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CA INTER – ADVANCED ACCOUNTS ADDITIONAL QUESTIONS – FOR PRACTICE

(RTP MTP & PYQ of May'25 Sep'25 and Jan'26 – Not Covered in Main Question Bank)

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PREPARATION OF FINANCIAL STATEMENTS

Question 1 (Exam Sep'25)

On 31st March 2025, the following balances are extracted from the books of Chia Limited:

Particulars	₹ in Lakhs
40,000 Equity Shares of ₹ 100 each	40.00
Money received against share warrants	2.70
General Reserves	6.90
Capital Reserves (₹ 20,000 is Revaluation Reserve)	12.50
Profit and Loss account	3.50
Securities Premium	0.75
Deferred tax liabilities (Net)	0.56
10% Debentures (secured)	5.00
Loan from SSA Finance Corporation	10.00
Other Long-Term Loans (unsecured)	4.25
Short term borrowings	6.95
Trade Payables	5.69
Other current liabilities	1.41
Short-term provisions	1.36
Total:	**101.57**

Particulars	Amount (₹)
Freehold Land	30.88
Plant & Machinery	26.80
Investment in Debentures of Glad Limited	6.00
Capital work in progress	11.40
Trade receivables	11.57
Inventories (finished goods) (as on 31st March 2025)	4.67
Goods-in-transit (finished goods) (as on 31st March 2025)	1.35
Call in arrears	0.64
Cash in hand	0.56
Balances with banks	7.70
Total	**101.57**

The following additional information is also provided:

(i) The Authorised Share Capital consists of 50,000 Equity Shares of ₹ 100 each.

(ii) 5,000 fully paid equity shares were allotted as consideration other than cash.

(iii) Debentures of Glad Limited are acquired by the Company with the intention of holding them for more than two years.

(iv) The Cost of Plant and Machinery is ₹ 41,00,000.

(v) The balance in loan from SSA Finance Corporation includes ₹ 45,000 for interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery. Loan is repayable in June 2028.

(vi) Short-term borrowings include:
Loan from CDC Bank (secured) ₹ 4,50,000

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Loan from related parties (unsecured) ₹ 54,000

(vii) Trade Receivables of ₹ 5,26,000 are due for more than 6 months.

(viii) Bills Receivable for ₹ 58,000 maturing on 6th May 2025, have been discounted on 15th March 2025.

(ix) The Company on the advice of an independent value revalued the freehold land at ₹ 40,50,000.

(x) Inventory of finished goods includes loose tools costing ₹ 1,02,000 which do not meet the definition of Property, Plant & Equipment as per AS 10.

(xi) Claims against the Company amounting to ₹ 4,15,000 have not been acknowledged as debt.

(xii) Balances with banks include ₹ 24,000 with Vihar Bank, which is not a Scheduled Bank.

You are required to prepare the Balance Sheet of Chia Limited as on 31st March 2025 as per Schedule III of the Companies Act, 2013 (Ignore previous year figures).

SOLUTION

Chia Ltd.
Balance Sheet as at 31st March, 2025

		Particulars	Notes	₹ in lakhs
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	39.36
	b	Reserves and Surplus	2	33.27
	c	Money received against share warrant		2.7
2		Non-current liabilities		
	a	Long-term borrowings	3	18.8
	b	Deferred tax liabilities (Net)		0.56
3		Current liabilities		
	a	Short-term borrowings	4	6.95
	b	Trade Payables		5.69
	c	Other Current Liabilities:	5	1.86
	d	Short-term provisions		1.36
		Total		**110.55**
		Assets		
1		Non-current assets		
	a (i)	Property, Plant and Equipment	6	67.3
	(ii)	Capital work in progress		11.4
	b	Non-current investments	7	6
2		Current assets		
	a	Inventories	8	6.02
	b	Trade receivables	9	11.57
	c	Cash and cash equivalents	10	8.26
		Total		**110.55**

Notes to accounts

			₹ in lakhs
1	**Share Capital**		
	Authorized share capital		
	50,000 Equity Shares of ₹ 100 each		50.00
	Equity share capital		
	Issued & subscribed & called up		
	40,000 Equity Shares of ₹ 100 each (Out of the above 5,000 shares have been issued for consideration other than cash)	40.00	
	Less: Calls in arrears	(0.64)	39.36
	Total		**39.36**
2	**Reserves and Surplus**		
	General Reserve		6.90
	Securities premium		0.75
	Capital reserve		12.3
	Revaluation (0.20+ 9.62)		9.82
	Profit & Loss		3.50
	Total		**33.27**
3	**Long-term borrowings**		
	Secured		
	10% debentures		5.00
	Loan from SSA Financial Corporation (10.00-0.45) (Secured by hypothecation of Plant and Machinery)		9.55
	Unsecured Loan-others		4.25
	Total		**18.80**
4	**Short term Borrowings**		
	Secured-Loans CDC bank		4.50
	Unsecured		
	Loan from related parties		
	Others		2.45
	Total		**6.95**
5	**Other current liabilities:**		
	Interest accrued but not due		
	Others		1.86
6	**Property, plant and equipment**		
	Freehold Land		
	Add: Revaluation gain		40.50
	Plant & Machinery		
	Less: Depreciation		26.80

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	Total		**67.30**
7	**Non-current investment**		
	Investment in debentures of Glad Ltd.		6.00
8	**Inventories**		
	Loose tools		1.02
	Goods in transit		1.35
	Finished goods		3.65
	Total		**6.02**
9	**Trade receivables**		
	Debts Outstanding for a period exceeding six months		5.26
	Other Amounts		6.31
	Total		**11.57**
10	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks		
	with others		7.70
	Cash in hand		0.56
	Other bank balances		
	Total		**8.26**

Contingent Liabilities

1. Claims against the company of ₹ 4,15,000 have not been acknowledged as debt.
2. Bills receivable for ₹ 58,000 maturing on 6th May 2025 have been discounted. (Not matured)

Question 2 (Exam Sep'25) (Jammu & Punjab)

The following is the Trial Balance of Radiant Limited as on 31 March, 2025:

Particulars	**Dr. (₹/lakhs)**	**Particulars**	**Cr. (₹/lakhs)**
Land at Cost	440	Equity Share Capital (Shares of ₹ 10 each)	600
Cash in hand	15		
Plant & Machinery at Cost	1,540	10% Debentures of ₹ 100 each	400
Trade Receivables	200	General Reserve	260
Inventories (31.3.2005)	172	Profit & Loss A/c (Balance on 01-04-2024)	
Cash at Bank	27		144
Adjusted Purchases	640	Securities Premium Reserve	80
Salary and Wages	120	Sales	1,400
Administration Expenses	60	Trade Payables	100
Selling Expenses	54	Provision for Depreciation	344
Interim Dividend Paid	42	Miscellaneous Receipts A/c	8
Interest on Debentures (Paid up to 31st December 2024)	30	Provision for Doubtful Debts (1.4.2024)	4
Total	**3,340**	**Total**	**3,340**

Additional Information:

(i) Closing Stock is more than Opening Stock by ₹ 55 lakhs..

(ii) The Company declared a final dividend of 10% on 5th April, 2025.

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(iii) Miscellaneous Receipts A/c of 8 lakhs represents amount received from the sale of an item of Machinery on 1" April, 2024. Cost of the Machinery was 20 lakhs and the Accumulated Depreciation thereon being 16 lakhs. The balance of Plant and Machinery given in the Trial Balance is before adjustment of sale of machinery.

(iv) Provision for Doubtful Debts is to be made at 5% on Trade Receivables.

(v) Depreciation is to be provided on Plant & Machinery at 10% on cost.

(vi) Provision for Income tax is required to be made @25%.

You are required to prepare the Statement of Profit and Loss for the year ended 31 March, 2025 of Radiant Limited as per Schedule III of the Companies Act, 2013.

SOLUTION

"Suggested Answer not yet released by ICAI"

Question 3 (Exam Jan'26)

The following figures have been extracted from the financial statements of MC Limited for the year ended 31st March, 2025:

Particulars	Amount (Rs.)
Issued, Subscribed and Paid – up Share Capital	
8,00,000 Equity Shares of Rs. 5/- each	
1,25,000 8% Preference Shares of Rs. 10/- each	
Reserves and Surplus	
Securities Premium Reserve	5,00,000
Capital Reserve	3,00,000
Capital Redemption Reserve	2,50,000
General Reserve	11,75,000
Net Profit for the year ended 31st March, 2025	2,25,000

The company has an impeccable record of paying dividend to its shareholders since 2019-20 and has declared equity dividend as under:

Year	2019-20	2020-21	2021-22	2022-23	2023-24
Equity Dividend paid	10%	11%	12%	13%	14%

Constrained by inadequate profits during 2024-25, the management of the company proposes to declare a dividend of 12.5% out of its reserves.

You are required to ascertain the amount that can be utilized by the company out of its reserves in accordance with the Companies (Declaration of dividend out of Reserves) Rules, 2014.

