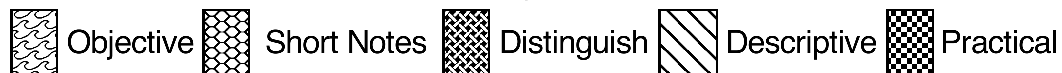
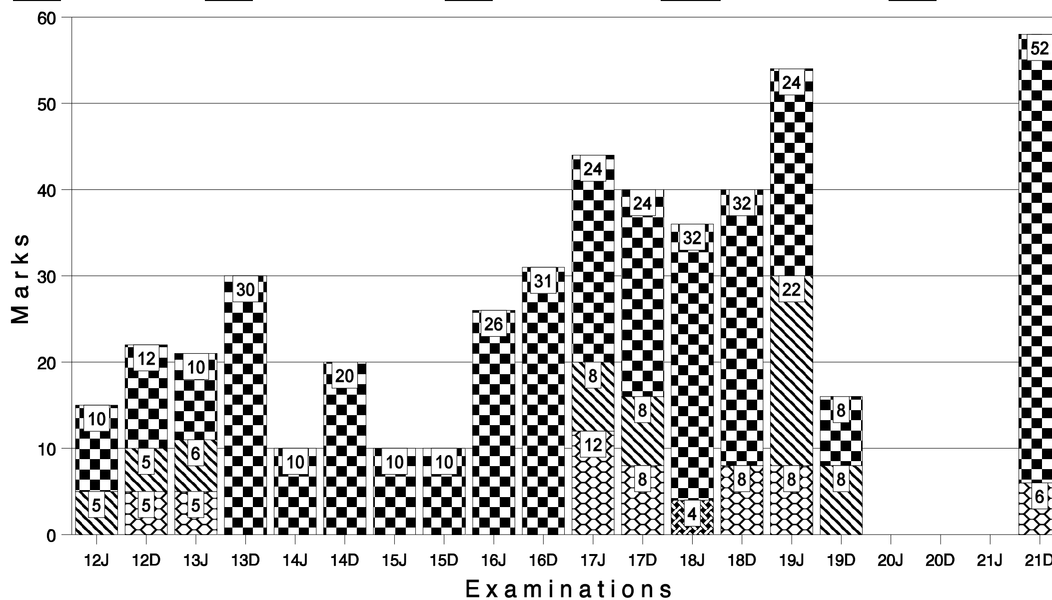
1 ACCOUNTING STANDARDS

THIS CHAPTER INCLUDES	
• Generally Accepted Accounting Principles in India • Overview of Accounting Standards • Overview of Indian Accounting Standards (Ind AS)	• International Financial Reporting Standards • Applicability of Indian Accounting Standards

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend





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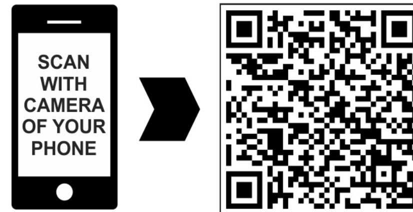

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SHORT NOTES

2012 - Dec [8] Write short note on the following:
(d) Impairment of asset and its application to inventory. **(5 marks)**

Answer:

Impairment of assets and its application to inventory: The objective of AS 28 "Impairment of Assets" is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at not more than their recoverable amount. An asset is carried at more than its recoverable amount, if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this statement requires the enterprise to recognize an impairment loss. This standard should be applied in accounting for the impairment of all assets, **except** the following:

(i) Inventories (AS-2 Valuation of Inventories);
(ii) Assets arising out of construction contracts (AS-7 Accounting for Construction Contract);
(iii) Financial Assets, including investments which are included in the scope of AS-13 Accounting for Investment;
(iv) Deferred tax assets (AS-22 Accounting for Taxes on income)

AS-28 does not apply to inventories, assets arising out of a construction contract, deferred tax assets or investments for recognizing and measuring the impairment related to these assets.

2013 - June [8] Write short note on the following:

(d) What are the Objective and Scope of Ind AS 101?

(Modified) (5 marks)

Answer:

Indian Accounting Standard (Ind-AS) 101, provides for first-time adoption of Indian Accounting Standards. In this regard following are important points.

(I) **Objective:** The objective of this Ind AS is to ensure that an entity's first Ind As financial statements, and its interim financial reports, contain high quality information.

Following are the objectives of IND AS-101

(a) To explain the procedure of transition

(b) To remove all difficulties of retrospective applications of certain IND AS

(c) To explain the accounting treatment of the resultant differences in the carrying amount of various assets & liabilities, if there is any;

(II) **Scope:** An entity shall apply this Ind AS in:

(a) its first Ind As financial statements, and

(b) each interim financial report for part of the period covered by its first Ind As financial statements.

—— Space to write important points for revision ——

2017 - June [8] Write short notes of the following:

(a) Features of International Financial Reporting Standards (IFRS).

(c) Objectives of Ind AS-110.

(e) Conditions as per AS-14 amalgamation in the nature of merger.

(4 marks each)

Answer:

(a) Features of International Financial Reporting Standards (IFRS):

The Characteristics of IFRS are:

- These are global accounting standards.
- These standards are 'principle based', and not 'rule-based'.
- IFRS are developed and maintained by the IASB.
- These are issued with the intention of applying these standards across the globe on a consistent basis.
- It ensures high quality transparent reporting that would ensure comparability among the entities across the globe.

- Every standard has a specific structure to ensure uniformity and facilitate reading, interpretation and application.
  They are: Introduction, Standards basis of conclusion, implementation, guidelines, illustrative examples and dissenting opinion of board members.

(c) Objective of Ind AS - 110

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

For the purpose of meeting the above stated objective, this Ind AS:

(a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements.

(b) defines the principle of control, and establishes control as the basis for consolidation;

(c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;

(d) sets out the accounting requirements for the preparation of consolidated financial statements; and

(e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

(e) Amalgamation in the nature of merger:

(a) All the assets and liabilities of the transferor company are taken over by the transferee company.

