) ₹ 1,00,000

$$\text{22,00,000} + (2,00,000 \times 75\%) \\ = 23,50,000$$

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 ₹ 5,45,000
- (b) Create a Provision for ₹ 5,00,000
- (c) Create a Provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000
- (d) Make a disclosure of contingent liability of 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 ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.
- (b) An Adjusting Event, provision of ₹ 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.

Answer Key:1. Option (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

2. Option (c)

There are remote chances of payment of damages to the buyer so claim of ₹ 5,00,000 treated as contingent liability & provision is made for legal charges as these charges will be incurred.

3. Option (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 23 (PYQ Sep 2024)

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

	₹
Equity Share Capital:	5,00,000
50,000 Equity shares of ₹ 10 each	
Profit and 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 and Machinery	4,50,000
Furniture and Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of 10 each	1,25,000
Sundry Debtors	70,000
Cash and Bank Balance	65,500

Additional information given by Jay Ltd.:

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

*Non cash*

- (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 ₹ 1,00,000.
- (c) Balance of Profit & Loss to be written off.
- (d) Equity shares issued for ₹ 1,00,000. ✓ Fin.

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

*Op.*

- (a) Interest is received on advances given to suppliers of goods ₹ 3,000.
- (b) Taxation liability is settled at ₹ 14,000.
- (c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.
- (d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.
- (e) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

*Inr.*

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

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

- (a) ₹ 2,000
- (b) ₹ 5,000
- (c) ₹ 12,000
- (d) ₹ 15,000

$$3000 - 14000 + 16000 = 5000$$

2. The amount of Cash Flow from investing Activity is

- (a) ₹ 28,000
- (b) ₹ 25,000
- (c) ₹ 15,000
- (d) ₹ 22,000

$$\begin{array}{ccc} a) & & c) \\ 10000 + 12000 & = & 22000 \\ \downarrow & & \\ 15000 - 3000 & & \end{array}$$

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

- (a) ₹ 1,92,500
- (b) ₹ 92,500
- (c) ₹ 1,27,000
- (d) ₹ 1,98,500

$$\begin{array}{c} 65500 + 5000 + 22000 + 17000 \\ = 192500 \end{array}$$

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

- (a) ₹ 6,50,000
- (b) ₹ 4,50,000
- (c) ₹ 5,50,000
- (d) ₹ 7,50,000

$$\begin{aligned}
 & \text{50000} + 12000 - 14000 + 10000 \\
 & (50000) \\
 \Rightarrow & 55000
 \end{aligned}$$

**Answer Key:**

1. Option (b)

$$₹ 3,000 + ₹ 16,000 - ₹ 14,000 = ₹ 5,000$$

2. Option (d)

$$₹ 10,000 \text{ (Dividend)} + ₹ 12,000 \text{ (Proceeds from Sale of Plant and Machinery)}$$

3. Option (a)

	₹
Opening Cash	65,500
Operating cost flows (₹ 3,000 + ₹ 16,000 - ₹ 14,000)	5,000
Investing Cash flows (₹ 10,000 + ₹ 12,000)	22,000
Financing Cash flows Closing cash + Cash Equivalent	1,00,000
	1,92,500

4. Option (c)

	₹
Opening Capital	5,00,000
New capital issued	1,00,000
Issued to Debenture holder	1,50,000
Capital Surrendered	(2,00,000)
	5,50,000

### Case Scenario 24

On 31st March, 2001, seven companies finalized their financial statements, which were approved on 15th June, 2001. During the financial year 2001-2002, 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, 2001, 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, 2001. The sale was finalized on 15th May, 2001, for ₹ 2,50,000.
2. B Ltd.'s 100% subsidiary declared a dividend of ₹ 3,00,000 on 30th April, 2001, for the year ended 31st March, 2001.
3. C Ltd. decided to close its mail order activities on 31st May, 2001, incurring closure costs of ₹ 2.5 million.
4. D Ltd. discovered, on 1st July, 2001, that sand at a major civil engineering project site increased project costs by 25%, with no recovery from the customer.
5. On 2nd April, 2001, 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, 2001. 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, 2001, and 1st June, 2001, reducing the value of its foreign assets by ₹ 1.3 million.

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

- (a) Recognize ₹ 1,50,000 profit in the 2000-2001 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 2001-2002 financial statements.

2. For B Ltd., how should the dividend declaration be treated?

- (a) Recognize the dividend in the 2000-2001 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.

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

- (a) Recognize the closure costs in the 2000-2001 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.

4. For E Ltd., what should be the treatment of the fire incident?

- (a) Recognize the ₹ 10 million loss in the 2000-2001 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 2001-2002 financial statements.

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

- (a) Provide ₹ 8 million for the claim in the 2000-2001 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.

**Answer Key:****1. Option (a)**

The contract exchange occurred before 31st March, 2001, making it an adjusting event. The sale's impact must be reflected in the financial statements for 2000-2001.

**2. Option (c)**

The dividend was declared after 31st March, 2001. As per AS 4, it is a non- adjusting event and must be disclosed in the notes.

**3. Option (c)**

The closure decision was made after 31st March, 2001, and is a non- adjusting event requiring disclosure to ensure user understanding.

**4. Option (b)**

The fire occurred after 31st March, 2001, making it a non-adjusting event. Disclosure is required, especially given the insurance coverage.

**5. Option (b)**

The claim is considered baseless but must be disclosed as a contingent liability per AS 4. Legal fees should be provided if not recoverable.

AS12

Case Scenario 25

Energy Ltd. acquired a generator on 1st April, 2001, for ₹100 lakh. The company applied for a subsidy from the Indian Renewable Energy Development Authority (IREDA) on 2nd April, 2001. The subsidy was granted in June, 2002, after the accounts for the financial year 2001-2002 were finalized. The company did not account for the subsidy in the financial statements for the year ended 31st March, 2002.

Additionally consider the following scenarios:

1. The sanction letter for the subsidy was received in June, 2002, before the Board of Directors approved the accounts for the year 2001-2002.
  - (a) Recognize it as income for the financial year 2001-2002.
  - (b) Treat it as a prior period item in the financial year 2002-2003.
  - (c) Deduct it from the cost of the generator in the financial year 2002-2003. ✓
  - (d) Ignore it as it relates to a past financial year
2. If the subsidy sanction letter was received before the accounts for 2001-2002 were approved by the Board of Directors, how should the subsidy be treated?
  - (a) Recognize it in the financial statements for 2001-2002 by deducting it from the cost of the generator.
  - (b) Disclose it as a contingent asset in the notes for 2001-2002.
  - (c) Recognize it as deferred income in the financial year 2002-2003.
  - (d) Ignore it as the event occurred after 31st March, 2002.
3. If Energy Ltd. had a history of receiving subsidies on all similar applications in the past, how should the subsidy for 20X1-20X2 be treated?
  - (a) Recognize it in the financial statements for 2001-2002 by deducting it from the cost of the generator.
  - (b) Recognize it as deferred income for the financial year 2002-2003.
  - (c) Treat it as a prior period item in the financial year 2002-2003.
  - (d) Disclose it as a contingent asset in the notes for 2001-2002.