SOLUTION

"Suggested Answer not yet released by ICAI"

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CASH FLOW STATEMENT (AS 3)

Question 1 (Exam May'25)

The Balance sheet of Moon Ltd. as on 31st March 2025 and 2024 were given as:

Particulars	Notes	31st March, 2025	31st March, 2024
		₹	₹
Equity and Liabilities			
1. Shareholder Funds			
(a) Share Capital	1	8,00,000	6,00,00
(b) Reserves and Surplus	2	80,000	50,000
2. Non-Current Liability			
(a) Deferred Tax Liability		6,000	-
3. Current liabilities			
(a) Trade payable		40,000	25,000
(b) Short term provisions (Provision for tax)		15,000	10,000
Total		**9,41,000**	**6,85,000**
Assets			
1. Non-Current Assets			
(a) Property Plant and Equipment	3	3,95,000	2,90,000
2. Current Assets			
(a) Trade Receivable		20,000	10,000
(b) Inventories		2,50,000	2,00,000
(c) Cash and cash equivalent		2,76,000	1,85,000
Total		9,41,000	6,85,000

Notes to Accounts

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

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

(i) Profit before tax is ₹ 45,000

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

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

Prepare a cash Flow Statement for the ended 31st March, 2025.

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Answer

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

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	45,000	
Adjustments for:		
Depreciation	35,000	
Profit on Sale of Furniture & Fixtures	(8,000)	
Operating profit before working capital changes	72,000	
Increase in Trade receivables	(10,000)	
Increase in inventories	(50,000)	
Increase in Trade payables	15,000	
Cash generated from operation	27,000	
Income taxes paid (W.N.1)	(4,000)	
Net Cash generated from operating activities		23,000
Cash flows from investing activities		
Sale of Furniture & Fixtures	17,000	
Purchase of Furniture & Fixtures (W.N.2)	(1,49,000)	
Net cash used in investing activities		(1,32,000)
Cash flows from financing activities		
Issue of shares for cash	2,00,000	
Net cash generated from financing activities		2,00,000
Net decrease in cash and cash equivalents		91,000
Cash and cash equivalents at beginning of period (31.3.2024)		1,85,000
Cash and cash equivalents at end of period (31.3.2025)		2,76,000

Working Notes:

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

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AMALGAMATION OF COMPANIES (AS 14)

Question 1 (MTP May'25)

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2025 are as under:

Particulars	A Ltd.	B Ltd.
Equity shares of ₹ 10 each, fully paid up	1,80,00,000	1,44,00,000
Share Premium Account	24,00,000	-
General Reserve	37,20,000	30,00,000
Profit and Loss Account	21,60,000	19,20,000
Retirement Gratuity Fund Account	6,00,000	-
10% Debentures	1,20,00,000	-
Unsecured Loan	36,00,000	49,20,000
(Including loan from A Ltd.)		
Trade Payables	6,00,000	20,40,000
Total	**4,30,80,000**	**2,62,80,000**
Land and Buildings	1,68,00,000	1,26,00,000
Plant and Machinery	1,20,00,000	45,60,000
Long term advance to B Ltd.	13,20,000	-
Inventories	62,40,000	42,00,000
Trade Receivables	49,20,000	31,20,000
Cash and Bank	18,00,000	18,00,000
Total	**4,30,80,000**	**2,62,80,000**

B. Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

1. The authorized share capital of Z Ltd. is ₹ 360 lakhs divided into 18 lakhs equity shares of ₹ 10 each.
2. As per Registered Valuer the value of equity shares of A Ltd. is ₹ 108 per share and of B Ltd. is ₹ 72 per share respectively and agreed by respective shareholders of the companies.
3. 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
4. A contingent liability of A Ltd. of ₹ 12,00,000 is to be treated as actual liability
5. Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 3,00,000 and B Ltd. ₹ 1,80,000 respectively to be borne by Z Ltd.
6. The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid-up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

   Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

SOLUTION:

Journal Entries in the books of Z Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
1)	Business Purchase A/c	Dr.	3,24,00,000	
	To Liquidator of A Ltd. A/c			3,24,00,000
2)	Land and Building A/c	Dr.	1,68,00,000	
	Plant and Machinery A/c	Dr.	1,20,00,000	

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	Long term advance to B Ltd. A/c	Dr.	13,20,000	
	Inventories A/c	Dr.	62,40,000	
	Trade Receivables A/c	Dr.	49,20,000	
	Cash and Bank A/c	Dr.	18,00,000	
	Goodwill A/c	Dr.	73,20,000	
	To Retirement Gratuity Fund A/c			6,00,000
	To 10% Debentures A/c			1,20,00,000
	To Unsecured Loan A/c			36,00,000
	To Trade Payables A/c			6,00,000
	To Other Liabilities A/c			12,00,000
	To Business Purchase A/c			3,24,00,000
3)	10% Debenture A/c	Dr.	1,20,00,000	
	To 12% Debentures A/c			1,20,00,000
4)	Liquidator of A Ltd. A/c	Dr.	3,24,00,000	
	To Equity Share Capital A/c			1,62,00,000
	To Securities Premium A/c			1,62,00,000
5)	Business Purchase A/c	Dr.	1,72,80,000	
	To Liquidator of B Ltd. A/c			1,72,80,000
6)	Land and Building A/c	Dr.	1,26,00,000	
	Plant and Machinery A/c	Dr.	45,60,000	
	Inventories A/c	Dr.	42,00,000	
	Trade Receivables A/c	Dr.	31,20,000	
	Cash and Bank (less dividend) A/c	Dr.	3,60,000	
	To Unsecured Loan A/c			49,20,000
	To Trade Payables A/c			20,40,000
	To Business Purchase A/c			1,72,80,000
	To Capital Reserve. A/c			6,00,000
7)	Liquidators of B Ltd. A/c	Dr.	1,72,80,000	
	To Equity Share Capital A/c			86,40,000
	To Securities Premium A/c			86,40,000
8)	Unsecured Loans A/c	Dr.	13,20,000	
	To Long term Advance to B Ltd. A/c			13,20,000
9)	Capital Reserve A/c	Dr.	6,00,000	
	To Cash & Bank A/c (Liquidation Exp.)			4,80,000
	To Goodwill A/c			1,20,000

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

	Particulars	Notes	Amounts (₹)
I]	Equity and liabilities		
(1)	Shareholder's funds		
(a)	Share Capital	1	2,48,40,000
(b)	Reserves and Surplus	2	2,48,40,000
(2)	Non-Current liabilities		

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	(a)	Long-term borrowings	3	1,20,00,000
	(b)	Long-term provisions	4	6,00,000
(3)		Current liabilities		
	(a)	Short-term borrowings1	5	72,00,000
	(b)	Trade Payables	6	26,40,000
	(c)	Other liability		12,00,000
		Total		**7,33,20,000**
II]		Assets		
(1)		Non-Current assets	7	4,59,60,000
	(a)	Property, Plant and Equipment		
	(b)	Intangible Assets (73,20,000 – 1,20,000)		72,00,000
(2)		Current Assets		
	(a)	Inventories	8	1,04,40,000
	(b)	Trade receivables	9	80,40,000
	(c)	Cash and Cash Equivalents	10	16,80,000
		Total		**7,33,20,000**

Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.

Notes to Accounts:

	Particulars	₹	₹
1.	Share Capital		
	Authorized Share Capital		
	36,00,000 Equity shares of ₹ 10 each		3,60,00,000
	Issued, Subscribed & Paid up		
	24,84,000 Equity Shares of ₹ 10 each		2,48,40,000
	(all these shares were issued for consideration other than cash)		
2.	Reserves and Surplus		
	- Securities Premium Account (24,84,000 shares × ₹ 10)		2,48,40,000
3.	Long-term borrowings		
	12% Debentures		1,20,00,000
4.	Long Term Provisions		
	Retirement gratuity fund		6,00,000
5.	Short term borrowings		
	Unsecured loans		
	A Ltd.		36,00,000
	B Ltd.		49,20,000
	Less: Mutual		(13,20,000)
			72,00,000
6.	Trade payables		

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	A Ltd.		6,00,000
	B Ltd.		20,40,000
			26,40,000
7.	Property, Plant and Equipment		
	Land and Building		
	A Ltd.	1,68,00,000	
	B Ltd.	1,26,00,000	2,94,00,000
	Plant and Machinery		
	A Ltd.	1,20,00,000	
	B Ltd.	45,60,000	1,65,60,000
			4,59,60,000
8.	Inventories		
	A Ltd.		62,40,000
	B Ltd.		42,00,000
			1,04,40,000
9.	Trade receivables		
	A Ltd.		49,20,000
	B Ltd.		31,20,000
			80,40,000
10.	Cash and cash equivalents		
	A Ltd.	18,00,000	
	B Ltd. [18,00,000 – 14,40,000 (dividend)]	3,60,000	
		21,60,000	
	Less: Liquidation Expenses	(4,80,000)	16,80,000

Working Note 1

Calculation of amount of Purchase Consideration

Particulars	A Ltd.	B Ltd.
Existing shares	18,00,000	14,40,000
Agreed value per share	₹ 108	₹ 72
Purchase consideration₹	3,24,00,000	1,72,80,000
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	16,20,000	8,64,000
Face value of shares at ₹ 10	1,62,00,000	86,40,000
Premium of shares at ₹ 10	1,62,00,000	86,40,000

Question 2 (Exam May'25)

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

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders Funds		
	A	Share Capital	1	11,00,000

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

Notes to Accounts

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

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

- Foods Ltd. to take over all assets (except cash) and liabilities at their book values.
- Part of the Furniture and Fixtures is disposed off by Pickles Ltd. for ₹ 55,000 at cost
- The retirement of employees was due on 31/03/2025. A portion of ₹ 35,000 from Retirement Gratuity Fund was earmarked towards the payment due to them.
- Foods Ltd. decided to pay for each Preference share in Pickles Ltd., ₹ 27 in cash and one 8% Preference share of ₹ 100 in Foods Ltd.
- For each Equity share in Pickles Ltd., it was decided to pay ₹ 30 in cash and one Equity

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share of Foods Ltd. for ₹ 145. (Face value of each share of Foods Ltd. is ₹ 100)

- Liquidation expenses of ₹ 22,500 paid by Pickles Ltd. were subsequently reimbursed by Foods Ltd.
- The fixed assets of Pickles Ltd were not revalued for the purpose of amalgamation.