(b) Such assets and liabilities are incorporated without any adjustment (except to ensure uniformity of accounting policies) in the financial statements of the transferee.

(c) At least 90% equity holders of transferor become equity shareholders of transferee by virtue of the amalgamation.

(d) The consideration for the amalgamation is discharged by equity shareholders in the transferee, except for fractional shares by cash.

(e) The business of the transferor is intended to be carried on by the transferee.

2017 - Dec [8] Write short notes on the following:
(d) Disclosure requirement as per AS-21.
(e) IND AS-102: share-based Payment. **(4 marks each)**

Answer:

(d) Disclosure in terms of AS-21

(a) Disclosure should be made in accordance with the format of the parent company's financial statements. Further disclosure under all the mandatory accounting standards when material and also compliance with General Classifications should be made in order to ensure comparability for one period to the next. Supplementary information about the effect of acquisition and disposal of subsidiaries on the financial position at the reporting date and results for the reporting period with comparative preceding period amount should be disclosed.

(b) Reasons for exclusion from consolidation of subsidiaries should be disclosed List of all subsidiaries-name, country of incorporation/residence, proportion of ownership interest and if different proportion of voting power.

(c) Nature of relationship if the parent does not own directly or indirectly more than 50% of voting power of the subsidiary.

(d) Names of subsidiary/subsidiaries of which reporting dates are different from that of the parent and the difference in reporting dates

Answer:

(e) IND AS 102: Share based Payment :

(I) **Objectives :** To specify the financial reporting by an entity when it undertakes a share based payment transaction. It requires an entity to reflect in its profit or loss and financial position the effects of share based payment transaction, including expenses associated with transactions in which share options are granted.

(II) **Scope :** This AS shall be applied to all share based payments, in which an entity acquires or receives goods or services. There are following 3 types of shares based payments :

(a) equity settled share based payment transactions;
(b) cash settled share based payment transactions;
(c) share based payment transaction with cash alternatives;

(III) **Non-applicability:** IND AS - 102 doesn't apply in following cases
- (a) Share issued as consideration in a business combination
- (b) Certain contract transactions falling within IND AS 32 or IND AS 109; relating to financial instruments.

—— Space to write important points for revision ——

2018 - Dec [8] Write short note on the following:

(b) Objectives of IND AS-103

(c) Accounting treatment of Borrowing Cost as per AS-16.

(4 marks each)

Answer:

(b) Ind AS- 103 : Business Combination

Objective

The objective of this Indian Accounting Standard (Ind AS) is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Ind AS establishes principles and requirements for how the acquirer :

- (a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree ;
- (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase ; and
- (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

(c) Accounting treatment of borrowing cost as per AS-16 :

- (a) Borrowing costs should either be capitalized or charged to P/L Account depending on the situation but deferment is not permitted.
- (b) Borrowing costs are capitalized as part of cost of qualifying asset when it is probable that they will result in future economic benefits and cost can be measured reliably – other borrowing costs are charged to P/L Account in the accounting period in which they are incurred.

(c) Capitalization, on one hand reflects closely the total investment in the asset and on the other hand to charge the cost to future period against accrual of revenue.
(d) Notional interest cost are not allowed to be capitalized .
(e) A qualifying asset is an asset that necessarily takes a substantial period of time (usually a period of 12 months unless otherwise justified on the basis of facts and circumstances) to get ready for its intended use or sale.
(f) Capitalization should be suspended during extended period in which active development is interrupted.
(g) Capitalization should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
(h) Capitalization also ceases „when part is completed, which is capable of being used independent of the whole.

—— Space to write important points for revision ——

2019 - June [8] Write short notes on the following:
(c) Fair value hierarchy as per Ind AS 113
(e) Derivative and an Embedded Derivative as per Ind AS 109

(4 × 2 = 8 marks)

Answer:

(c) Fair value hierarchy as per Ind AS 113:

Ind AS 113 establishes a fair value hierarchy into three levels of the inputs to valuation techniques for measuring fair value.

- **Level 1-** Based on quoted prices(unadjusted) for identical asset or liabilities that is traded in a currently active market.
- **Level 2-** Other than included within Level 1 that are observable for the asset or liabilities either directly or indirectly.
- **Level 3-** Unobservable inputs for asset or liabilities

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical asset or liabilities (Level 1 inputs) and the lowest priority unobservable inputs (Level 3 inputs).

(e) (i) **A Derivative is a Financial Instrument or other contract with the following all three characteristics:**

(a) **Change in Value:** Its Value changes in response to the change in a specified Interest Rate, Financial Instrument Price, Commodity Price, Foreign Exchange Rate, Index of Prices or Rates, Credit Rating or Credit Index, or Other Variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')

(b) **No /Smaller Initial Net Investment:** It requires No Initial Net Investment or an initial net investment that is Smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) **Settlement at a Future Date:** It is settled at a Future Date.

(ii) An Embedded Derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

Note: A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counter party from that instrument, is not an embedded derivative, but a separate financial instrument.

—— Space to write important points for revision ——

2021 - Dec [1] Write short on Characteristics and Types of Joint Arrangement As per Ind AS-111. **(3 marks) [Sec. C - Six LAQ]**

Answer:

Characteristics of Joint Arrangement:

A joint arrangement has the following characteristics :

(a) The parties are bound by a contractual arrangement.

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

Types of Joint Arrangement As per Ind AS-111

An entity shall determine the type of joint arrangement in which it is involved. A joint arrangement is either a joint operation or a joint venture. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

(i) A Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

(ii) A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

—— Space to write important points for revision ——

2021 - Dec [4] Write short on Fair value hierarchy as per Ind AS 113.
(3 marks) [Sec. C - Six LAQ]

Answer:

Please refer 2019 - June [8] (c) on page no. 19

—— Space to write important points for revision ——

DISTINGUISH BETWEEN

2018 - June [8] (b) Differences between Ind AS 21 and IAS 21 on treatment of exchange difference. **(4 marks)**

Answer:

There are some differences between Ind AS 21 and IAS 21 regarding treatment of exchange differences. Ind AS 21 provides some carve outs.