**Answer Key:****1. Option (c)**

As per AS 12, a grant can only be recognized when there is reasonable assurance of compliance with conditions and receipt of the subsidy. Since the subsidy was sanctioned after 31st March, 2002, and after accounts for 2001-2002 were approved, it cannot be treated as an adjusting event for 2001-2002. It must be accounted for in 2002-2003 by deducting it from the cost of the generator.

**2. Option (a)**

As per AS 4, events occurring after the balance sheet date but before approval of accounts by the Board of Directors are adjusting events if they confirm conditions existing at the balance sheet date. Receipt of the sanction letter confirms the condition that the subsidy application was valid, and hence, the subsidy should be adjusted in the financial statements for 2001-2002.

**3. Option (a)**

If the company has consistently received subsidies for similar applications in the past, there is reasonable assurance as required by AS 12. In such cases, the subsidy should have been recognized in the financial statements for 2001-2002, as the past pattern provides assurance of receipt.

Case Scenario 26

A company is engaged in refining, transportation, and marketing of petroleum products. During the financial year ended 31st March, 2001, it acquired a controlling interest in another public sector undertaking from the Government of India at ₹ 1,551 per share. The book value and market value of the shares as of 18th February, 2001, were ₹ 192.58 and ₹ 876 per share, respectively. The company paid a strategic premium of ₹ 675 per share due to various tangible and intangible factors.

The company classified the acquired shares as long-term strategic investments and accounted for them at cost, i.e., ₹ 1,551 per share, in its financial statements. No provision for diminution in value was made. However, Schedule III of the Companies Act, 2013, requires the aggregate market value of quoted shares to be disclosed, and this has been reflected.

On 28th March, 20X1, the market price of the acquired shares was ₹ 880 per share. By 18th July, the price had dropped to ₹ 300. Management believes that the decline in value is not permanent, given the strategic and synergy benefits expected, and hence, no provision for diminution has been made.

1. Is the accounting treatment of recording the investment 'at cost' without providing for diminution correct as per AS 13?
  - (a) Yes, as the investment is classified as long-term.
  - (b) Yes, provided the decline in value is not other than temporary.
  - (c) No, the market value must always be considered for long-term investments.
  - (d) No, a provision for diminution must be made regardless of the cause of decline.
2. How should the company assess whether the decline in market value is other than temporary?
  - (a) Based solely on the market price on the balance sheet date.
  - (b) Based on a comparison of the market price with the book value of the shares.
  - (c) By considering all relevant factors, such as the financial health of the investee and expected benefits.
  - (d) By applying a uniform threshold for decline across all investments.
3. If a provision for diminution in value is required, how should it be treated in the financial statements?
  - (a) As a charge to the profit and loss account.
  - (b) As deferred expenditure amortized over five years.
  - (c) Directly adjusted against the investment account.
  - (d) As a disclosure note without impacting the financial statements.
4. Can the premium paid for strategic benefits be accounted for separately from the cost of investment?
  - (a) Yes, it should be recorded as a separate intangible asset. ₹ ~~2~~
  - (b) Yes, it can be disclosed as goodwill in the balance sheet.
  - (c) No, it must be included in the cost of investment as per AS 13.
  - (d) No, it must be expensed immediately in the profit and loss account.

**Answer Key:****1. Option (b)**

As per AS 13, long-term investments are recorded at cost unless there is a decline other than temporary in their value. If the management can substantiate that the decline in market value is temporary, there is no need to create a provision for diminution.

**2. Option (c)**

Per paragraph 17 of AS 13, the company must consider all relevant factors, such as the financial and operational performance of the investee, the expected benefits from the investment, and external economic conditions, to assess whether the decline is other than temporary.

**3. Option (a)**

AS 13 requires that any provision for diminution in the value of investments be charged to the profit and loss account. It cannot be treated as deferred expenditure or amortized over future periods.

**4. Option (c)**

As per AS 13, long-term investments are recorded at cost, which includes any premium paid. There is no provision in AS 13 to account for the premium separately, even if it is paid for strategic benefits.

### Case Scenario 27

Sigma Builders Pvt. Ltd. enters into a contract with Alpha Developers Ltd. on 1st January 2001 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 2002, 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.

1. 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

$$5\text{cr} + \left( \frac{0.8\text{cr}}{4\text{cr}} \times 2\text{cr} \right) + (1.2\text{cr} \times 25\%)$$

$$5\text{cr} + 0.4\text{cr} + 0.3\text{cr} = 5.7\text{cr} + 0.5\text{cr} = 6.2\text{cr}$$

2. 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.

3. 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

$$6.2\text{cr} + 1\text{cr} + 0.2\text{cr} = 7.4\text{cr}$$

4. 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.

**Answer Key:****1. Option (d)**

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%)  $(1.20 \text{ crore} \times 25\%) = ₹ 0.30 \text{ crore}$
- Early Completion Incentive: ₹ 0.50 crore
- Total: ₹ 6.20 crore

**2. Option (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.

**3. Option (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

**4. Option (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 28

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 <span style="color:red">X</span>	4,50,000 <span style="color:red">X</span>	9,00,00,000 <span style="color:green">✓</span>
L	1,12,50,000	36,00,000	1,48,50,000 <span style="color:green">✓</span>	13,50,000 <span style="color:green">✓</span>	2,25,00,000 <span style="color:red">X</span>
M	2,02,50,000	-	2,02,50,000 <span style="color:red">✓</span>	22,50,000 <span style="color:red">✓</span>	3,15,00,000 <span style="color:green">✓</span>
N	1,21,50,000	27,00,000	148,50,000 <span style="color:red">✓</span>	13,50,000 <span style="color:red">✓</span>	4,50,00,000 <span style="color:red">X</span>
O	18,00,000	22,50,000	40,50,000 <span style="color:red">X</span>	9,00,000 <span style="color:green">✓</span>	6,75,00,000 <span style="color:green">✓</span>
			5,94,00,000	63,00,000	25,65,00,000

#### Additional Information

10+ 594,000 63,000 25,65,00,000

##### i. 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 2. The applicable tax rate is 30%.

##### ii. Trademark and Process Development:

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

Trademark acquisition: ₹70,00,000 ✓

Product promotion: ₹2,00,000 X

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

##### iii. 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 ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution

1. 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

2. What will be the tax effect on the financial statement for the year 2023-24 respect of machinery purchased on 1st April 2023?

- (a) Create DTA ₹ 75,000
- (b) Reverse DTA ₹ 75,000
- (c) Create DTL ₹ 75,000
- (d) Reverse DTL ₹ 75,000

$$\begin{array}{llll}
 \text{Cost} = 15L & \text{Dep:} & \text{Year 1} & \text{Year 2} \\
 & \text{A/c} & 7.5L & 7.5L \\
 & \text{Tax} & 10L & 5L \\
 \end{array}$$

$$\text{DTL} = 2.5L \times 30\% = 7.5L$$

3. What is the total cost that should be capitalized for a trademark related to the new process?

- (a) ₹ 75,00,000
- (b) ₹ 73,00,000
- (c) ₹ 72,00,000
- (d) ₹ 70,00,000

4. 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.

### **Answer Key:**

#### **1. Option (d)**

Based on the 10% quantitative threshold: Revenue (L, M, N are reportable), Profit (L, M, N, O are reportable), Assets (K, M, N, O are reportable). Hence, all segments qualify as reportable.