You are required to pass the necessary journal entries and also prepare Realisation Account and cash account in the books of Pickles Ltd.

Answer

Journal Entries in the books of Pickles Ltd.

		Debit (₹)	Credit (₹)
Realisation A/c	Dr.	16,50,000	
To Land & Building A/c			3,50,000
To Plant & Machinery A/c			3,00,000
To Furniture & Fixtures A/c			1,00,000
To Patent A/c			75,000
To Inventories A/c			5,25,000
To Trade Receivables A/c (Being assets transferred to Realisation A/c)			3,00,000
8% Debentures A/c	Dr.	1,00,000	
Trade Payables A/c	Dr.	1,75,000	
Other Current Liabilities A/c	Dr.	65,000	
Retirement Gratuity Fund A/c	Dr.	35,000	
To Realisation A/c (being liabilities transferred to Realisation A/c)			3,75,000
Cash A/c	Dr.	55,000	
To Realisation A/c (being part of furniture sold)			55,000
Foods Ltd. A/c	Dr.	16,85,000	
To Realisation A/c (being purchase consideration receivable)			16,85,000
Cash A/c	Dr.	3,15,000	
Equity Shares in Foods Ltd A/c	Dr.	8,70,000	
Preference Shares in Foods Ltd A/c	Dr.	5,00,00	
To Foods Ltd. A/c (Being consideration received)			16,85,000
6% Preference Share Capital A/c	Dr.	5,00,000	
Realization A/c	Dr.	1,35,000	
To Preference Shareholders A/c (Being amount due to preference shareholders for capital and extra amount payable under the scheme of acquisition)			6,35,000
Preference Shareholders A/c	Dr.	6,35,000	
To Cash A/c			1,35,000
To Pref. Shares in Foods Ltd A/c (Being payment made to preference shareholders)			5,00,000
Equity Share Capital A/c	Dr.	6,00,000	
General Reserve A/c	Dr.	1,00,000	
Profit & Loss A/c	Dr.	1,10,000	

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Retirement Gratuity fund	Dr.	25,000	
To Equity Shareholders A/c (being various accounts representing capital, reserve, profit and loss account and others transferred to equity shareholder account)			8,35,000
Equity Shareholders A/c		11,65,000	
To Cash A/c			2,95,000
To Equity Shares in Foods Ltd. A/c (Being payment made to equity shareholders)			8,70,000
Foods Ltd A/c	Dr.	22,500	
To Cash A/c (being liquidation expenses paid)			22,500
Cash A/c	Dr.	22,500	
To Foods Ltd A/c (Being reimbursement by Foods Ltd.)			22,500
Realisation A/c	Dr.	3,30,000	
To Equity Shareholders A/c (Being Profit on realization is transferred to equity shareholders)			3,30,000

Realisation Account
(Journal Entries)

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

Cash Account

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

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Working Notes:

1. Purchase Consideration

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

Question 3 (Exam Sep'25)

The following are the summarized Balance Sheet of Blue Limited and Yellow Limited as at 31st March 2025:

Particulars	Blue Limited (₹ in Lakhs)	Yellow Limited (₹ in Lakhs)
Equity and liabilities		
Equity Shares of ₹ 100 each	40.000	28.000
10% Debentures of ₹ 100 each	15.000	-
8% Debentures of ₹ 100 each	-	8.000
General Reserves	1.500	0.670
Retirement Gratuity Fund (Long term)	3.450	1.300
Trade Payables	7.400	4.250
Other current liabilities	1.240	0.880
Short -term provisions	0.710	0.320
Total	69.300	43.420
Assets		
Goodwill	8.750	1.795
Property, Plant and Equipment	35.650	31.260
Inventories	8.890	4.800
Trade Receivables	13.535	4.650
Cash in hand	0.485	0.315
Balances with banks	1.990	0.600
Total	69.300	43.420

On 31st March 2025, Blue Limited absorbs the business of Yellow Limited on the following terms:

(i) 8% Debenture holders of Yellow Limited are to be paid at 10% discount by issue of 10% Debentures at par in Blue Limited.

(ii) There is an unrecorded current asset of ₹ 1,16,000 in the books of Yellow Limited, which is taken over by Blue Limited.

(iii) Trade payables of Yellow Limited included ₹ 1,50,000 payable to Blue Limited.

(iv) Inventory of Yellow Limited is taken over by Blue Limited at 10% more than its book value.

(v) Goodwill of Yellow Limited on absorption is to be computed based on two times of simple average profits of preceding three financial years (2021-2022: ₹ 4,50,000; 2022-2023: ₹ 3,90,000; and 2023-2024: ₹ 2,35,000).

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In the year 2022-2023, there was an embezzlement of cash by an employee amounting to ₹ 50,000, which has already been adjusted in the profit for the year 2022-2023.

(vi) Property, Plant and Equipment of Yellow Limited are taken over by Blue Limited at ₹ 36,44,500.

(vii) Remaining Assets and Liabilities of Yellow Limited are taken over by Blue Limited at their book value.

(viii) Equity Shareholders of Yellow Limited will be issued necessary equity shares in Blue Limited at 5% premium.

You are required to:

(i) Calculate the Purchase consideration.

(ii) Prepare Balance Sheet of Blue Limited after absorption as at 31st March 2025.

Answer

(i) Calculation of Purchase Consideration

	₹ in Lakhs
Goodwill	7.500
PPE	36.445
Inventory	5.280
Trade receivables	4.650
Cash in hand	0.315
Cash at Bank	0.600
Unrecorded assets	1.160
(i)	55.950
Less: Liabilities:	
10% debentures	7.200
Retirement Gratuity Fund	1.300
Trade payables	4.250
Other current liabilities	0.880
Short term provisions	0.320
(ii)	13.950
Net Assets/ Purchase Consideration	42.000
To be satisfied as under:	
Equity Shareholders of Yellow Ltd. to be satisfied by issue of 40,000 (42 lakhs/105) Equity Shares of Blue Ltd. at 5% Premium (40,000 x 105)	

Balance Sheet of Blue Ltd (after absorption) as on 31/03/2025

		Particulars	**Notes**	**₹ in lakhs**
		Equity & Liabilities		
1		Shareholders' Fund		
	a	Share Capital	1	80.000
	b	Reserves & Surplus	2	3.500
2		Non -Current Liabilities		

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	a	Long-term Borrowings	3	22.200
	b	Long-term Provisions	4	4.750
3		Current Liabilities		
	a	Trade Payables	5	10.150
	b	Other current liability	6	2.120
	c	Short term provisions	7	1.030
		Total		123.750
		Assets		
1		Non-current assets		
	a	Property, Plant & Equipment	8	72.095
	b	Intangible assets	9	16.250
2		Current assets		
	a	Inventories	10	14.170
	b	Trade receivables	11	16.685
	c	Cash and cash equivalents	12	3.390
	d	Other current assets	13	1.160
		Total		**123.750**

Notes to Accounts

	Particulars	₹ in lakhs
1	Share Capital	
	Authorised share capital	
	Issued, Subscribed & Paid up	
	80,000 Equity Shares of ₹100 each	80.000
	(out of the above 40,000 shares have been issued for consideration other than cash)	
	Total	**80.000**
2	Reserves & Surplus	
	Securities Premium	2.000
	General Reserve	1.500
	Total	**3.500**
3	Long Term Borrowings	
	10% Debentures of ₹ 100 (15.000 + 7.200)	22.200
4	Long Term Provisions	
	Retirement Gratuity Fund (3.450 +1.300)	4.750
5	Trade Payables (7.400 + 4.250 -1.500)	
		10.150
6	Other Current Liabilities (1.240 + 0.880)	2.120
7	Short term provisions (0.710 + 0.320)	1.030
8	Property, Plant and Equipment	
	PPE (35.650+36.445)	72.095
9	Intangible Assets	

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	Goodwill	(8.750+7.500)	16.250
10	Inventories		
		(8.890 + 5.280)	14.170
11	Trade Receivables (13.530 + 4.650 – 1.500)		16.685
12	Cash & Cash equivalent		
	Cash in hand	(0.485+0.315)	0.800
	Balance with banks	(1.990+0.600)	2.590
13	Other Current Assets		3.390
			1.160

Working notes

1. Calculation of goodwill

Particulars		**₹ In lakhs**
Total profit		
Year:		
2021-22		4.50
2022-23 (3.90+0.50)		4.40
2023-24		2.35
	(i)	11.25
Average profit (i/3)	(ii)	3.75
No of years of purchase	(iii)	2 years
Goodwill (ii*iii)		7.5

Question 4 (Exam Jan'26)

The following are the summarized Balance Sheets of B Ltd. and G Ltd. as on 31st March, 2025:

		Particulars	**Notes**	**B Ltd. (Rs.)**	**G Ltd. (Rs.)**
		Equity and Liabilities			
1.		**Shareholders' Funds**			
	a.	Shares Capital	1	46,30,000	14,20,000
	b.	Reserves and Surplus	2	17,50,000	-6,45,000
2.		**Non-current Liabilities**			
	a.	Long-term Borrowings	3	19,40,000	5,75,500
3.		**Current Liabilities**			
	a.	Trade Payables		14,72,000	2,64,000
	b.	Short- term Borrowings		-	1,89,500
		Total		**97,92,000**	**18,01,000**
		Assets			
1.		**Non-Current Assets**			
	a.	Property, Plant and Equipment		63,00,000	14,53,000
	b.	Non-current Investments		23,50,000	-
2.		**Current Assets**			
	a.	Inventories		43,000	1,16,000
	b.	Trade Receivables		7,90,000	2,32,000
	c.	Cash and Cash Equivalents		3,09,000	-
		Total		**97,92,000**	**18,01,000**

Notes to Accounts

		B Ltd. (Rs.)	G Ltd. (Rs.)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid-up capital		
	Equity Shares of Rs. 100 each	36,50,000	11,50,000
	Preference Share Capital		
	Issued, subscribed & paid-up capital		
	9% Preference Shares of Rs. 100 each	9,80,000	
	10% Preference Shares of Rs. 100 each		2,70,000
2.	Reserves and Surplus		
	Balance of Profit and Loss A/c	17,50,000	-6,45,000
3.	Long – term Borrowings		
	9% Debentures of Rs. 100 each	10,90,000	-
	10% Debentures of Rs. 100 each	-	1,80,000
	Loan from Banks	8,50,000	3,92,500

Details of Trade Receivables and Trade Payables are as under:

		B Ltd. (Rs.)	G Ltd. (Rs.)
1.	Trade Receivables		
	Debtors	7,30,000	1,75,000
	Bills Receivables	60,000	57,000
2.	Trade Payables		
	Creditors	13,85,000	2,25,000
	Bills Payables	87,000	39,000
		14,72,000	2,64,000

On 31.03.2025, B Ltd. absorbs the business of G Ltd. on the following terms:

(i) For every equity share held by the equity shareholders of G Ltd., they receive Rs. 10 in cash and one equity shares of Rs. 100 each at par in B Ltd.

(ii) The 10% debenture-holders of G Ltd. were to be allotted such 9% debentures of Rs. 100 each in B Ltd. as would bring the same amount of interest.

(iii) 10% Preference Shareholders of G Ltd. are to be paid at 15% premium by issue of 9% Preference Shares of Rs. 100 each in B Ltd., in such a way that the existing dividend quantum of the preference shareholders of G Limited will not get affected.

(iv) A contingent liability of G Limited amounting to 72,000 to be treated as actual liability in trade payables.

(v) Expenses of Liquidation of G Ltd. are to be reimbursed by B Ltd. ₹ 10,000.

(vi) Inventory of G Ltd. is taken over at 10% more than their book value by B Ltd.

(vii) Debtors of B Ltd. include Rs. 51,400 receivables from G Ltd.

(viii) Property, Plant and Equipment of G Ltd. are revalued at 20% above their book value.

(ix) The remaining Assets and Liabilities of G Ltd. are taken over at book value by B Ltd.

You are required to:

(a) Pass the Journal Entries to record the above in the books of B Ltd.

(b) Prepare Balance Sheet of B Ltd. as at 31 March, 2025 after absorption

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SOLUTION

"Suggested Answer not yet released by ICAI"

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CONSOLIDATED FINANCIAL STATEMENT (AS 21)

Question 1 (Exam May'25)

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

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

You are required to calculate:
The capital reserve / goodwill at the date of acquisition
The calculations are to be made under the following assumptions:
Case (i) It is assumed that the dividend is paid out of post-acquisition profits.
Case (ii) It is assumed that the dividend is received for per-acquisition period.

SOLUTION

Calculation of capital reserve / goodwill at the date of acquisition

Case (i) it is assumed Dividend is paid out of Post – acquisition Profits
Total dividend paid is ₹ 25,000 hence dividend received by Rubber will be credited to P & L.
Rubber Ltd.'s share of dividend = ₹ 25,000 x 70% = ₹ 17,500.

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

Case (ii) it is assumed Dividend is received out of pre-acquisition profits.
Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

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

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Question 2 (Exam Jan'26)

Prepare a consolidated balance sheet of MN Ltd. and its subsidiary RP Ltd. as on 31st March, 2025:

Balance Sheets as on 31st March, 2025

	Note No.	MN Ltd. (Rs. in Lakh)	RP Ltd. (Rs. in Lakh)
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	7,000	4,000
(b) Reserve and Surplus	2	4,000	3,500
(2) Non-current Liabilities			
(a) Long Term Borrowings		1,800	1,400
(3) Current Liabilities			
(a) Trade Payable		2,280	1,600
Total		**15,080**	**10,500**
II. Assets			
(1) Non-current Assets			
(a) Property, Plant and Equipment	3	6,800	5,500
(b) Non-current Investments	4	3,280	-
(2) Current Assets			
(a) Inventory		2,200	1,500
(b) Trade Receivables		1,800	1,200
(c) Cash and Bank		1,000	2,300
		15,080	**10,500**

Notes to Accounts:

		MN Ltd. (Rs. in Lakh)	RP Ltd. (Rs. in Lakh)
1.	**Share Capital**		
	Issued and Subscribed:		
	Equity shares of 10 each, fully paid up	7,000	4,000
2.	**Reserve and Surplus**		
	General Reserve	2,600	2,000
	Profit and Loss Account	1,400	1,500
	Total	**4,000**	**3,500**
3.	**Property, Plant and Equipment**		
	Land and Building	4,000	3,500
	Plant and Machinery	2,800	2,000
	Total	**6,800**	**5,500**
4.	**Non-current Investment**		
	Shares in RP Ltd.	3,000	-
	Debentures in RP Ltd.	280	-
	Total	**3,280**	**-**
5.	**Trade Receivable**		
	Debtors	1,200	900
	Bills Receivable	600	300
	Total	**1,800**	**1,200**

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Additional Information:

1. MN Ltd. acquired 75% shares in RP Ltd. on 1 April, 2024, On the date of acquisition:
   General Reserve of RP Ltd. 1,600 lakh
   Profit & Loss Account of RP Ltd. 1,200 lakh
2. On 1 April, 2024, RP Ltd. declared dividend @12% for the year ended 31 March, 2024. MN Ltd. credited the dividend received to its Profit & Loss Account.
3. RP Ltd. sold goods worth 160 lakh to MN Ltd, during the year and makes a profit of 40 lakh. MN Ltd.'s inventory includes goods worth 80 lakh that remained unsold as on 31 March, 2025.
4. MN Ltd. holds 280 lakh of RP Ltd.'s debentures, which are included in RP Ltd.'s long-term borrowings.

<u>SOLUTION</u>

"Suggested Answer not yet released by ICAI"

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ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

Question 1 (Exam Jan'26)

Mr. GOKU, with its head office at Ahmedabad, has a branch at Nagpur. 6 Goods are invoiced to the branch at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid directly from head office and the branch has to remit all the cash received into head office's bank account at Ahmedabad.

The following information pertaining to your ended 31 March, 2025, in respect of the Nagpur Branch is made available to you:

Particulars	Rs.
Goods sent to branch (at Invoice Price)	67,50,000
Goods returned by the branch during the year (at Invoice Price)	2,40,000
Cash sales effected by the branch	18,50,000
Discount allowed to customers	25,000
Amount received from branch debtors	32,50,000
Cheques of customers returned unpaid by the bank	80,000
Branch expenses met in cash	7,25,000
Sales return at Nagpur branch	1,00,000
Bad debts	55,000

	31st March, 2025	31st March, 2024
Branch debtors	10,50,000	5,00,000
Stock at branch (at Invoice Price)	23,60,000	15,00,000

Applying the Stock and Debtors System, you are required to prepare the following Ledger Accounts in the books of Head Office for the year ended 31st March, 2025:

(i) Nagpur Branch Stock A/c;
(ii) Nagpur Branch Debtors A/c;
(iii) Nagpur Branch Adjustment A/c; and
(iv) Nagpur Branch Profit and Loss A/c.

Solution –

"Suggested Answer not yet released by ICAI"

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INTERNAL RECONSTRUCTION

Question 1 (Exam Sep'25) (Jammu & Punjab)

Following is the Balance Sheet of Ellora Limited as at 31st March, 2025:

Particulars	Note	Amount (₹)
Equity and Liabilities		
Shareholders Funds		
Share Capital	1	46,00,000
Reserves and Surplus	2	(21,40,000)
Non-current Liabilities		
Long Term borrowings	3	15,00,000
Current Liabilities		
Trade Payables		12,00,000
Short Term Borrowings- Bank Overdraft		7,80,000
Other Current Liabilities	4	4,90,000
Short Term Provisions- Provision for Taxation		4,00,000
Total		**68,30,000**
Assets		
Non-current Assets		
Property, Plant and Equipment	5	23,00,000
Intangible Assets	6	6,70,000
Non-current Investments	7	2,20,000
Current Assets		
Inventories		17,00,000
Trade Receivables		19,40,000
Total		**68,30,000**

Notes to Accounts

	Particulars	Amount (₹)
1	**Share Capital**	
	Equity Share Capital	
	3,00,000 Equity Shares of ₹ 10/- each, fully paid up	30,00,000
	Preference Share Capital	
	16,000 6% Cumulative Preference Shares of ₹ 100/- each, fully paid up	16,00,000
	Total	46,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and Loss Account	(21,40,000)
3	**Long Term Borrowings**	
	Secured	
	6% Debentures(secured on the freehold property)	15,00,000
4	**Other Current Liabilities**	
	Loan from Directors	4,00,000
	Interest Payable on Debentures	90,000
	Total	**4,90,000**
5	**Property, Plant and Equipment**	
	Freehold Property	17,00,000
	Plant and Machinery	6,00,000