IAS 21

- Exchange differences arising on translation or settlement of foreign currency monetary items are recognized in profit or loss in the period in which they arise.
- Exchange differences on monetary items, that in substance, from part of net investment in a foreign operation, are recognized in profit or loss in the period in which they arise in the separate financial statements and in other comprehensive income in the consolidated financial statements and reclassified from equity to profit or loss on disposal of the net investment.

IND AS 21

- Similar to IFRS, However an entity may continue the policy adopted for exchange differences arising from translation of long term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind As financial reporting period as per previous GAAP.

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2012 - June [8] Answer the following:

(c) Objections to Segmental Reporting **(5 marks)**

Answer:

Objections to Segmental Reporting:

The possible objections to Segmental Reporting can be enumerated as below :

1. It is generally felt that Segmental Revenues and Expenses are not distinguishable objectively in many cases. Revenues of a weak product

line may be derived only because of the existence of a strong product line. Also many joint costs are only separable arbitrarily.

2. Much of segmental results depend on the inter-departmental transfer pricings which are not always logically established.
3. Various segments of an enterprise may use common resources which makes it difficult to arrive at a segment wise performance ratio.
4. Since the users are not in position to know the proper base for cost allocation, the segment results would be less than meaningful.
5. The last objection consists of the competitive implications to the firm. Some academics contend that company secrets will be disclosed while others referred to the competitive hardship suffered by some firms if segmented data is required. Suppose that Company X, a small company, has a segment identical to one in Company Y, a huge conglomerate. Company X would have to disclose the segment while Company Y would not because the segment is not considered material to Y's operations.

However, considering the problems of joint cost allocation, often it is suggested to follow a contribution margin approach for reporting segmental results. By this only identifiable costs are deducted from segment revenues and gross segment margins may only be indicated. But for all practical purposes, this becomes a useless exercise when proportion of identifiable cost is insignificant.

—— Space to write important points for revision ——

2012 - Dec [2] (b) What do you mean by "Fellow Subsidiary" in the context of Related Party Disclosure (As per AS-18)? **(2 marks)**

(c) What are the three major considerations governing the Selection and Application of Accounting Policies? **(3 marks)**

Answer:

(b) (i) Meaning: As per AS-18, a Company is considered to be a Fellow Subsidiary of another company, if both the companies are subsidiaries of the same holding company.

(ii) Example: A Ltd. is holding 60 % shares of B Ltd. and A Ltd. also holds 55% shares in C Ltd. Then B Ltd. and C Ltd. are the

subsidiaries of A Ltd., i.e., A Ltd. is the holding company of both B Ltd. and C Ltd. In this given Example, B Ltd. and C Ltd., are "Fellow Subsidiaries" of each other.

(c) Major considerations governing selection and application of Accounting policies are:
- (i) Prudence;
- (ii) Substance over form;
- (iii) Materiality.

—— Space to write important points for revision ——

2013 - June [5] (d) Why internally generated goodwill is not recognized in financial statement? **(3 marks)**

Answer:

The enterprise while doing business, slowly develops the goodwill. Goodwill generated in the process of doing business is called internally generated goodwill. This type of goodwill may be generated because of a number of factors, like good business practice, good and trained employees, advertisement, continuous training to employees, etc. certainly, to generate the goodwill internally involves cost, but this cost cannot be measured reliably. As the cost cannot be measured reliably, the self generated goodwill is not recognized in books / financial statements.

—— Space to write important points for revision ——

2013 - June [6] (c) How is liability determined in the case of a finance lease? **(3 marks)**

Answer:

In the case of finance lease, the lessee should recognize a liability equal to the fair value of leased asset at the inception of the lease. If the fair value of the leased asset exceeds the present value of the minimum lease payments from the stand – point of the lessee, the amount recorded as an asset and a liability should be present value of minimum lease payments from the stand point of lessee.

In calculating the present value of the minimum lease payments the discount rate is the rate implicit in the lease, if this is practicable to determine, if not, the lessees incremental borrowing rate should be used.

—— Space to write important points for revision ——

2017 - June [3] (b) State the scope of Ind AS - 102. **(8 marks)**

Answer:

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) equity-settled share-based payment transactions,

(b) cash-settled share-based payment transactions, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, except as specified.

In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this Standard applies.

—— Space to write important points for revision ——

2017 - Dec [3] (b) Describe the objectives and scope of Ind AS-105. **(8 marks)**

Answer:

Ind AS – 105: Non-current Assets Held for Sale and Discontinued Operations

(I) Objective

The objective of this Indian Accounting Standard (Ind AS) is to specify the accounting for assets **held for sale**, and the presentation and disclosure of discontinued operations. In particular, this Ind AS requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the statement of profit and loss.

(II) Scope

The classification and presentation requirements of this Ind AS apply to all recognised non- current assets and to all disposal groups of an entity. The measurement requirements of this Ind AS apply to all recognised non-current assets and disposal groups (as set out in paragraph-4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

Assets classified as non-current in accordance with Ind AS 1, Presentation of Financial Statements, shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Ind AS.

Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Ind AS.

—— Space to write important points for revision ——

2019 - June [2] (a) Which is Related Party as per Ind AS 24? State objectives and scopes of the Ind AS 24. **(8 marks)**

Answer:

As per Ind AS 24 Related Party means any party that controls or can significantly influence the operating policy of the Company during reporting period. The criteria for Related party relationship are control, Common control, Joint control and significant influence.

The objectives of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected

by the existence of related parties and by transactions and outstanding balances, including commitments with such parties.

Scope of Ind AS 24:

This Standard shall be applied for the following purposes:

(a) Identifying related party relationships and transactions
(b) Identifying outstanding balances, including commitments, between an entity and its related parties
(c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
(d) Determining the disclosures to be made about those items.