#### **2. Option (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.

#### **3. Option (b)**

Cost to be capitalized for trademark:

Cost 70,00,000

Testing expenses 3,00,000

73,00,000

Expenses on promoting the new product are not capitalized

#### **4. Option (a)**

As the grant is a promoter's contribution, it is credited to the capital reserve.

Case Scenario 29

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	✓ ₹ 50,00,000
Initial delivery & handling cost	✓ ₹ 10,00,000
Cost of site preparation	✓ ₹ 5,00,000
The interest charge for deferred credit paid to the supplier	✗ ₹ 1,00,000
The present value of estimated dismantling costs to be incurred after 15 years is	✓ ₹ 5,00,000.

Operating losses after commercial production ₹ 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:

$$\begin{array}{l} \text{On 1.4.2023 1 US\$} = ₹ 80 \\ \text{31.03.2024 1 US\$} = ₹ 82.50 \end{array} \rightarrow \text{F.D.} = 62500 \times 2.5 = 156250 \text{ Each. Loss} \\ \text{Loan} = 5156250 / (62500 \times 2.5)$$

G Ltd. acquired a machine on 1st April, 2018 for ₹ 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.

3/3/22  
BY = 12.5  
Rev = 18.5  
G Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.  $18L - (18/5 \times 2) = 10.8$  3/3/24 IL = 4.8

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 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 ₹ 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 ₹ 4,80,000 (assume profit to be accrue evenly)

1. What is the carrying value of machinery on 31.3.2024 installed in the plant?

- (a) ₹ 65,33,333
- (b) ₹ 64,75,000
- (c) ₹ 69,06,667
- (d) ₹ 68,45,000

$$\text{Cost} = 70 \text{ Lakh} \quad \text{Dep.} = (70L \times \frac{1}{10}) \times \frac{9}{12} \\ = 525000 \\ \text{CA} = 70L - 5.25L = 6475000$$

2. 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) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan. ✗
- (b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan. ✗
- (c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan. ✗
- (d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

3. What is the amount of impairment loss on 31.3.2024?

- (a) ₹ 5.5 lakh
- (b) ₹ 7.2 lakh
- (c) ₹ 4.8 lakh
- (d) ₹ 3 lakh

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

- (a) ₹ 14,00,000
- (b) ₹ 8,22,500
- (c) ₹ 13,47,500
- (d) ₹ 14,52,500

$$\begin{array}{rcl}
 \text{Cost} & = & 1400000 \\
 - \text{Pre Aq. Div} & & (52500) \\
 (1400000 \times 35\%) & & \\
 \hline
 1347500
 \end{array}$$

### Answer Key:

1. Option (b)

	₹
Cost of machinery to be capitalized (except interest as the asset is not qualified & operating loss) (50,00,000 + 10,00,000 + 5,00,000 + 5,00,000).	70,00,000
Machinery ready for intended use on 1.7.2023 and life is 10 years therefore, depreciation for 9 months will be $70,00,000 \times 1/10 \times 9/12 = 5,25,000$ .	(5,25,000)
Carrying value of machine as on 31.3.2024	64,75,000

2. Option (d)

$$\text{Exchange loss} = 62,500 \times 2.50 = 1,56,250$$

This loss will be added to the value of the foreign loan amount. So, the foreign loan amount will be increased by ₹ 1,56,250.

3. Option (c)

	₹ (in Lakh)
Cost of the asset on 1.4.2017	25
Less: Depreciation for 4 years (2017-18 to 2020-21)	(12.5)
Carrying amount as on 31.3.2020	12.5
Add: upward revaluation (credited to revaluation reserve)	5.5
	18
Less: depreciation of 2 years i.e. 2021-22, 22-23, 23-24	(7.2)
Carrying amount as on 31.3.2023	10.8
Less: recoverable amount	(6)
Impairment loss	4.8

4. Option (c)

Carrying amount of investment in the separate financial statement, of G Ltd. as on 31.3.2024

	₹
Amount paid for investment in Build Ltd.	14,00,000
Less: pre acquisition dividend	(52,500)
Carrying amount as on 31.3.2024	13,47,500

Case Scenario 30

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2001:

	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
(3)	Loan Funds	52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2001 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 ₹ 25.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

Assuming that the entire buy-back is completed by 09.12.2001,

1. 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

$$\text{Present Eq.} = 54,00,000$$

$$\text{Minimum Eq. after BB} = \frac{54L}{2} = 26,00,000$$

$$N_s = \frac{54L - 26L}{25+10} = 8,000 \text{ sh.}$$

2. What is the maximum permitted equity as per debt- equity ratio test.

- (a) 20,00,000
- (b) 28,00,000
- (c) 15,00,000
- (d) 13,50,000

$$8,000 \times 25 = 2,00,000$$

3. 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

$$\text{Present Eq.} - \text{Eq. to LRR}$$

$$(x)$$

$$54L - 8L = 46,00,000$$

4. 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

$$54L \times 25/10 = 135,000 \quad N_s = \frac{135,000}{25} = 5,400 \text{ sh.}$$

Equation  $n = \text{Eq. to CRR}$   $y = \text{value of BB}$

$$54L - n - y = 26L$$

$$y = 2.5n$$

$$n = 8L \quad y = 20L$$

**Answer Key:**

1. Option (b)
2. Option (a)
3. Option (d)
4. Option (a)

**Shares Outstanding Test**

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

**Resources Test**

Particulars	
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	54,000 shares

**Debt Equity Ratio Test**

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

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

$$= \left( \frac{y}{25} \times 10 \right) = x$$

$$x = ₹ 8,00,000$$

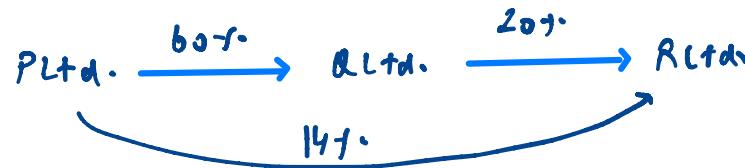
$$y = ₹ 20,00,000$$

Case Scenario 31

P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

1. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

- (a) Q Ltd.
- (b) R Ltd.
- (c) Q Ltd. and R Ltd.
- (d) Neither of Q Ltd. or R Ltd.

Answer Key:1. Option (c)

P Ltd. has 60% voting right in Q Ltd. Thus, P Ltd. controls Q Ltd.

Q Ltd. has 20% voting rights in R Ltd. Q Ltd. has significant influence over

R Ltd. P Ltd. directly enjoys voting right of 14% in R Ltd. P Ltd. and Q Ltd. together hold 34% of the shares in R Ltd. So, P Ltd. has significant influence over R Ltd.

Case Scenario 32 AS19

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.

300,000 units

$$3L + 20\% = 36000$$

$$36000 \times \frac{150000}{300000} = 18000 \text{ Total Lease Rent}$$

1. Compute Annual Lease Rent.  $= \frac{180000}{3} = 60000$

- (a) ₹ 30,000
- (b) ₹ 60,000**
- (c) ₹ 50,000
- (d) ₹ 36,000

**Answer Key:****1. Option (b)**

$$\begin{aligned} \text{Total lease rent} &= 120\% \text{ of } ₹ 3,00,000 \times \frac{\text{Output during lease period}}{\text{Total output}} \\ &= ₹ 3,60,000 \times \frac{1,50,000 \text{ units}}{3,00,000 \text{ units}} = ₹ 1,80,000 \end{aligned}$$

$$\text{Annual lease rent} = ₹ 1,80,000 / 3 = ₹ 60,000$$

Case Scenario 33

A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024.

1. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:

- (a) 1,34,500 shares
- (b) 1,65,500 shares
- (c) 1,76,167 shares
- (d) 1,23,833 shares

$$\begin{aligned}
 & (150,000 \times \frac{12}{12}) + (50,000 \times \frac{5}{12}) - (32,000 \times \frac{2}{12}) \\
 & = 150,000 + 20,833 - 5,333 = 165,500
 \end{aligned}$$

Answer Key:

1. Option (b)

$$(1,50,000 \times 7/12) + (2,00,000 \times 3/12) + (1,68,000 \times 2/12) = 1,65,500 \text{ shares}$$

**Case Scenario 34**

A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 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 ₹ 16,00,000 as a secured loan under long-term borrowings.
- (b) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.
- Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.
- (d) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

**Answer Key:**

1. Option (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 35

change in val<sup>ue</sup> policy  
AS1 & AS5

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 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 ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 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 ₹ 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 ₹ 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 ₹ 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 ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

Answer Key:1. Option (d)

The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost i.e. ₹ 8,80,000

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus A Ltd. should disclose the change in valuation method of inventory and its effect on financial statements.

Case Scenario 36 (MTP Jan 2025)

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 ₹ 10 crore
- ✓ Cost of construction incurred is ₹ 25 crores.
- The Company also incurred cost of ₹ 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 ₹ 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 ₹ 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:

1. At the end of Year 1, how the building should be classified:

- (a) Inventory
- (b) Investments
- (c) Property, Plant and Equipment
- (d) Intangible Asset

2. At the end of Year 1, at value Project should be recognised:

- (a) ₹ 40 Crore
- (b) ₹ 35 Crore
- (c) ₹ 35.10 Crore
- (d) ₹ 25 Crore

$$10 + 25 = 35 \text{ cr}$$

3. 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

4. At the end of Year 2, the Project should be valued at:

- (a) ₹ 40 Crore
- (b) ₹ 35.50 Crore
- (c) ₹ 35.10 Crore
- (d) ₹ 25 Crore

$$35 \text{ cr} + 50 \text{ lacs} = 35.50 \text{ cr}$$

Answer Key:

1. Option (a)
2. Option (b)
3. Option (c)
4. Option (b)

Case Scenario 37 (MTP Jan 2025)

Supercool Ltd. is a manufacturing company, engaged in manufacturing eco-friendly equipment. On April 1, 2023, the Company received a grant of ₹ 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 ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly.

₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine.

The Company also spent ₹ 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%.

1. The grant of ₹ 20 crores received by the Company should be presented as:
  - Grants related to Revenue
  - Grants related to Specific Fixed Assets
  - Capital Reserve
  - Other Income
2. At what value the plant and machinery acquired should be recognised as at 31st March 2024:
  - ₹ 11.10 Crore
  - ₹ 11 Crore
  - ₹ 10.54 Crore
  - ₹ 11.60 Crore

$\text{Cost} = 10\text{cr} + 1\text{cr} + 0.1\text{cr} = 11.1\text{cr}$   
 $\text{- Dep.} = 11.1\text{cr} \times 10\% \times 6/12 = \underline{\underline{0.555\text{cr}}}$   
 $\underline{\underline{10.545\text{cr}}}$
3. The revenue expenditure of ₹ 50 lacs should be recognised as:
  - Part of Plant and Machinery
  - Part of Grant
  - Revenue expenditure in the Profit and Loss
  - Deducted from loan
4. Which of the following statement is true:
  - Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.
  - Plant and Machinery belongs to Financial Institution
  - Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment
  - Plant and Machinery should not be disclosed in the financial statements of the Company at all

**Answer Key:**

1. Option (c)
2. Option (c)
3. Option (c)
4. Option (c)

Case Scenario 38 (PYQ Jan 2025)

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

	₹	₹
Cash Balance as on 01-04-2023		72,000
<b>Inflow of Cash</b>		
Cash Sales	15,56,000	
Trade Receivable	7,40,000	
Rent from Property held as <u>investment</u>	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
<b>Outflow of Cash</b>		
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 Questions

- Which of the following would be considered as a 'Cash Flow item from an Investing Activities'?
  - Trade Commission
  - Underwriting Commission
  - Purchase of Goodwill
  - Interest on Long Term Borrowings
- What would be the value of Cash Flow from Operating Activities?
  - ₹ 1,54,500
  - ₹ 1,29,500
  - ₹ 1,45,300
  - ₹ 4,04,000
- What would be the value of Cash Flow from Investing Activities?
  - ₹ 1,04,300
  - ₹ 54,300
  - ₹ 29,300
  - ₹ (500)
- What would be the value of Cash Flow from Financing Activities?
  - ₹ (1,35,600)
  - ₹ (50,000)
  - ₹ 54,300
  - ₹ (1,60,600)

Answer Key:

- Option (c)
- Option (a)
- Option (b)
- Option (d)

**Case Scenario 39 (PYQ Jan 2025)**

On 1st April, 2019, Black Limited received a government grant of ₹ 15,00,000 for acquisition of a Machine costing ₹ 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 ₹ 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 ₹ 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 ₹ 2,00,000 and new Machine valued at ₹ 18,00,000.

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

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

- (a) Loss of ₹ 1,00,000
- (b) Loss of ₹ 8,00,000
- (c) Profit of ₹ 1,00,000
- (d) Loss of ₹ 3,00,000

$$\begin{aligned} \text{CA on 1/4/24} &= 28L - (28L-0) = 2100000 \\ \text{P&M (New) DR} &= 18L \\ \text{Loss (P&L) (B/S)} &= 5L \\ \text{To Cash} &= 2L \\ \text{To P&M (Old)} &= 8L \end{aligned}$$

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

- (a) ₹ 26,00,000
- (b) ₹ 28,00,000
- (c) ₹ 41,00,000
- (d) ₹ 29,00,000

$$\begin{aligned} 1/4/19 \text{ Cost} &= 50L - 15L = 35L \\ - \text{Dep.} &= \frac{(35L - 5L)}{10} \times 2 = \underline{6L} \\ &= 29L \end{aligned}$$

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

- (a) ₹ 6,37,500
- (b) ₹ 4,87,500
- (c) ₹ 4,50,000
- (d) ₹ 5,37,500

$$\begin{aligned} \text{After Refund 1/4/21: CA} &= 29L + 15L = 44L \\ - \text{Dep. 21-22} &= \frac{44L - 5L}{8} = 487500 \end{aligned}$$

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

- (a) Impairment loss of ₹ 4,25,000 to be debited to Profit & Loss A/c.
- (b) Impairment loss of ₹ 4,00,000 to be debited to Profit & Loss A/c.
- (c) Impairment loss of ₹ 6,25,000 to be debited to Profit & Loss A/c.
- (d) Impairment loss of ₹ 15,25,000 to be debited to Profit & Loss A/c.