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	Total	**23,00,000**
6	**Intangible Assets**	
	Goodwill	5,20,000
	Patents and Trademarks	1,50,000
	Total	**6,70,000**
7	**Non-current Investments**	
	Investments in Marketable Securities - valued at Cost (Market Value 5,40,000/-)	2,20,000

Due to continued losses and liquidity constraints, it was decided to reconstruct the company. The following scheme of internal reconstruction was approved by the shareholders and sanctioned by the Tribunal:

1. The Equity Shares shall be written down to Rs. 2/- each and the Preference Shares shall be written down to ₹ 75/-each.
2. Of the Preference Shares' Dividends which are in arrears for four years, the Preference Shareholders have agreed to forego their claim for arrears of dividends for three years and accept allotment of Equity Shares of 2/-each towards dividend for the fourth year.
3. Interest payable on Debentures is paid in cash.
4. The Debenture holders have agreed to take over freehold property, book value 4,00,000/- at a valuation of 4,80,000/- in part repayment of their holdings. Besides they have agreed to provide additional funds of 5,20,000/- secured by a floating charge on the company's assets at an interest rate of 9%.
5. Inventory is to be written down by ₹ 2,60,000/-
6. Provision for bad and doubtful debts is to be created for 2,74,000/-
7. Intangible Assets and Debit balance of Profit and Loss Account are to be written off.
8. The remaining freehold property after giving to Debenture holders is to be revalued at 15,50,000/-
9. The Non-current Investments are sold off for ₹ 5,60,000/-
10. A contingent liability of ₹ 1,00,000/- is payable, which has arisen due to the wrong action of one of the Directors. He has agreed to compensate this loss out of the loan given by him to the company. For the remaining loan of 3,00,000/-, the Directors have agreed to accept a cash payment of 20,000/- and allotment of 1,30,000 Equity Shares of 2/- each in full settlement.
11. There is a capital commitment of 10,00,000/-, The contract is cancelled on payment of 5% of the contract price as a penalty.
12. The company issued 2,00,000 new Equity shares of ₹ 2/- each at par, payable in full on allotment. The issue was underwritten for a commission of 5%. Shares were fully taken up.
13. The taxation liability of the company is settled at 3,00,000/- and the same is paid immediately.
14. The expenses of reconstruction amounted to 15,000/-.

<u>You are required to:</u>

(a) Pass the Journal Entries to record the above transactions (including cash transactions) in the books of the company.

(b) Prepare Capital Reduction Account.

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SOLUTION

"Suggested Answer not yet released by ICAI"

Question 2 (Exam Jan'26)

The business of MA Limited was being carried on continuously at losses. The following are the extracts from the balance sheet of the company as on 31st March, 2025:

Particulars	Amount (Rs.)
Assets:	
Property, Plant & Equipment	6,50,000
Investments	2,55,000
Stock	5,10,000
Trade Receivables	3,40,000
Cash & Cash Equivalents	70,000
Profit and Loss A/c (debit balance)	3,25,000
Total	**21,50,000**
Equity and Liabilities:	
10,000 Equity Shares @ Rs. 100 each	10,00,000
40,000 8% Cumulative Preference Shares @ Rs. 10 each (dividends on cumulative preference shares are in arrears for 3 years)	40,00,000
10% Debentures	2,00,000
Unsecured Loans (from directors)	80,000
Trade Payables	4,10,000
Outstanding interest on debentures	60,000
Total	**21,50,000**

The following scheme of reconstruction has been agreed upon and duly approved by court:

(2) Equity shares to be converted into 20,000 shares of 50 each (fully paid up)

(3) After sub-division, each shareholder shall surrender to the company 60% of their holdings.

(4) Preference shareholders agree to forego their right to arrears of dividends in consideration of which 8% Preference shares are to be converted into 9% Preference shares.

(5) Trade Payables agree to reduce their claim by 60% in consideration of their getting shares of 1,50,000 out of surrendered equity shares.

(6) The total claims of debentures holders were reduced to 40% and in consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of the surrendered shares.

(7) Assets are valued at:
Fixed assets Rs. 4,40,000
Investments Rs. 2,00,000
Trade Receivables Rs. 2,50,000
Stock Rs. 4,50,000

(8) Expenses of reconstruction amounted to 10,000.

(9) Directors agree 1 agree to forego the amount due on account of unsecured loan.

(10) Balance of profit and loss account to be written off.

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(11) Further 8,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

(12) The shares surrendered and not re-issued shall be cancelled.

You are required to:

(a) Show the journal entries to record the above transaction in the company's books and prepare Reconstruction A/c.

(b) Show revised share capital structure of the Company in Notes to Accounts.

SOLUTION

"Suggested Answer not yet released by ICAI"

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ACCOUNTING STANDARD – 10
PROPERTY, PLANT & EQUIPMENT

Question 1 (RTP Sep'25)

Precision Tools Ltd. provides the following details related to its fixed assets for the year ended 31st March 2025:

The company purchased a machine for ₹ 12,00,000 on 1st October 2024. The following expenses were also incurred:

Freight and insurance: ₹ 60,000 Erection charges: ₹ 40,000

Testing Cost: Raw materials used ₹ 25,000, Wages ₹10,000, Sale of finished goods from testing production ₹ 8,000.

On 1st December 2024, it replaced the motor of an old machine with a new one costing ₹1,20,000, improving the output capacity by 15%. The old motor had a Cost of ₹50,000 and Accumulated Depreciation of ₹ 35,000.

On 15th March 2025, the company shifted a machine from one factory to another. It incurred the following:

Dismantling cost: ₹12,000

Transport and installation: ₹18,000

Loss due to damage in transit: ₹6,000

You are required to calculate the amount to be capitalized for each of the above cases as per AS 10.

SOLUTION

As per AS 10, Property, Plant and Equipment, the cost of an item of PPE includes:

(a) Purchase price including import duties and non-refundable taxes,

(b) Directly attributable costs to bring the asset to working condition (e.g., transport, installation, trial run),

(c) Any trial run net costs (i.e., cost – recoverable proceeds).

Particulars	Amount (₹)
Purchase Price	12,00,000
Freight & Insurance	60,000
Erection Charges	40,000
Net Cost of Testing (25,000 + 10,000 – 8,000)	27,000
Cost of Machinery	13,27,000

Recognition of Motors Replacement

Particulars	₹
Cost of Motors	50,000
Less: Depreciation	35,000
Carrying Amount of Motors	**15,000**

Accounting: The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 15,000. Further, the acquisition cost of new motors of ₹ 1,20,000 would be capitalized as a separate component.

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Costs of relocating or reorganising part or all of the operations of an enterprise are not included in the carrying amount of an item of PPE. Hence Costs of relocation of ₹ 36,000 (12,000 +18,000 +6,000) of PPE are not capitalized. Thus, entire expense to be charged off to Profit and Loss A/c.

Thus, total capitalization (net off derecognition) = 14,32,000 (13,27,2000 +1,20,000-15,000).

Question 2 (Exam Sep'25) (Jammu & Punjab)

On 1st April, 2024, Y Limited purchased an industrial plot of land for ₹ 50,00,000 for the purpose of constructing a new factory. This cost of ₹ 50,00,000 included legal cost of ₹ 2,50,000 incurred for the purpose of acquisition of this plot. The construction of the factory commenced on 1st May, 2024. Y Limited provides you with the following details of the costs incurred in relation to the above construction:

Particulars	**Amount (₹)**
Preparation and levelling of the land	1,60,000
Employment costs of construction workers (per month)	58,000
Purchase of Raw materials for the construction	42,48,000
Cost of relocating the workers to new factory for work	75,000
Costs of inaugural function of the new factory on 1st January, 2025	95,000
Overhead costs incurred directly on the construction of the factory (per month)	50,000

The construction of the factory was completed on 31st December, 2024 and production could commence on 1st February, 2025. 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 would need to be replaced 20 years after the date of completion. 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 ₹ 56,00,000 raised from State Bank of India on 1st April, 2024 at an interest rate of 9% per annum. During the period when the loan proceeds had been fully utilized to finance the construction, Y Limited earned an income of ₹ 50,000 from the temporary investment of the proceeds.

Assume that all of the net finance cost needs to be allocated to the cost of factory (excluding land) and interest cost to be capitalized based on nine months' period.

You are required to compute the carrying amount (i.e. value after charging depreciation) of the Factory in the books of Y Limited as at 31st March, 2025 as per the provisions of the relevant Accounting Standard.

Solution – **"Suggested Answer not yet released by ICAI"**

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ACCOUNTING STANDARD – 16
BORROWING COSTS

Question 1 (RTP Sep'25)

Is it permissible to capitalise borrowing costs incurred on assets which are necessary for the construction of qualifying assets? A company is in the process of constructing a large manufacturing plant in a backward area. As a part of this project it has also purchased a residential building, which is to be used for housing the workers engaged in the construction of the plant. The purchase cost of the building is met by raising a long term loan. The company intends to dispose off the building once the construction of the manufacturing plant is complete. If the manufacturing plant meets the definition of a qualifying asset, would the borrowing costs incurred on funds borrowed to purchase the residential building be eligible for capitalisation?

SOLUTION

As per para 3 of AS 16 "Borrowing Costs" a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, para 5 of the AS explains that "Assets that are ready for their intended use or sale when acquired also are not qualifying assets".