—— Space to write important points for revision ——

2019 - June [4] (b) What are the objectives of Ind AS 103? List the information an acquirer should disclose to help users of financial statement to evaluate the nature and financial effect of a business combination.

(8 marks)

Answer:

(i) **The Objectives of Ind As 103:**

- To improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
- To accomplish that, this Ind AS103 establishes principles and requirements for how the acquirer:
  (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
  (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
  (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

An acquirer should disclose information that enables users of financial statement to evaluate the nature and financial effect of a business combination that were affected.

Pieces of information includes:

(a) the name and a description of the acquiree.

(b) the acquisition date.

(c) the percentage of voting equity interests acquired.

(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.

(e) a qualitative description of the factors that make up the goodwill recognized.

(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

 (i) cash

 (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer

 (iii) liabilities incurred, for example, a liability for contingent consideration; and

 (iv) equity interests of the acquirer

(g) information for contingent consideration arrangements and indemnification assets.

(h) information for acquired receivables.

(i) information for each contingent liability recognised as prescribed.

(j) the total amount of goodwill that is expected to be deductible for tax purposes.

(k) The amount of the acquiree’s profit and loss since the acquisition date included in acquirer's profit or loss for the period, unless impracticable. If impracticable fact must be disclosed.

2019 - June [5] (b) What are the disclosure requirements under Ind AS 112 about subsidiaries that have non-controlling interests that are material to reporting entity. **(4 marks)**

Answer:

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, the following:

(a) the name of the subsidiary.
(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
(c) the proportion of ownership interests held by non-controlling interests.
(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
(g) summarised financial information about the subsidiary.

—— Space to write important points for revision ——

2019 - June [6] (a) (i) Write a brief note on initial measurement of financial asset or financial liability under Ind AS 109. **(2 marks)**

Answer:

(i) An entity shall recognise a financial asset or financial liability in its Balance Sheet when and only when, the entity becomes party to the contractual provisions of the instrument. **For example,** unconditional receivables and payables are recognised as assets or liabilities when the entity becomes party to the contract, and as a consequence has a legal right to receive or legal obligation to pay.

Alternative Answer:

Except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly

attributable to the acquisition or issue of the financial asset or financial liability.

—— Space to write important points for revision ——

2019 - Dec [2] (a) Discuss the applicability of and disclosure requirement of AS 11. **(8 marks)**

Answer:

AS – 11 deals with effects of changes in Foreign Exchange rates. It is mandatory in respect of:

(a) Accounting for transactions in foreign currencies
(b) Translating the financial statements of foreign branches for inclusion in the financial statements of the reporting enterprise

Disclosure under AS 11:

(a) The amount of exchange difference included in the net profit or loss for the period
(b) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period
(c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/loss for one or more subsequent periods
(d) Foreign currency risk management policy.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2012 - June [2] (a) As on 1st April, 2011 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2011 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2012 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2011-12 were ₹ 1,000. On 1st April, 2011 the company made the following estimates, based on its market studies, understanding and prevailing prices:

Interest & Dividend Income, after tax payable by the fund	9.50%
Realized and unrealized gains on Plan Assets (after tax)	2.00%
Fund Administrative Costs	(1.25%)
Expected Rate of Return	10.25%

Required: Find the Expected & Actual Returns on Plan Assets for the year 2011-12. **(5 marks)**

(b) Y Ltd. gives the following estimates of cash flows relating to PPE on 31.12.2010. The discount is 15%.

Year	2011	2012	2013	2014	2015
Cash Flow (₹ in lakhs)	4,000	6,000	6,000	8,000	4,000

Residual value at the end of 2015: ₹ 1000 lakhs, PPE purchased on 1.1.2008: ₹ 40,000 lakhs, Useful Life: 8 years, Net Selling Price on 31.12.2010: ₹ 20,000 lakhs.

Year	*1*	*2*	*3*	*4*	*5*
PVF@15%	0.870	0.756	0.658	0.572	0.497

Required: Calculate on 31-12-2010: (a) Value in use on 31-12-2010, (b) Carrying amount at the end of 2010, (c) Impairment Loss to be recognized for the year ended 31-12-2010, (d) Revised Carrying Amount, (e) Depreciation charge for 2011. **(5 marks)**

Answer:

(a)

A. Closing Balance of Fair Value of Plan Assets	₹ 1,50,000
B. *Add:* Benefit Paid	₹ 20,000
C. *Less:* Contributions Received	(₹ 50,000)
D. *Less:* Opening Balance of Fair Value of Plan Assets	₹ 1,00,000
E. Actual Return on Plan Assets	**₹ 20,000**
A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% ×12/12]	₹ 10,250

B. Return on Net Contributions Received [Contributions - Benefits paid] [(₹ 50,000 - ₹ 20,000) × 5%]	₹ 1,500
C . Expected Return on Plan Assets	₹ **11,750**

Note : Equivalent Half Yearly Compounding Interest Rate

$= \sqrt{(1 + \text{EXPECTED RATE OF RETURN})} - 1$

$= \sqrt{(1 + .1025)} - 1$ = .05 or 5%

Answer:

(b)

(a) Calculation of value in use

Year	Cash Flow	Discount factor as per 15%	Discounted cash flow
2011	4,000	0.870	3,480
2012	6,000	0.756	4,536
2013	6,000	0.658	3,948
2014	8,000	0.572	4,576
2015	4,000	0.497	1,988
2015	1,000	0.497	497

Value in use = ₹ 19,025 lakhs

Recoverable Amount (being net selling price or Value in use whichever is higher) = 20,000 lakhs

Carrying amount on 31-12-2010 = Original Cost – Depreciation for 3 years = 40,000 – [(40,000 - 1000) × 3/8] = ₹ 25,375