$$3/3/23: CA = 4400000 - (487500 \times 2) = 3425000$$

**Answer Key:**

1. None of the Option
2. Option (d)
3. Option (b)
4. Option (c)

$$\begin{aligned} RA &= \\ &= 280000 \\ &= \underline{625000} \end{aligned}$$

Imp. Loss

Case Scenario 40 (PYQ Jan 2025)

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

Deferred Tax Assets (Dr.)	₹ 1,20,000
Deferred Tax Liabilities (Cr.)	₹ 2,10,000

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

	₹	DTL
1. Depreciation as per accounting records	12,00,000	$6L \times 20\% = 120,000$
2. Depreciation as per income tax records	18,00,000	
3. Interest paid accounted in books on accrual basis but paid on 15-05-2024	4,50,000	No Diff.
4. Employer PF Contribution exp. disallowed for tax purpose in year 2022-23 but allowed in year 2023-24	82,000	$82,000 \times 20\% = 16,400$ Reversal of DTA
5. Unamortized preliminary expenses as per tax records	1,00,000	$1,00,000 \times 20\% = 20,000$
6. Donation	70,000	Permanent Diff.
7. Tax Rate	20%	DTA

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

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

- (a) Donation
- (b) Employer PF Contribution exp.
- (c) Unamortized preliminary expenses
- (d) Depreciation

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

- (a) ₹ 3,30,000
- (b) ₹ 1,52,000
- (c) ₹ 1,23,600
- (d) ₹ 4,50,000

$$120,000 + 20,000 - 16,400 = 123,600$$

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

- (a) ₹ 3,30,000
- (b) ₹ 1,23,600
- (c) ₹ 1,52,000
- (d) ₹ 1,20,000

$$210,000 + 120,000 = 330,000$$

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

- (a) ₹ 1,04,000
- (b) ₹ 20,000
- (c) ₹ 16,400
- (d) ₹ 90,000

Answer Key:

1. Option (a)
2. Option (c)
3. Option (a)
4. Option (c)

Case Scenario 41 (PYQ May 2025)

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

Contract price for 2 towers is agreed at ₹ 160 crore. (each tower has contract price of ₹ 80 crore) At the time of contract, Gray Ltd has estimated that the contract cost will be ₹ 141 crore. It is assumed that construction will be completed in 3 years.

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

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

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

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

Contract costs incurred at the end of each year is:

Year 1 : ₹ 35.25 crore.

Year 2 : ₹ 148.5 crore (including unused material of ₹ 2.25 crore)  $148.5 - 2.25 = 146.25$

Year 3 : Total Revised contract costs.

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

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%

$$1 = \frac{35.25 \text{ cr}}{150 \text{ cr}} \times 100 = 23.5\%$$

$$2 = \frac{146.25 \text{ cr}}{150 + 75} \times 100 = 65\%$$

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

- (a) ₹ 2.35 crore
- (b) ₹ 44.75 crore
- (c) ₹ 4.75 crore
- (d) ₹ 21 crore

$$\text{Revenue} = 160 \times 23.5\% = 37.60$$

$$\text{Costs} = (35.25)$$

$$\text{Profit} = \frac{2.35}{35.25}$$

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

- (a) Year 1: ₹ 80 crore, Year 2: ₹ 80 crore and Year 3: ₹ 80 crore
- (b) Year 1: ₹ 40 crore, Year 2: ₹ 116 crore and Year 3: ₹ 84 crore
- (c) Year 1: ₹ 37.60 crore, Year 2: ₹ 118.40 crore and Year 3: ₹ 84 crore
- (d) Year 1: ₹ 37.60 crore, Year 2: ₹ 120.80 crore and Year 3: ₹ 81.60 crore

Answer Key:

- 1. Option (b)
- 2. Option (a)
- 3. Option (c)

$$\text{Year 1} : 160 \times 23.5\% = 37.60 \quad \boxed{156}$$

$$\text{Year 2} : [240 \text{ cr} \times 65\%] - 37.60 = 118.40$$

$$\text{Year 3} : (240 \times 100\%) - 156 = 84$$

## Case Scenario 42 (PYQ May 2025)

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

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

On 1st April, 2023 HIL has made an investment of ₹ 200 Lakhs in the equity shares of Rose Limited of which 50% is made in the long-term category i.e. long-term investment and rest as temporary investment i.e. current investment. The realisable value of all such investments on 31st March, 2024 becomes ₹ 50 Lakhs as Rose Limited lost a copyright. From the given market conditions, it is apparent that the reduction in the value of investment is not temporary in nature. **Permanent** HIL imported medicine from Pharma Inc. for a sum of US \$ 2,50,000 on 1st January, 2024. HIL released full payment on 17th April, 2024 to Medicine Ltd. The exchange rates are as follows:

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

Gain : 250000 x 1  
= 250000

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 Questions:

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 ₹ 50 Lakhs, subsequently unrealized amount ₹ 50 lakhs will be debited to bad debts A/c.
- (b) Revenue will be recognised for ₹ 40 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c.
- (c) Revenue will be recognised for ₹ 50 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c.
- (d) Revenue will be recognised for ₹ 40 Lakhs, unrealised amount of ₹ 40 lakhs will be shown in Sundry Debtors list.

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 ₹ 50 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.
- (b) The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.

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

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

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 AS 11.

(a) ₹ 2,50,000 Exchange gain should be credited to profit and loss account.  
 (b) ₹ 5,00,000 Exchange gain should be credited to profit and loss account.  
 (c) ₹ 5,00,000 Exchange loss should be debited to profit and loss account.  
 (d) ₹ 2,50,000 Exchange loss should be debited to profit and loss account.

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

Early of  
 (a) Binding sale agreement 21/4/24  
 or  
 (b) Plan approved & announcement 10/3/24 ✓

Answer Key:

1. Option (c)  
 2. Option (c)  
 3. Option (a)  
 4. Option (d)

Case Scenario 43 (PYQ May 2025)

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

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

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

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

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

Z Ltd had 80,000 Equity stock options outstanding on the above mentioned date, to the employees @ ₹ 15 per share when the market price was ₹ 20 per share. (This was included under the head current liabilities). On 1st April, 2024, 70% of the employees exercised their options.  $80000 \times 70\% \times 20 = 56000$ . Based on the information given in the above Case Scenario, answer the following Questions: = 56000

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

(a) ₹ 280 Lakhs  
 ✓ (b) ₹ 330 Lakhs  
 (c) ₹ 250 Lakhs  
 (d) ₹ 130 Lakhs

$$\begin{array}{r}
 \text{open.} = 50 \\
 + \text{Transf.} \\
 \hline
 280 \\
 \hline
 330
 \end{array}
 \quad
 \begin{array}{r}
 \text{F.V.} \\
 200 + 80 \\
 \hline
 \text{Prej. sh.} \\
 (80 \times 10) \text{ Eg. sh.}
 \end{array}$$

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

✓ (a) ₹ 56.40 Lakhs  
 (b) ₹ 66.40 Lakhs  
 (c) ₹ 59.20 Lakhs  
 (d) ₹ 48 Lakhs

$$\begin{array}{r}
 320 + 98 - 210 - 160 + 8.40 \Rightarrow 56.40 \\
 \text{Inv.} \quad \text{Prej. sh.} \quad \text{Eg. sh.} \quad \text{options} \\
 \hline
 (80 \times 20) \quad (56000 \times 15)
 \end{array}$$