In the given case, prima facie, it may appear that the residential building is ready for use when acquired, and thus, borrowing costs incurred on purchase ofresidential building should not be capitalised. However, since in the present case provision of housing facilities is necessary for the construction of the plant, the borrowing costs incurred are, in substance, directly attributable to the construction of the manufacturing plant. Accordingly, the company should capitalise, as a part of the cost of the manufacturing plant, borrowing costs incurred on funds borrowed to acquire the residential building upto the period the manufacturing plant is ready for its intended use.

Question 2 (RTP Jan'26)

Can interest be included in the cost of inventories?

SOLUTION

Paragraph 6 of AS 16 states that "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". Paragraph 3 of AS
16 defines a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, "inventories that require a substantial period of time to bring them to a saleable condition" are specifically included as an example of qualifying assets (paragraph 5).

In this context, it may be noted that ICAI has issued Accounting Standards Interpretation (ASI) 1, 'Substantial Period of Time', paragraphs 5 and 8 of which state as below:

"5. In case of inventories, substantial period of time is considered to be involved where time is the major factor in bringing about a change in the condition of inventories. For example, liquor is often required to be kept in store for more than twelve months for maturing."

"8. Paragraph 5 of AS 16 provides, inter alia, that "inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets." Paragraph 12 of Accounting Standard (AS) 2, Valuation of Inventories, provides that "Interest and other borrowing costs are usually considered as not relating to bringing the • inventories to their present location and condition and are, therefore, usually not included in the

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cost of inventories". It is only in exceptional cases, where time is a major factor in bringing about change in the condition of inventories that borrowing costs are included in the valuation of inventories."

Thus, interest costs should be included in the cost of inventories, which meet the definition of qualifying assets, in accordance with the provisions of AS 16.

Question 3 (MTP Jan'26)

On 1st April, 2024, A Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2024 were as follows:

Amount of Loan	Rate of Interest per annum
₹ 20,00,000	15%
₹ 30,00,000	8%

The construction of building started on 1stApril, 2024 and was completed on 31st January, 2025 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	Amount in ₹
1st Apirl,2024	4,00,000
1st August,2024	10,00,000
1st December,2024	25,00,000
31st January,2025	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to:

(i) Calculate the amount of borrowing cost to be capitalized.

(ii) Pass initial journal entry to recognise the cost of building (assume that interest amount will be paid at the year end).

(iii) Depreciation on building for the year ending 31st March, 2025.

(iv) Carrying value of building as on 31st March, 2025.

Solution

(i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1st April 2024	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1st August 2024	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1st December 2024	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31st January 2025	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil

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Less: interest income on borrowing	1,85,000 (15,000)
Total amount borrowing cost to be capitalized	**1,70,000**

2. Journal Entry

Date	Particulars	₹	₹
31.1.2025	Building account Dr.	45,70,000	
	To Bank account To Interest payable		44,00,000
	(borrowing cost)		1,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

3. Depreciation on building for the year ending 31.3.2025

Cost of building 45,70,000
Life of building = 20 years
Depreciation = (45,70,000/20) x 2/12 = 38,083.33

4. Carrying Value of Building on 31st March 2025:

Carrying Value = Cost of Building - Accumulated Depreciation
= 45,70,000- 38,083.33
= 45,31,917

Working Notes:

1. Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
20,00,000	15%	=	3,00,000
30,00,000	8%	=	2,40,000
50,00,000			5,40,000
Weighted average rate of Interest (5,40,000/50,00,000 x 100)		=	**10.8%***

2. Total expenses to be capitalized for building

	₹
Cost of building ₹ (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000)	44,00,000
Add: Amount of interest to be capitalized	1,70,000
	45,70,000

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ACCOUNTING STANDARD - 19
LEASES

Question 1 (RTP Sep'25)

On 1st April, 2024, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31st March, 2025.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

SOLUTION

Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is ₹ 8,53,600 [₹ 1,60,000 x 5.335 (Annuity factor of ₹ 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 6,72,800 (Sale value ₹ 8,52,800 less carrying amount ₹ 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of ₹ 1,06,600 per annum for 8 years (₹ 8,52,800/8) and amortise profit of ₹ 6,72,800 over the lease term of 8 years, i.e. ₹ 84,100 p.a.

The net effect is a debit of (₹ 1,06,600-84,100) ₹ 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

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ACCOUNTING STANDARD - 28
IMPAIRMENT OF ASSETS

Question 1 (Exam May'25)

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

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

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

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

Solution

Statement showing impairment Loss

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

Question 2 (Exam Sep'25)

Grace Limited acquired business (cash-generating units) of Venus Limited on 31st March 2023 for ₹ 8,00,000 Lakhs. The details of acquisition are as under:

Fair value of identifiable asset:	₹ 6000 Lakhs
Goodwill (to be amortized in 5 years):	₹ 2000 Lakhs

The anticipated useful life of acquired assets is 8 years with no residual value.

Grace Limited uses a straight-line method of depreciation. On 31st March 2025, Grace Limited estimated a significant decline in production due to change in government policies, the net selling price of identifiable asset is ₹ 3,000 Lakhs.

Grace Limited closes its books on 31st March of each year.

The cash flow forecast based on recent financial budget for next 6 years are:

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Year	Estimated cash flow (₹ in Lakhs)
2025-2026	1,000
2026-2027	800
2027-2028	700
2028-2029	800
2029-2030	600
2030-2031	500

You are required to calculate:

(i) Value in use if discounting rate is 10% on 31st March 2025.

(ii) Impairment loss to be recognized for the year ended 31st March 2025.

(iii) Revised carrying amount of asset on 31st March 2025.

(P.V. factor @ 10% 0.909, 0.826, 0.751, 0.683, 0.621, 0.564)

Solution

Calculation of Value in Use (VIU) as at 31-03-2025

Year	Cash flow (₹ in lakhs)	PV factor @10%	PV (₹ in lakhs)
2025-26	1,000	0.909	909.00
2026-27	800	0.826	660.80
2027-28	700	0.751	525.70
2028-29	800	0.683	546.40
2029-30	600	0.621	372.60
2030-31	500	0.564	282.00
Total VIU			3,296.50

Value in Use (rounded) = ₹ 3,297 lakhs

(ii) Impairment loss to be recognised for the year ended 31st March, 2025 Impairment loss required = Carrying amount – Recoverable amount

= ₹ 5,700 – ₹ 3,297 = 2,403 lakhs.

(iii) Revised carrying amount of identifiable asset

= ₹ 4,500 – ₹1,203

= ₹ 3,297 lakhs

Calculation of Impairment Loss and revised carrying amount

	Goodwill	Identifiable Assets	CGU Total
Acquisition cost on 31st March'2023	2,000 800	6,000 1500	
Less: Amortization- (Cost/5)*2 / Depreciation (Cost/8)*2 for 2 years	1,200	4,500	5,700 3,297
Recoverable Amount (See Note below)	1,200	1,203	2,403
Impairment Loss to be recognised	0	3,297	
Allocation of impairment loss (See Note)			
Carrying amount after impairment			

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Note:

1. **Recoverable amount and impairment test**
   - Fair value less costs to sell for the identifiable asset given = ₹ 3,000 lakhs. (Note: fair value less costs to sell of whole CGU not provided; value in use of CGU computed above.)
   - Recoverable amount of the CGU = higher of Value in Use (3,297) and Fair value less costs to sell (use value for comparison). → Recoverable amount = ₹ 3,297 lakhs (since 3,297 > 3,000).
   - Carrying amount (pre-impairment) = 5,700 lakhs.
   - Impairment loss required = Carrying amount − Recoverable amount = 5,700 − 3,297 = 2,403 lakhs.
2. **Allocation of impairment loss**
   As per AS 28 impairment loss for a cash-generating unit is allocated first to reduce goodwill carrying amount to zero, and then to other assets of the unit pro-rata (or as required) so that carrying amount after allocation equals recoverable amount

Question 3 (RTP Jan'26)

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

Solution:

Treatment of Impairment Loss

As per para 57 of AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

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

Working Note:

Calculation of carrying amount of the fixed asset at the end of the fourth year on revaluation

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

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ACCOUNTING STANDARD - 5 "NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGE IN ACCOUNTING"

Question 1 (Exam Sep'25)

Sneha, an employee of Omre Limited, went on maternity leave with pay for 9 months from 1st January 2024 to 30th September 2024. Her monthly pay was ₹ 1,50,000.

While preparing the financial statements for the year ended 31st March 2024, the salary of Sneha for 3 months (1st January 2024 to 31st March 2024) was not provided due to omission. When Sneha joined on 1st October 2024, the whole salary for 9 months (1st January 2024 to 30th September 2024) was paid to her.

With reference to AS-5 'Net Profit or Loss for the period, Prior Period Items and Change in Accounting Policies', you are required to determine if this is an example of prior period item and are also required to pass journal entry for the same for the F.Y. 2024-2025.

Suppose Sneha was terminated from service on 1st January 2024 and was re-instated in service by the Court on 30th September 2024, and on 1st October 2024, the Company paid the 9 months salary to Sneha. What will be the treatment with reference to AS-5 in this situation? Give journal entry.

ANSWER:

As per AS- 5 "Net Profit or Loss for the Period", Prior Period Items and Changes in Accounting Policies, the term 'prior period items', refers to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss so that their impact on the current profit or loss can be perceived.