Impairment Loss = Carrying amount – Recoverable amount

= ₹ (25,375- 20,000) = ₹ 5, 375 lakhs

Revised carrying amount = ₹ (25, 375 – 5,375) = ₹ 20,000 lakhs

Depreciation Charge for 2011 = (20,000 - 1,000) / 5 = ₹ 3,800

2012 - Dec [1] {C} (c) (I) DP LTD. presents its Interim Financial Report on quarterly basis. It has earned profit of ₹ 500 Lakhs and ₹ 300 Lakhs in the first two quarters ending 30.6.2011 and 30.9.2011 respectively, but has incurred losses of ₹ 100 Lakhs and ₹ 400 Lakhs in the 3rd and 4th quarter respectively. Effective income tax rate is 30%. What will be the income tax expenses to be reported for each quarter as per AS-25? **(2 marks)**

(ii) At the end of financial year 2011-12, P Ltd. finds that there is a law suit outstanding. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
Win	60%	—
Lose (low damage)	30%	2,00,000
Lose (high damage)	10%	4,00,000

Compute the amount of contingent liability to be shown by way of a note to financial statements as per AS-29. **(2 marks)**

Answer:

(i) Tax expenses to be reported in each quarter will be:

1st Quarter	₹ 500 × 30%	= ₹ 150 lakhs
2nd Quarter	₹ 300 × 30%	= ₹ 90 lakhs
3rd Quarter	(-) ₹ 100 × 30%	= (-) ₹ 30 lakhs
4th Quarter	(-) ₹ 400 × 30%	= (-) ₹ 120 lakhs

(ii) According to AS – 29, for the purpose of the disclosure of contingent liability by way of a note, the amount will be

30% of ₹ 2,00,000	= ₹ 60,000
10% of ₹ 4,00,000	= ₹ 40,000
	= ₹ 1,00,000

—— Space to write important points for revision ——

2012 - Dec [2] (a) Following details are given for Samrat Ltd. for the year ended 31st March, 2012:

		(₹ in Lakhs)
Sales:		
Food Products	5,650	
Plastic & Packaging	625	
Health & Scientific	345	
Others	162	6,782
Expenses:		
Food Products	3,335	
Plastic & Packaging	425	
Health & Scientific	222	
Others	200	4,182
Other Items:		
General Corporate Expenses		562
Income from Investments		132
Interest expenses		65
Identifiable Assets:		
Food Products		
Plastic & Packaging	7,320	
Health & Scientific	1,320	
Others	1,050	10,355
General Corporate Assets	665	722

Other Information:

(I) Inter Segment Sales :Food Products

Plastic & Packaging	55
Health & Scientific	72
Others	21
	7

(ii) Opening profit includes ₹ 33 lakhs on inter-segment sales;

(iii) Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Samrat Ltd.'s operation in different industry segments. **(8 marks)**

Answer:

	Food Products	Plastic & packaging	Health & Scientific	Others	Inter Segment Elimination	Consolidated
External Sales	5595	553	324	155	-	6627
Inter Segment Sales	55	72	21	7	155	-
Total	5650	625	345	162	155	6627
Segment Expenses	3335	425	222	200	122	4060
Operating Profit	2315	200	123	(38)	33	2567
General Corporate Expenses						(562)
Income from Investments						132
Interest						(65)
Income from continuing operations						2072
Identifiable Assets	7320	1320	1050	665	-	10355
Corporate Assets						722
Total Assets						**11077**

2013 - June [1] {C} (c) (i) From the following information, determine the possible value of brand under potential earning model:

	₹ in lakhs
Profit before tax	650
Income Tax	150
Tangible PPE	1,000
Identifiable Intangibles other than brand	500
Expected normal return on Tangible PPE	300
Appropriate Capitalisation Factor for Intangibles	25%

(2 marks)

Answer:

Calculation of Possible Value of Brand

Particulars	**in lakh**
Profit after Tax (650 – 150)	500
Less: Profit allocated to tangible PPE:	300
Profit relating to intangible assets including Brand:	200
Capitalization factor 25%	

Capitalized value of intangibles including brand $\left[\frac{200}{25} \times 100\right]$	800
Less: Identified intangibles other than Brand:	500
Brand Value	300

—— Space to write important points for revision ——

2013 - June [2] (a) ALEENA LTD. is in the business of manufacturing and export of its product. Sometimes back in 2010, the Government put restriction on export of goods exported by Aleena Ltd. Due to that restriction Aleena Ltd. impaired its assets. The Company acquired at the end of the year 2006 identifiable assets worth ₹ 5,000 lakh and paid ₹ 7,500 lakh, balance is treated as Goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight-line basis. When Government put the restriction at the end of year 2010, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹ 3,400 lakh.

In 2012, Government lifted the restriction imposed on the export and due to this favourable change, Aleena Ltd. re-estimated recoverable amount, which was estimated at ₹ 4,275 lakh.

The amortization period of Goodwill to be taken as 5 years as per AS-14.

Required:

(i) Calculation and allocation of Impairment loss in 2010.

(ii) Reversal of an Impairment loss and its allocation as per AS-28 at the end of year 2012. **(4 + 4 = 8 marks)**

Answer:

(i)

ALEENA LTD.

CALCULATION AND ALLOCATION OF IMPAIRMENT LOSS FOR THE ASSETS AFTER END OF YEAR 2010

Amount in ₹ lakh

Particulars	Goodwill	Identifiable Assets	Total
Historical Cost	2,500.00	5,000.00	7,500.00

Accumulated Amortization for 2007 to 2010	2,000.00	1,333.00	3,333.00
Carrying Amount:	500.00	3,667.00	4,167.00
Recoverable amount at the End of 2010 = 3,400			
Impairment of Loss (4,167 – 3,400) = 767			
Impairment Loss allocated first to Goodwill and balance to other Assets			
Carrying Amount after	500.00	267.00	767.00
Impairment loss	Nil	3,400.00	3,400.00

(ii)

Reversal of an impairment loss and its allocation For the assets at the end of year 2012

	Goodwill	Identifiable Assets	Total
Carrying amount	Nil	2,782.00 (3,400 – 618) (W.N.1)	2,782.00
Recoverable Amount			4,275.00
Excess of Recoverable amount in accordance with Para 28.23.1 (Para 106 & 107 of AS – 28)			1,493.00
The impairment loss to be reversed in 2012 will be as under:			
Carrying Amount of Asset in 2012 had no impairment loss in 2010 been recognized (W.N.2) (3667 – 667)			3,000.00
Carrying Amount of Asset at the end of 2012 after Recognizing impairment loss in 2010 and depreciation for 2 years			2,782.00
ALEENA Ltd. can increase the amount of the assets by (3000 – 2782)			218.00

Hence, Reversal of impairment loss to be reversed in 2012 by Crediting the same to Profit / Loss statement is ₹ 218 Lakh.