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

(a) General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 10 lakhs  
 (b) General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 10 lakhs  
 ✓ (c) General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 15.60 lakhs  
 (d) General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 15.60 lakhs

Answer Key:

✓ 1. Option (b)  
 ✓ 2. Option (a)  
 ✓ 3. Option (c)

**Case Scenario 44 (MTP May 2025)**

Digitex limited acquired an intellectual property at the cost of ₹ 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 ₹ 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:

1. At the end of year 2, what will be the value of Intangible Asset of the Company in the financial statements:

- (a) ₹ 95,00,000
- (b) ₹ 74,00,000
- (c) ₹ 56,50,000
- (d) ₹ 51,50,000

$$315000 + 50000 = 365000$$

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

- (a) ₹ 21,00,000
- (b) ₹ 22,50,000
- (c) ₹ 14,00,000
- (d) ₹ 5,00,000

$$175000 + 50000 = 225000$$

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

- (a) ₹ 37,50,000
- (b) ₹ 22,50,000
- (c) ₹ 20,00,000
- (d) None of the above

$$175000 + 25000 = 375000$$

65000

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

- (a) ₹ 19,00,000
- (b) ₹ 20,00,000
- (c) ₹ 14,00,000
- (d) Nil

$$70L \times 20\% = 140000$$

**Answer Key:**

- 1. Option (d)
- 2. Option (b)
- 3. Option (a)
- 4. Option (c)

Case Scenario 45 (MTP May 2025)

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

**Situation 2:** Further, they have accrued ₹ 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:

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

- (a) ₹ 8,50,000 (deferred tax liability)
- (b) ₹ 4,50,000 (deferred tax liability)
- (c) ₹ 8,50,000 (deferred tax asset)
- (d) ₹ 4,50,000 (deferred tax asset)

$$\Delta \text{Diff.} = 15L - 6L = 90,000$$

$$\Delta T = 9L \times 50\% = 45,000 \text{ DTL}$$

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

- (a) ₹ 3,15,000 (deferred tax asset)
- (b) ₹ 7,35,000 (deferred tax asset)
- (c) ₹ 3,15,000 (deferred tax liability)
- (d) ₹ 7,35,000 (deferred tax liability)

$$9L \times 35\% = 315,000 \text{ DTL}$$

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

- (a) ₹ 2,80,000
- (b) ₹ 5,20,000
- (c) ₹ 8,00,000
- (d) Nil

$$8L \times 35\% = 280,000 \text{ DTA}$$

Answer Key:

- 1. Option (b)
- 2. Option (c)
- 3. Option (a)

Case Scenario 46 (RTP Sep 2025)

Surat Ltd. has received a grant of ₹ 40 crore for purchase of a qualified machine costing ₹ 90 crores. The residual value is ₹ 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:

- What is the nature of Grant being received by Surat Ltd.?
  - Non-Monetary Government Grant
  - Grant related to specific fixed assets
  - Grant related to Revenue
  - Promoter's Contribution
- If Surat Ltd. has the policy to recognize 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:
 
$$\text{Dep.} = \frac{90 - 2}{20} = 4.4 \text{ cr}$$
- If Surat Ltd. has the policy to recognize the grant as deferred income, what will be the amount of grant to be recognized as other income in statement of profit and loss account every year:
 
$$\frac{40}{20} = 2 \text{ cr}$$
- If Surat Ltd. has the policy to recognize 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:
 
$$\frac{90 - 2}{20} = 4.4 \text{ cr}$$

Answer Key:

- Option (b)
- Option (c)
- Option (c)
- Option (b)

Case Scenario 47 (MTP Sep 2025)

## 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.

LT

## 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
- After year end, Mr. Lal sold the bonus shares for ₹ 110 per share.

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

$$\begin{array}{rcl}
 1000 \times 125 & = & 125000 \\
 \text{Bonus @ } 2\% & = & 2500 \\
 \text{Stamps} & = & 625 \\
 & & \hline
 & & 128125
 \end{array}
 \quad \left( 125000 \times \frac{0.50}{100} \right)$$

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

$$\begin{array}{rcl}
 \text{No.} & & \text{Cost} \\
 1000 & & 128125 \\
 \text{Bonus} & \frac{1000}{2000} & - \\
 & & \hline
 & & 128125
 \end{array}$$

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:

(a) ₹ 1,10,000  
(b) ₹ 64062.5  
 (c) ₹ 45,937.50  
(d) Nil

$$\begin{array}{rcl}
 \text{Sale} & = & 1000 \times 110 = 110000 \\
 - \text{Cost} & = & \frac{128125}{2000} \times 1000 = 64062.5 \\
 & & \hline
 \text{Profit} & & 45937.50
 \end{array}$$

Answer Key:

1. Option (a)  
 2. Option (a)  
 3. Option (a)  
 4. Option (c)

Case Scenario 48 (MTP Sep 2025)

A Company acquired an asset for ₹ 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 ₹ 30 Lakhs which includes an upward revaluation of ₹ 6 Lakhs done in the asset last year. Recoverable amount from the asset is 20 Lakhs.

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

- (a) ₹ 22,50,000
- (b) ₹ 24,00,000
- (c) ₹ 20,00,000
- (d) ₹ 18,00,000

$$\begin{aligned} \text{Existing CA} &= 30L & \text{RA} &= 20L \\ \text{Imp. Loss} &= 30L - 20L = 10L \\ \text{Revised CA} &= 30L - 10L = 20L \end{aligned}$$

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

$$\begin{aligned} 10L - 6L &= 4L \\ \text{Rev. Res.} & \quad \quad \quad \text{P&L A/c} \end{aligned}$$

3. What is the amount of depreciation to be charged to the statement of profit and loss after considering above facts:

- (a) ₹ 5 Lakhs
- (b) ₹ 8 Lakhs
- (c) ₹ 6 Lakhs
- (d) ₹ 4 Lakhs

$$\frac{20L}{4} = 5L$$

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

- (a) Nil
- (b) ₹ 10 Lakhs
- (c) ₹ 8 Lakhs
- (d) ₹ 6 Lakhs

$$6L - 6L = \text{Nil}$$

Answer Key:

- 1. Option (c)
- 2. Option (d)
- 3. Option (a)
- 4. Option (a)

Case Scenario 49 (MTP Sep 2025 & RTP Jan 2026)

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 ₹ 700 Lakhs at subsidised rates and has to pay annually an interest of ₹ 70 Lakhs. The Company has also invested unused funds and is earning an income of ₹ 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 capitalized to the project:

- (a) ₹ 70 Lakhs
- (b) ₹ 77 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 60 Lakhs

$$70L - 7L = 63L$$

Income

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

- (a) ₹ 70 Lakhs
- (b) ₹ 77 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 65 Lakhs

$$70L \quad \text{No Income}$$

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

- (a) ₹ 7 Lakhs
- (b) ₹ 6 Lakhs
- (c) ₹ 3.5 Lakhs
- (d) Nil

$$2000 \text{ km: } 8\% = 70L$$

$$100 \text{ km: } 8\% = \frac{70L}{2000} \times 100 = 3.50L$$

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

- (a) ₹ 70 Lakhs
- (b) ₹ 66.5 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 53 Lakhs

$$70L - 3.5L = 66.50 \text{ Lakhs}$$

Answer Key:

1. Option (c)
2. Option (a)
3. Option (c)
4. Option (b)

### Case Scenario 50 (MTP Sep 2025)

SBHA Ltd deals in business of manufacturing, purchase and sale of rice. The company has around 56 acres of land as part of its property, plant and equipment which is stated at cost in its financial statements. As per the new business model, 30 acres of land falls in the residential zone which the company is planning to develop residential area as a plotted development and would like to sell the plots after development.