Hence, in this case salary paid to Sneha for 3 months i.e. 1.1.2024 to 31.3.2024 ₹4,50,000 (1,50,000 x 3) will be classified as prior period item in FY 2024 -25 and following journal entry shall be passed:

(i) Journal entry in FY 2024-25

Salary A/c (₹ 1,50,000 x 6)	Dr.	9,00,000	
Prior period item (₹ 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			13,50,000
(Being salary related to 9 months paid out of which 3 month's salary is prior period item)			

Alternative Entry

Prior Period Item (₹ 1,50,000 x 3)	Dr.	4,50,000	
To Bank A/c			4,50,000
(Being Salary related to 3 month's salary is prior period item)			

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Salary A/c (₹1,50,000 x 6) To Bank A/c (Being salary related to 6 month's salary)	Dr.	9,00,000	 9,00,000

(ii) AS 5 inter alia states that the term 'prior period items' does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Accordingly, in the second case though Sneha was terminated on 1.1.2024 i.e. in 2023- 2024, yet she was reinstated due to court's order in 2024 -2025, with the instruction by the court to pay the salary for the intervening period i.e. with retrospective effect from January, 2024.

The adjustment of salary of ₹ 4,50,000 (for January 2024 to March, 2024) would not be considered as prior period item and will be accounted for in the books as current year expense.

Thus, the entire amount of Salary of ₹ 13,50,000 for January, 2024 to September, 2024 is a current year expense only.

Salary A/c (1,50,000 x 9) To Bank A/c (Being 9 month's salary paid during the year)	Dr.	13,50,000	 13,50,000

Question 2 (RTP Jan'26)

Best Ltd. is engaged in the business of providing consultancy services. A few days back, it received a notice from GST department raising the demand of GST on consultancy services provided by it for ₹ 2,50,000.

Recently Best Ltd. paid the demand. In the books, the payment is recorded as an extraordinary expenditure.

Whether payment of tax demand raised by the taxation authority can be recognised as an extraordinary item?

ANSWER:

No, payment of tax cannot be recognised as an extraordinary item.

As per AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", extraordinary items are income or expenses that arise from events or transactions which are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

In the instant case, providing consultancy services is the ordinary business activity of Best Ltd. The GST liability arises from these ordinary transactions. Payment of GST pursuant to a demand by the taxation authority is part of the normal business operations of the company.

Therefore, recording the payment of GST as an extraordinary expenditure is not correct. Such payments are ordinary expenses and should be recognised as part of the profit or loss from ordinary activities, and cannot be treated as an extraordinary item. Recognising such payments as an extra-ordinary item is contrary to AS 5.

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ACCOUNTING STANDARD – 9
REVENUE RECOGNITION

Question 1 (RTP Jan'26)

Class Ltd. is a well-established real-estate developer and builder engaged in residential and commercial projects. In the financial year 2025, the company purchased a unit of land situated in a prime location for ₹ 225 crore, intending to develop a high-end residential complex. Within a few months of acquisition, due to a strategic decision to reallocate resources to another project and take advantage of favorable market conditions, Class Ltd. sold the land at a price of ₹ 360 crore. The company maintained proper books of accounts, and all legal formalities for the transfer were duly completed.

Advise Class Ltd. on the recognition of revenue from this transaction in the final statement of accounts for the year ended 31st March, 2025.

Solution

AS 9 on 'Revenue Recognition' states that revenue is recognised when it is earned and there is reasonable certainty of its collection, arising from the ordinary activities of an enterprise.

In this case, Class Ltd. is in the business of buying and selling properties. **The land purchased and sold forms part of its inventory**. **The sale of land at ₹ 360 crore is a transaction arising from ordinary activities of the company. Therefore, the revenue is recognised when the sale is completed and collection is reasonably certain.**

In the light of AS 5, this transaction will **not be treated as an extraordinary item**, because it arises from the ordinary course of business. However, if the amount is of such size, nature, or incidence that its disclosure is relevant to explain the performance of the enterprise, the nature and amount of such items should be disclosed separately.

Hence, ₹ 360 crore realised from the sale of land shall be recognised as revenue in the year in which the sale is completed.

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ACCOUNTING STANDARD – 12
ACCOUNTING FOR GOVERNMENT GRANTS

Question 1 (RTP Jan'26)

Mediwell Hospitals Ltd., a reputed healthcare company operating a chain of multi-specialty hospitals across India, had acquired 40 units of Doppler Scan Machines from Holiver Inc., USA, at a cost of US$ 1,65,100 per unit at the beginning of the financial year 2022–23. The prevailing exchange rate at that time was ₹ 50 per US$.

The acquisition was partly financed through a government grant amounting to ₹ 5 crores, which was sanctioned specifically for the purchase of these machines under a healthcare modernization scheme. The grant was sanctioned with a specific condition that, in the event of a change in management or ownership control of the company, the grant must be refunded to the government.

In April 2025, 51% of the company's shareholding was acquired by an overseas investor, thereby resulting in a change in management control. Consequently, the company became liable to refund the entire government grant.

The expected useful life of each Doppler scan machine is 5 years, and the company follows a Straight Line Method (SLM) of depreciation at 20% per annum. Additionally, Mediwell Hospitals Ltd. incurred the following directly attributable costs:

- Bank charges: US$ 4,000 (for the import transaction as a whole)
- Sea freight: ₹ 7,500 per unit

You are further informed that the company has not maintained any Capital Reserve or Deferred Income Account in respect of the government grant received.

You are required to advise the accounting treatment in the books of Mediwell Hospitals Ltd. as a result of the return of the government grant, in the light of the relevant provisions of Accounting Standard (AS) 12 – Accounting for Government Grants.

Solution:

The grant is received towards fixed asset. Capital approach is adopted.

Particulars	₹ in lakhs
Cost of asset (Doppler machines) (1,65,100*40 @ 50)	3,302
Add: Freight and other charges (4,000 @ 50+7,500 x 40)	5
	3,307
Less: Grants received	(500)
Cost as per AS-10	2,807
Less: Depreciation for 3 years(2,807 * 20% * 3)	(1684.2)
Carrying amount as on 1/4/2025	1,123
Add: Grant refunded	500
Revised carrying amount	1,623

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ACCOUNTING STANDARD - 15
EMPLOYEE BENEFITS

Question 1 (MTP Jan'26)

Mr. Suresh is working for Raina Ltd. Consider the following particulars:

Particulars	Year 2023-2024	Year 2024-2025
Annual salary	₹ 30,00,000	₹ 30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave carried forward to next year	3 days	Nil

Based on past experience, Raina Ltd. assumes that Mr. Suresh will avail the unutilized leaves of 3 days of 2023-2024 in 2024-2025. Raina Ltd. contends that it will record ₹ 30,00,000 as employee benefits expense in each of the years 2023-2024 and 2024- 2025, stating that the leaves will, in any case, be utilized by 2024-2025.

Comment on the accounting treatment proposed to be followed by Raina Ltd. Also pass journal entries for both the years.

Solution

The expenditure to be recognized will be as under:

	Particulars	Year 2023-2024	Year 2024-2025
(i)	Annual salary (A)	₹ 30,00,000	₹ 30,00,000
(ii)	No. of working days (B)	300 days	300 days
(iii)	Salary cost per day (A/B)	₹ 10,000/day	₹ 10,000/day
(iv)	Leaves C/f / (Utilized)	3 days	(3 Days)
(v)	Expense to be recognized [i + (iii × iv)]	30,30,000	29,70,000

Journal entries

Particulars		₹	₹
Employee benefit expense.	Dr.	30,30,000	
To Cash			30,00,000
To Provision for Leave encashment			30,000
Provision for leave encashment.	Dr.	30,000	
Employee benefit expense	Dr.	29,70,000	
To Cash			30,00,000

Question 2 (Exam Jan'26)

RMC Limited operates a defined retirement benefits plan on behalf of its current and former employees. It receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits.

On 1st April, 2024, the actuaries advised that the fair value of the plan assets in respect of the defined retirement benefits plan of RMC Limited stood at Rs. 25,00,000/-.

On 30th September, 2024, the plan paid out benefits of Rs. 4,75,000/- and received inward contributions of Rs. 12,25,000/-.

On 31st March, 2025, the actuaries assessed the present value of the defined benefit obligation at Rs. 36,98,000/-. On the same day the fair value of plan assets was Rs. 37,50,000/-. Actuarial losses on the obligations for the year 2024-25 were Rs. 15,000/-.

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On 1st April, 2024 the company made the following estimates, based on its market studies and prevailing prices:

	%
Interest and dividend income (after tax) payable by the fund	9.75
Realized gains on plan assets (after tax)	2.50
Fund administrative costs	(2.00)
Expected rate of return (Interest is compounded half yearly)	10.25

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

Solution –

"Suggested Answer not yet released by ICAI"

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ACCOUNTING STANDARD - 17
SEGMENT REPORTING

Question 1 (MTP May'25)

Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2 and those inventories are part of segment assets of a particular segment, state whether such interest would be considered as a segment expense.

SOLUTION:

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

In case interest is included as part of the cost of inventories where it is so required as per AS 16 "Borrowing Costs", read with AS 2 "Valuation of Inventories", and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

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ACCOUNTING STANDARD - 18
RELATED PARTY DISCLOSURES

Question 1 (RTP Jan'26)

Mr. Rajiv KMP of Raijada Limited received a cheque of ₹ 70,000 towards reimbursement of expenses incurred on stay in hotel, conference expenses etc. visiting some meeting on behalf of the company. You are required to guide whether the above transaction is covered under AS-18?

Solution

As per AS 18 'Related Party Disclosures', enterprises over which KMP & its relatives are able to exercise significant influence are related party transactions (Clause D).