Working Notes:

(1) [(3,400)/11 years] x 2 years = ₹ 618 (lakh)

(2) $3,667 - \left(\frac{5,000}{15} \times 2\right) = 3,667 - 667 = ₹\ 3,000$ Lakh

—— Space to write important points for revision ——

2013 - Dec [1] Answer the following:

(b) Jupiter Ltd. has an asset, which is carried in the Balance Sheet on 31.03.2012 of ₹ 500 lakhs. As of that date, the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.

From the above data:

(i) Calculate Impairment Loss

(ii) Prepare Journal Entries for adjustment of Impairment Loss

(iii) Show how the Impairment Loss will be shown in the Balance Sheet

(c) From the following information for Rishab Ltd. for the year ended 31.03.2013, calculate the deferred tax asset/liability as per AS-22.

Accounting Profit	₹ 10,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 9,00,000
Profit as per Income Tax Act	₹ 1,00,000
Tax Rate	30%
MAT Rate	10%

(5 × 2 = 10 marks)

Answer :

(b) (i) Calculation of Impairment Loss

Recoverable amount is higher of value in use ₹ 400 and Net Selling Price ₹ 375

Thus, Recoverable Amount = ₹ 400

Impairment Loss = Carried Amount – Recoverable Amount

= ₹ 500 lakhs – ₹ 400 lakhs = ₹ 100 lakhs.

(ii) **Journal Entries**

Particulars	Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
(a) Impairment Loss A/c Dr. To Asset A/c (Being the entry for accounting for impairment loss)	100	 100
(b) Profit and Loss A/c Dr. To Impairment Loss A/c (Being the entry to transfer impairment loss to P/L A/c)	100	 100

(iii) Balance Sheet of Jupiter Ltd. as on 31.3.2012 (Extracts)

	Amount In Lakhs
Asset Less: Depreciation	500
Less: Impairment Loss	100
	400

Answer:

(c) Tax as per accounting profit 10,00,000 × 30% = ₹ 3,00,000

Tax as per income tax profit 1,00,000 × 30% = ₹ 30,000

Tax as per MAT 9,00,000 × 10% = ₹ 90,000

Tax Expense = Current Tax + Deferred Tax

Therefore Deferred Tax Liability as on 31. 3.2013 = ₹ 3,00,000 – ₹ 30,000 = ₹ 2,70,000

Amount of Tax to be debited in Profit and Loss A/c for the year 31.3.2013:

= Current Tax + Deferred Amount of Tax liability + Excess of MAT over current tax

= 30,000 + 2,70,000 + (90,000 – 30,000) = ₹ 3,60,000

Alternative answer for second part of the answer

Amount of tax to be debited in Profit and Loss A/c for the year 31.3.2013 = Current Tax (MAT) + Deferred Tax = 90,000 + 2,70,000 = 3,60,000

Both the options can be considered favourably.

—— Space to write important points for revision ——

2013 - Dec [5] (a) MANASI Ltd. leased a machine to SB Ltd. on the following terms:

	₹ in Lakhs
Fair Value of the Machine	4.00
Lease Term	5 years
(Payable at each year-end)	
Lease Rental per annum	1.00
Guaranteed Residual Value	0.20
Expected Residual Value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10% per annum. Ascertain Unearned Financial Income. Show necessary Journal Entries in the books of the Lessee in the first year of operation.

Tabulate for the lease period, the lease rentals segregated into Finance charges and reduction of outstanding liability. **(10 marks)**

Answer :

As per AS - 19 on Leases, Unearned Finance Income is the difference between

(a) the gross investment in the lease and

(b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor, and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Gross Investment in the lease is the aggregate of :

(a) minimum lease payments from the standpoint of the lessor, and

(b) any unguaranteed residual value according to the lessor.

Gross Investment = Minimum Lease Payments + Unguaranteed residual value

= (Total lease rent + Guaranteed Residual Value) + Unguaranteed Residual value

= [(₹ 1,00,000 × 5 years) + (₹ 20,000)] + ₹ 20,000

= 5,40,000

(i) Table showing present value of minimum lease payments (MLP) and unguaranteed residual value (URV)

Year	MLP (Inclusive of URV) ₹	IRR - DISC. FACTOR@15%	Present Value
1	1,00,000	0.8696	86,960
2	1,00,000	0.7561	75,610
3	1,00,000	0.6575	65,750
4	1,00,000	0.5718	57,180
5	1,00,000	0.4972	49,720
	20,000 (GRV)	0.4972	9,944
	5,20,000		**3,45,164(i)**
	20,000 (URV)	0.4972	**9,944(ii)**
	5,40,000 (a)	(i) + (ii)	**3,55,108(b)**

Unearned Finance Income = (a) - (b)
= ₹ (5,40,000 - 3,55,108)
= ₹ 1,84,892

JOURNAL ENTRIES IN THE BOOKS OF SB LTD.

Particulars	Amount ₹	Amount ₹
At the inception of lease Machinery A/c Dr. To Manasi Ltd. A/c (Being lease of machinery recorded at present value of minimum lease payments)	 3,45,164	 3,45,164
At the end of first year of lease Finance Charges A/c Dr. To Manasi's Ltd. A/c (Being finance charges due for the 1st year)	 51,775	 51,775

Manasi's Ltd. A/c Dr. To Bank A/c (Being the lease rent paid to the lessor which includes o/s liability of ₹ 48,225 and finance charges of ₹ 51,775)	1,00,000	 1,00,000
Depreciation A/c Dr. To Machinery A/c (Being the depreciation provided @ 10% on Straight Line Method)	34,516	 34,516
Profit and Loss A/c Dr. To Depreciation A/c To Finance Charges A/c (Being the transfer of depreciation and finance charges to Profit and Loss A/c)	86,291	 34,516 51,775

Working Note:

Table showing apportionment of lease payments by SB Ltd. between the finance charges and the reduction of outstanding liability.