*PPE → Inventory*

The company does not have intention of keeping the property development as a business on long-term basis, as the company does not have any objective to receive any income in the form of the capital appreciation or rent as per the proposed business plan and the company wants to sell the plots after development (irrespective of the construction of houses on land).

SBHA Ltd has two equal joint venturers holding 50% each, KSJ one of them. The other company is from outside the KSJ Group. KSJ Group has three companies (one of them is KSJ Ltd and two more companies), each of which hold some equity shares in the joint venture which aggregates 50%.

One of the KSJ Group of companies, ADK Ltd, is engaged in generation of power which is supplied to various Electricity Boards. One of the terms and conditions of the Tariff Regulatory Authority and the tariff agreement is that the income tax relating to the power generating schemes will be reimbursed by the Electricity Boards on quarterly basis before the payment of advance income tax.

RIMMI Ltd, another KSJ Group company, is into shipping business and has an annual turnover of ₹ 1,000 crores. It is required by law to bring all its vessels into dry dock every five years for major overhaul. This cost is incurred to get the vessel back to its seaworthy condition. A vessel costs ₹ 20 crores with a useful life of 20 years and it requires major overhaul every 5 years. The estimated cost of first overhaul is ₹ 5 crores.

In the previous year, RIMMI Ltd had impaired one of its Cash Generating Units (CGU) for a loss of ₹ 100 crores, with ₹ 50 crores allocated to goodwill and the balance allocated to Plant & Machinery and Technical Knowhow for a loss of ₹ 26 crores and ₹ 24 crores respectively. Recoverable amount was not measurable. Carrying amounts at the end of current year after impairment of 100 crores recorded in previous year were 427 crores and 383 crores for Plant & Machinery and Technical Knowhow respectively. Had there been no impairment in the previous year, the carrying amounts at the end of current year would have been 450 crores and 405 crores for Plant & Machinery and Technical Knowhow respectively. During the current year, the impairment test proves that the CGU is no longer impaired.

*P&M: 450 - 427 = 23 cr      Tech. knowhow: 405 - 383 = 22 cr      ↳ Maximum Reversal of Imp. loss*

1. In respect of abovementioned land in residential zone, what would be the accounting treatment under Indian GAAP?

- The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognized equivalent to its fair value. Differential will be taken to profit or loss on conversion.
- The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognized equivalent to carrying amount of reclassified property, plant and equipment. Differential will be taken to profit or loss on conversion.
- The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognized at the same amount.
- The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognized at the same amount.

*Inventory To PPE*

2. In the above mentioned situation, how would SBHA Ltd be accounted for by joint venturers as per Accounting Standards notified under the Companies (Accounting Standards) Rules?

- Joint venture will be proportionately consolidated by KSJ Ltd only and other venturer outside KSJ Group.
- Joint venture will be proportionately consolidated only by venturer outside KSJ Group.
- Joint venture will be proportionately consolidated by all the three companies of KSJ Group only, to the extent of their own holding.
- Joint venture will be proportionately consolidated by all the three companies of KSJ Group, to the extent of their own holding and other venturer outside KSJ Group (assuming each one has individual control)

3. How should the above mentioned transaction in relation to ADK Ltd be accounted for as per Accounting Standards notified under the Companies (Accounting Standards) Rules?

- Reimbursement should be recorded as revenue.
- Reimbursement should be taken to other income.
- Reimbursement should be netted from income tax provision.
- Reimbursement can be netted from appropriate expense head like rates & taxes.

4. What should be the accounting treatment in the statement of profit and loss of RIMMI Ltd in year 1 in respect of property, plant and equipment?

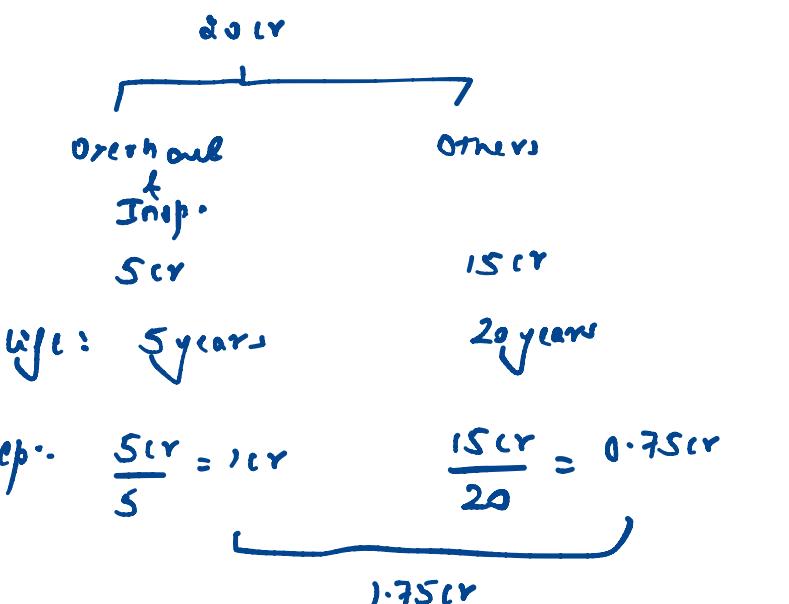
- Overhauling costs of 5 crores and depreciation of 1 crore would be charged to the statement of profit and loss in year 1.
- Depreciation of 2 crores would be charged to the statement of profit and loss in year 1.
- Overhauling costs of 5 crores and depreciation of 75 lakhs would be charged to the statement of profit and loss in year 1.
- Depreciation of 1.75 crores would be charged to the statement of profit and loss in year 1.

5. What should be the accounting treatment in the books of RIMMI Ltd in respect of impairment of CGU?

- No adjustment would be required.
- Reversal of impairment loss should be taken to P&L amounting to 100 crores.
- Reversal of impairment loss should be taken to P&L amounting to 45 crores. (23+12)
- Reversal of impairment loss should be taken to P&L amounting to 50 crores.

### Answer Key:

- Option (c)
- Option (d)
- Option (a)
- Option (d)
- Option (c)



Case Scenario 51 (MTP Sep 2025)

Asteria Ltd., a listed company with equity share capital of 6,000 lakh and free reserves of 10,000 lakh as per the latest audited balance sheet, proposes to buy back 20% of its equity capital at 40 per share. The Articles of Association authorize buy-back. The Board passed a resolution in March 2025 to proceed. To fund this, the company decided to sell investments worth ₹ 5,000 lakh, which have a book value of 6,000 lakh. It has existing borrowings of 9,500 lakh.