Thus, as per the facts of the case & provisions of AS, KMP is RP of the company.

But, reimbursement is not in the nature of remuneration. Hence, not to be disclosed in Financial Reporting.

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ACCOUNTING STANDARD - 20
EARNINGS PER SHARE

Question 1 (RTP Jan'26)

Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders? AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct?

ANSWER:

The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS

Paragraph 11 of the Statement states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period" With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, **are still attributable to equity shareholders**. Accordingly, these amounts should be included in the computation of Basic EPS. **In view of this, the treatment made by the company is not correct.**

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ACCOUNTING STANDARD - 22
ACCOUNTING FOR TAXES ON INCOME

Question 1 (Exam Sep'25)

Amber Limited purchases a building at a cost of ₹ 20,00,000 on 1st April 2021 its useful life is four years and an expected scrap value is zero. Depreciation is allowed @ 50% in 1st year and rest balance in 2nd year for Tax purpose. Straight-line method is considered for accounting purpose. Amber Limited profit before depreciation and taxes are as follow:

Year	Profit (in ₹)
2021-2022	18,00,000
2022-2023	22,00,000
2023-2024	25,00,000
2024-2025	30,00,000

The corporate tax rate is 30% in all 4 years.
You are required to calculate Current Tax, Deferred Tax Assets/Liability and Tax Expense for each year.

Solution

(a) As per AS 22 "Accounting for Taxes on Income", computation of Current Tax, Deferred Tax Liability (DTL), and Total Tax Expense of Amber Limited is as under:

	21-22 (₹)	22-23 (₹)	23-24 (₹)	24-25 (₹)
Profit before depreciation and taxes	18,00,000	22,00,000	25,00,000	30,00,000
Less: Depreciation for accounting purposes	5,00,000	5,00,000	5,00,000	5,00,000
Profit before Taxes (i)	13,00,000	17,00,000	20,00,000	25,00,000
Less: Tax Expenses				
(a) Current tax for the year	2,40,000	3,60,000	7,50,000	9,00,000
(b) Deferred Tax Liability/Asset (b)	1,50,000	1,50,000	(1,50,000)	(1,50,000)
Tax expense (a+b) (ii)	**3,90,000**	**5,10,000**	**6,00,000**	**7,50,000**
Profit after tax (i) – (ii)	9,10,000	11,90,000	14,00,000	17,50,000

Working notes:

1. Calculation of current tax at 30%

Year	Taxable Income	Current Tax (₹)
2021-22	8,00,000 (18,00,000-10,00,000)	2,40,000
2022-23	12,00,000 (22,00,000-10,00,000)	3,60,000
2023-24	25,00,000	7,50,000
2024-25	30,00,000	9,00,000

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2. Calculation of Timing Difference and Deferred Tax Assets/Liability

Year	Timing Difference (Tax Depreciation- Accounting Depreciation)	DTL/(DTA) Deferred Tax = Timing Difference × 30%
2021-22	10,00,000 –5,00,000= 5,00,000	1,50,000
2022-23	10,00,000 – 5,00,00=5,00,000	1,50,000
2023-24	0 – 5,00,000= (5,00,000)	(1,50,000)
2024-25	0- 5,00,000 = (5,00,000)	(1,50,000)

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ACCOUNTING STANDARD - 24
DISCONTINUING OPERATION

Question 1 (MTP May'25)

Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) lf the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

ANSWER:

Mere gradual phasing out is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(1) Gradual or evolutionary phasing out of a product line or class of service;

(2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(3) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(4) Closing of a facility to achieve productivity improvements or other cost savings.

A Reportable business segment or geographical segment as defined in AS 17, would normally satisfy criteria (b) of the definition.

In view of the above the answers are:

(i) **No,** the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.

(ii) **No,** the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, closure road map and new segment starting roadmap are missing. Hence, AS 24 will not be applicable.

(iii) **Yes,** phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap. Hence, this action will attract compliance of AS 24.

Question 2 (MTP Jan'26)

Kumar Ltd. is engaged in the manufacture of both passenger cars and commercial vehicles. The management has recently developed a long-term strategic vision under which the company intends to gradually shift its focus away from the passenger car segment and move more strongly toward the commercial vehicles business over the next five years. As part of this broad strategy, the management has informally discussed a plan to reduce the production of passenger cars by

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approximately 20% every year and, in parallel, to establish a new manufacturing facility dedicated to commercial vehicles. It is also envisaged that certain employees will be transferred in phases to support the expansion of the commercial vehicle division.

However, despite these strategic intentions, no specific or detailed plan has been formulated or approved for the sale, closure, or complete discontinuance of the passenger car division. There is no formal plan regarding the disposal of its assets, and no proposal has been placed before or approved by the Board of Directors. Further, the proposed new commercial vehicle factory has not commenced operations, nor have any binding commitments been made.

In light of the above circumstances, you are required to comment on whether such gradual scaling down of activities, without a formal and approved plan for disposal, can be regarded as a 'Discontinuing Operation' within the meaning of AS 24 – Discontinuing Operations.

Solution

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(1) Gradual or evolutionary phasing out of a product line or class of service;

(2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(3) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(4) Closing of a facility to achieve productivity improvements or other cost savings.

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

Question 3 (Exam Jan'26)

What is the initial disclosure information of AS – 24 for discontinuing operations?

Solution –

"Suggested Answer not yet released by ICAI"

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ACCOUNTING STANDARD - 29 "PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS"

Question 1 (Exam Sep'25) (Jammu & Punjab)

Galaxy Limited is in the process of finalization of its accounts for the year ended 31st March, 2025 and needs your advice on the following issues in line with the provisions of AS 29:

(i) Galaxy Limited sells cosmetic products under its brand name "Angel" but is getting these products manufactured from X Limited. It has an understanding (enforceable agreement) with X Limited that if the company becomes liable for any damage claims, due to any injury or harm to the customer of the cosmetic products, 40% shall be reimbursed by X Limited. During the year 2024-25, an estimate of the claim of ₹ 25 lakhs may be payable to the customers by Galaxy Limited.
How should Galaxy Limited account for the claim that becomes payable?

(ii) Galaxy Limited has been sued by one of its competitors for alleged infringement of trademark and a notice for levy of penalty of ₹ 50 lakhs has been received by it. The company has appointed a law firm to defend its case for a fee of ₹ 5 lakhs. 60% of the fees has been paid in advance and the rest 40% will be paid after finalization of the case. There are 70% chances that the penalty may not be imposed.

Solution –

"Suggested Answer not yet released by ICAI"

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ACCOUNTING STANDARD – 27
FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

Question 1 (MTP Jan'26)

Hari Ltd., OM Ltd. and Bhakti Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings Rs. 18,00,000 to be depreciated @ 5% p.a., Pipeline for Rs. 90,00,000 to be depreciated @ 15% p.a., computers and other electronics for Rs. 4,50,000 to be depreciated @ 40% p.a. and various vehicles of Rs. 13,50,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to Rs. 9,00,000 each year.

You are required to show the Extract of consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

Solution

Extract of Consolidated Balance Sheet

	Note	(₹)
Assets		
Non-current Assets		
Property, Plant and Equipment:	1	1,07,10,000
		1,07,10,000

Notes to Accounts

			(₹)
1.	**Property, Plant and Equipment**		
	Land & Building:		
	Hari Ltd.	5,70,000	
	OM Ltd.	5,70,000	
	Bhakti Ltd.	5,70,000	17,10,000
	Plant & Machinery:		
	Hari Ltd.	25,50,000	
	OM Ltd.	25,50,000	
	Bhakti Ltd.	25,50,000	76,50,000
	Computers:		
	Hari Ltd.	90,000	
	OM Ltd.	90,000	
	Bhakti Ltd.	90,000	2,70,000
	Vehicles:		
	Hari Ltd.	3,60,000	
	OM Ltd.	3,60,000	
	Bhakti Ltd.	3,60,000	10,80,000

In the Books of Hari Ltd.

Extract of statement of Profit & Loss

Particulars	Note No.	₹
Depreciation and amortisation expense	1	6,30,000
Other operating Expenses (Pipeline Expenses)		3,00,000

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Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	35,70,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	30,000	
	Plant & Machinery	4,50,000	
	Computers	60,000	-
	Vehicles	90,000	6,30,000
2.	Land & Building	6,00,000	-
	Less: Depreciation	-	5,70,000
		30,000	
	Plant & Machinery	30,00,000	-
	Less: Depreciation	-	25,50,000
		4,50,000	
	Computers	1,50,000	-
	Less: Depreciation	-	90,000
		60,000	
	Vehicles	4,50,000	-
	Less: Depreciation		3,60,000
		90,000	
		-	35,70,000

In the Books of OM Ltd.

Extract of draft Profit & Loss Account

Particulars	**Note No.**	**₹**
Depreciation and amortisation expense	1	6,30,000
Other operating Expenses (Pipeline Expenses)		3,00,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	35,70,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	30,000	
	Plant & Machinery	4,50,000	
	Computers	60,000	-
	Vehicles	90,000	6,30,000
2.	Land & Building	6,00,000	-
	Less: Depreciation	-30,000	5,70,000
	Plant & Machinery	30,00,000	-
	Less: Depreciation	-4,50,000	25,50,000
	Computers	1,50,000	-
	Less: Depreciation	-60,000	90,000
	Vehicles	4,50,000	-
	Less: Depreciation	-90,000	3,60,000
		-	**35,70,000**