Year	O/S Liabilities Opening Balance	Minimum Lease	Finance Charges	Reduction In Principal Amount	O/s Liability Closing Balance
1	3,45,164	1,00,000	51,775	48,225	2,96,939
2	2,96,939	1,00,000	44,541	55,459	2,41,480
3	2,41,480	1,00,000	36,222	63,778	1,77,702
4	1,77,702	1,00,000	26,655	73,345	1,04,357
5	1,04,357	1,00,000	15,654	84,346	20,011

2013 - Dec [6] (b) (i) From the information contained in the following income statements and Balance Sheet of X Ltd. prepare the Cash Flow Statement for the year ended 31st March 2013 in accordance with AS-3 (Revised):
Income Statement for the year ended March 31, 2013.

		₹
Net Sales	(A)	2,50,00,000
Less:		
Cash Cost of Sales		1,95,00,000
Depreciation		8,00,000
Salaries and Wages		25,00,000
Operating Expenses		7,00,000
Provision for Taxation		9,50,000
	(B)	2,44,50,000
Net Operating Profit (A – B)		5,50,000
Non-recurring Income-Profit on sale of equipment		1,10,000
		6,60,000
Retained Earnings and profits brought forward		12,50,000
		19,10,000
Dividends declared and paid during the year		6,40,000
Profit and Loss account balance on 31.3.2013		12,70,000

The Balance Sheets of X Ltd. as on	31.03.2012		31.03.2013	
	₹	₹	₹	₹
Equity and Liabilities				
Shareholders' Funds				
Share Capital				
Equity Shares of ₹ 10 each, fully paid up		35,00,000		45,00,000
Reserves and Surplus				
Profit and Loss A/c		12,50,000		12,70,000
Current Liabilities				
Trade payables	26,60,000		25,50,000	
Other payables:				
Outstanding expenses	3,20,000		7,40,000	
Income tax payable	1,30,000	31,10,000	1,45,000	34,35,000
Total		78,60,000		92,05,000
Assets				
Non-current assets				

Tangible assets					10,00,000	
Land		5,00,000		56,00,000		
Plant and machinery (at cost)	35,00,000		27,00,000	14,50,000	41,50,000	51,50,000
Less: Accumulated Depreciation	13,00,000	22,00,00				
Current Assets						
Inventories		25,50,000			10,40,000	
Trade receivables		18,50,000			20,60,000	
Cash and cash equivalents		7,00,000			8,80,000	
Advances		60,000	51,60,000		75,000	40,55,000
Total			78,60,000			92,05,000

The original cost of the machine sold in 2012-13 was ₹ 8,00,000.

(10 marks)

Answer :

Cash Flow Statement of X Ltd. for the year ending March, 31st 2013.

Particulars	Amount (₹)
Cash flow from operating activities:	
Net profit before tax and extra-ordinary item	15,00,000
Add: Depreciation	8,00,000
Opening profits before working capital charges	**23,00,000**
Increase in Debtors	(2,10,000)
Decrease in stock	15,10,000
Increase in Advances	(15,000)
Decrease in Sundry Creditors	(1,10,000)
Increase in outstanding expenses	4,20,000
Cash generated from operations	**38,95,000**
Income tax paid	9,35,000
Net cash from operation (A)	**29,60,000**
Cash flows from investment activities:	
Purchase of land	(5,00,000)

Purchase of plant & machinery		(29,00,000)
Sale of machinery		2,60,000
Net cash used in investment activities	(B)	**(31,40,000)**
Cash flows from financing activities:		
Issue of share capital		10,00,000
Dividends paid		(6,40,000)
Net Cash from Financing Activities		**3,60,000**
Net increase in cash and cash equivalents (A + B + C)		1,80,000
Cash and cash equivalents at the beginning		7,00,000
Cash and cash equivalents at the end		**8,80,000**

Working Note:

Plant & Machinery Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Balance b/d	35,00,000	By Sales of assets	8,00,000
To Cash /Bank(Purchase) (bal. fig.)	29,00,000	By Balance c/d	56,00,000
	64,00,000		64,00,000

Accumulated Depreciation on Plant & Machinery Accounts

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Sale of assets (accumulated depreciation)	6,50,000	By Balance b/d	13,00,000
To Balance c/d	14,50,000	By Profit & Loss (Provisional)	8,00,000
	21,00,000		21,00,000

Sale of Assets (Machinery) Account

Particulars	₹
Original Cost	8,00,000

Less: Accumulated depreciation	6,50,000
Net Cost	1,50,000
Profit on Sale of Asset	1,10,000
Sale Proceeds from Asset sales	2,60,000

Space to write important points for revision

2014 - June [1] Answer any **two** of the following :

(a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 125 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out: (Ignoring depreciation for this purpose)

(i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?

(ii) What is the carrying amount of the intangible asset as at 31st March, 2013?

(iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?

(iv) What is the carrying amount of the intangible asset as at 31st March, 2014?

(b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.

Fair market value of plan assets (beginning of year)	₹ 20,00,000
Fair market value of plan assets (end of year)	₹ 28,50,000
Employer's contribution	₹ 7,00,000

Benefit paid ₹ 5,00,000

(c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below :

Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.

Exercise price for shares under stock option during the year ended 31st March, 2014 = ₹ 20.

Calculate (i) Basic EPS and (ii) Diluted EPS. **(5 × 2 = 10 marks)**

Answer:

(a) The given problem is based upon AS-26 i.e. Intangible Assets. After using the provisions of this AS we will have following answers:

(i) **Expenditure to be charged to the P&L Account for the financial year ended 31-03-2013:** Expenditure incurred up to 1.12.2012 will be taken to profit and loss account for the financial year ending 31.03.2013, which is ₹ 28 lakhs.