The company has not made any default in repayment of term loans, debentures, or dividend payments and has filed all statutory returns under Sections 92, 123, 127, and 129 of the Companies Act, 2013. It had completed its previous buy-back in October 2024.

The Board now seeks to implement the buy-back by July 2025.

1. Can Asteria Ltd. proceed with the buy-back based solely on the Board Resolution?
  - Yes, because Board Resolution is always sufficient
  - No, it must always be by special resolution in general meeting.
  - No, because 20% buy-back exceeds the 10% limit allowed for Board Resolution alone.
  - Yes, because the Articles authorize it and 20% is within the 25% limit.
2. What is the maximum permissible buy-back limit for Asteria Ltd. under the Resource Test as per Section?
  - ₹ 4,000 lakh  $(6000 + 1000) \times 25\% = 4000$  Lakh
  - ₹ 5,000 lakh
  - ₹ 6,500 lakh
  - ₹ 9,000 lakh
3. After completing the proposed buy-back, will Asteria Ltd. satisfy the Debt-Equity Ratio condition under Section?
  - Yes, because total debt is within 2:1 ratio post buy-back
  - No, because the loss on investment increases the debt
  - No, because buy-back reduces reserves, tightening equity base
  - Yes, because CRR creation boosts equity buffer

$$\text{Debt} = 9500$$

Answer Key:

- Option (c)
- Option (a)
- Option (a)

Equity

$$\begin{aligned} \text{Sh. cap.} &= 6000 - 1200 = 4800 \\ \text{Free Res:} &= 10000 - 3600 - 1200 = 4200 \\ &\quad \text{Pmt. on BB} \quad \text{CRR} \quad \underline{\underline{9000}} \\ &\quad - 1000 \quad \text{w/ off} \\ &\quad \text{loss on sale} \end{aligned}$$

$$\begin{aligned} \frac{\text{Debt}}{\text{Equity}} &= \frac{9500}{9000} = 1.055 \end{aligned}$$

Case Scenario 52 (PYQ Sep 2025)

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

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

Based on the information given in above Case Scenario, answer the following Questions as per AS 17 'Segment Reporting':

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

- (a) P, Q, S & T
- (b) P, Q & T
- (c) P & T
- (d) P & Q

P	Q	R	S	T	U	Total
76	99	16	15	80	14	300

$\geq 30$  ✓ ✓ ✗ ✗ ✗ ✗  $\downarrow$   $\boxed{30}$

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

- (a) P, Q, S & T
- (b) P, Q & T
- (c) P & T
- (d) P & Q

$$\begin{aligned} \text{Total Profit} &= 50 & \text{Loss} &= 4 & \text{Higher} &= 50 \\ \text{P} \times \text{T} & & & & 10:1 \rightarrow \boxed{5} \end{aligned}$$

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

- (a) P, Q, S & T
- (b) P, Q & T
- (c) P & T
- (d) P & Q

$$10:1 \rightarrow \geq 35$$

$\downarrow$   
 $\boxed{\text{P} \times \text{Q}}$

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

- (a) P, Q, S & T
- (b) P, Q & T
- (c) P & T
- (d) P & Q

$$\begin{aligned} \text{P, Q} \times \text{T} & & \text{External sales} &= 230 \\ & & \text{Total} &= 250 \\ \frac{230}{250} \times 100 &= 92\% \end{aligned}$$

Answer Key:

- ✓ 1. Option (b)
- ✓ 2. Option (c)
- ✓ 3. Option (d)
- ✓ 4. Option (b)

Case Scenario 53 (PYQ Sep 2025)

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

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

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

AS12

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

AS12

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

AS26

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

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

1. What is the amount of net borrowing cost to be capitalised? (AS16)

- (a) ₹ 5,50,000
- (b) ₹ 3,30,000
- (c) ₹ 1,65,000
- (d) ₹ 2,75,000

Const. of Factory Building QA      Purchase of Machi : Non DA  

$$550000 \times \frac{30L}{50L} = 330000$$

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

- (a) ₹ 15 lakhs
- (b) ₹ 22.5 lakhs
- (c) ₹ 7.5 lakhs
- (d) ₹ 30 lakhs

Bank 40L  
 To DGA 40L  
 ↘ DGA 30L  
 To Bank 30L

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

- (i) It is not considered as a deferred income. ✓
- (ii) It is not distributable as a dividend. ✓
- (iii) It is treated as a capital reserve. ✓
- (iv) It is not distributable as a dividend but considered as deferred income. ✗

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

- (a) (i), (ii) and (iii)
- (b) (iii) and (iv) ✗
- (c) (ii) and (iii) ✗
- (d) (i) and (ii) ✗

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

- (a) ₹ 18 lakhs is treated as an intangible asset and amortised equally over 5 years. ✗
- (b) ₹ 18 lakhs is treated as an intangible asset and amortised equally over 10 years. ✗
- (c) ₹ 18 lakhs is treated as goodwill and appears as an asset in the Balance Sheet. ✗
- (d) ₹ 18 lakhs is charged as an expense in the Statement of Profit and Loss.

**Answer Key:**

- ✓ 1. Option (b)
- ✓ 2. Option (d)
- ✓ 3. Option (a)
- ✓ 4. Option (d)

Case Scenario 54 (PYQ Sep 2025)

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

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

Shares of Test  

$$= 45000 \times 25 = 11250$$

Resource Test  

$$\text{PCL} + \text{FR} = 45 + 74 + 30 + 25 = 174 \text{ Lakhs}$$
  

$$25\% = 43.5 \text{ Lakhs}$$
  

$$\text{No.} = \frac{43.5}{300} = 14500$$

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

*BB = 250 + 25  
= 300*  
 The current market value of the company's shares is ₹ 250 per share and to induce the existing shareholders to offer their shares for buy-back, it is decided to offer a price 20% over the market value.

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

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

(a) 11,250 Shares  
 (b) 14,500 Shares  
✓ (c) Nil Shares  
 (d) 6,000 Shares

Debt Equity Ratio Test  $\text{Debt} = 350$

$$\text{Minimum Equity after BB} = \frac{350}{2} = 175$$

$$\text{Present Equity} = 174$$

$$\text{No.} = \text{NIL}$$

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

(a) 11,250 Shares  
 (b) 14,500 Shares  
 (c) Nil Shares  
✓ (d) 6,000 Shares

Debt Equity Ratio Test  $\text{Debt} = 300$

$$\text{Minimum Equity after BB} = \frac{300}{2} = 150 \quad \text{Present Eq.} = 174$$

$$\text{No. of shares} = \frac{174 - 150}{300 + 100} = \frac{24 \text{ Lakhs}}{400} = 6000 \text{ sh.}$$

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

(a) 11,250 Shares  
 (b) 14,500 Shares  
 (c) Nil Shares  
✓ (d) 6,000 Shares

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

(a) ₹ 33,75,000  
 (b) ₹ 30,50,000  
 (c) ₹ 45,00,000  
✓ (d) ₹ 39,00,000

$$\text{ESC} = 4500000 - (6000 \times 100)$$

$$= 3900000$$

Answer Key:

✓ 1. Option (c)  
✓ 2. Option (d)  
✓ 3. Option (d)  
✓ 4. Option (d)