(ii) **Carrying Amount:** It means such amount of expenditure incurred after 1.12.2012 i.e. ₹ 75 lakhs - ₹ 28 lakhs = ₹ 47 lakhs.

(iii) **Expenditure to be charged to the P&L Account for the financial year ended 31.03.2014:**

Particulars	**Amount (₹ in Lakhs)**
Carrying Amount as on 31.03.2013	47
Expenditure Incurred during the F.Y. 2013-2014	140
Total Book Cost	187
Recoverable Amount, as estimated	125

Difference to be charged to P&L Account as impairment	**62**

(iv) **Carrying Amount as on 31st March 2014:** It will be recoverable amount as on 31.03.2014 i.e. ₹ 125.

Answer:

(b) The given problem is based upon AS- 15 i.e. Employee Benefits. After using the provisions of this AS, the actual return on plan assets can be calculated as follow:

Particulars	**Amount** (₹)
Fair Market Value of Plan Assets (end of year)	28,50,000
Fair Market Value of Plan Assets (beginning of year)	20,00,000
Change in plan assets	8,50,000
Adjusted for [Employer Contributions i.e. ₹ 7,00,000 Benefits Paid i.e. ₹ 5,00,000]	2,00,000
Actual Return on Plan Assets	**6,50,000**

Answer:

(c) The given problem is based upon AS 20 i.e. Earnings Per Share. Computations are shown as:

(i) Basic EPS: $= \dfrac{\text{Net Profit for the period attributable to equity shareholder}}{\text{Weighted average number of equity shares outstanding during the period}}$

$$= \frac{60,00,000}{20,00,000} = ₹\ 3$$

(ii) Calculation of Diluted EPS

No. of equity shares outstanding		20,00,000
No. of shares under stock option *Less:* No. of shares that would have been issued at Fair Value (4,00,000 × 20/25)	4,00,000 3,20,000	80,000
Total No. of equity shares		20,80,000

Diluted EPS: =

$$\frac{\text{Net profit for the period attributable to equity shareholder (after adjustment of diluted earning)}}{\text{Weighted average number of equity shares outstanding during the period (Assuming potential equity shares)}}$$

$= \frac{60,00,000}{20,80,000} =$ ₹ 2.88 (approx)

—— Space to write important points for revision ——

2014 - Dec [1] (a) S. Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs as on 31st March, 2011. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 10 lakhs. Estimated future cash flow from using the plant in next 3 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.03.2012	40
31.03.2013	20
31.03.2014	20

Calculate "Value in use" for plant, if discount rate is 10%. Also calculate the recoverable amount, if net selling price of plant on 31st March, 2014 is ₹ 50,00,000, P.V. factor @10% for years 31.03.2012, 31.03.2013 and 31.03.2014 are 0.909, 0.826 and 0.751 respectively. **(5 marks)**

(b) X. Ltd. has leased equipment costing ₹ 4,98,70,200 over its useful life for a 3 year lease period on the following terms:

(i) The estimated unguaranteed residual value would be ₹ 2,00,000.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

P.V. factor @ 10% for years 1-3 are 0.909, 0.826 and 0.751 respectively. **(5 marks)**

Answer:

(a) The given problem is based upon AS-28 i.e. Impairment of Assets.

(i) **Calculation of "Value in Use"** [i.e. Present value of estimated cash flow by use of asset and residual value]

Year	Future cash flow	Discount@10% rate	Discounted cash flow [₹ in lakhs]
31.03.2012	40	0.909	36.36
31.03.2013	20	0.826	16.52
31.03.2014	20	0.751	15.02
31.03.2014	10 [Residual Value]	0.751	7.51
"Value in use"			**75.41**

(ii) **Calculation of recoverable amount:** If net selling price of plant on 31.03.2014 is ₹ 50,00,000, the recoverable amount will be higher of ₹ 75.41 lakhs (value in use) and ₹ 50 lakhs (net selling price), hence recoverable amount is ₹ 75.41 lakhs.

Answer:

(b) As per the question, IRR of the investment is 10% and investment in lease is ₹ 4,98,70,200. It means PV of minimum lease payment (MLP) from lessor point of view plus unguaranteed residual value is equal to ₹ 4,98,70,200.

P.V. of unguaranteed residual value = 2,00,000 × 0.751 = ₹ 1,50,200

P.V. of MLP should be (4,98,70,200 - 1,50,200) = 4,97,20,000

(i) **Calculation of annual lease payment to the lessor:** 4,97,20,000/2.486 = ₹ 2,00,00,000

(ii) **Calculation of unearned finance income**

Gross investment in lease [2,00,00,000 × 3] Unguaranteed residual value	₹ 6,00,00,000 ₹ 2,00,000
Total *Less*: P.V. of Gross investment in lease	6,02,00,000 4,98,70,200
Unearned Finance Income	1,03,29,800

2014 - Dec [4] (d) VENTEX Ltd. presents to you the following Balance Sheets and Income Statements.

Balance Sheets	(₹ in thousand)	
Particulars	As on 31.03.2013	As on 31.03.2014
Liabilities:		
Share Capital:		
Equity Share Capital	10,000	10,000
Reserves and Surplus:		
Retained Earnings	8,300	9,460
Secured loans:		
12% Debentures	6,000	5,000
Current liabilities & Provisions:		
Trade Creditors	1,025	1,217
Outstanding Expenses	218	274
	25,543	**25,951**
Assets:		
PPE at Cost	24,000	26,000
Provision for Depreciation	(8,000)	(9,800)
Investment	2,500	1,000
Current Assets, Loans and Advances:		
Inventories		
Trade Debtors	4,133	5,071
Provision for Bad Debts	1,600	1,800
Cash in hand and at Bank	(80)	(90)
Miscellaneous Expenditures:	1,342	1,934
Underwriting Commission		
	48	36
	25,543	**25,951**

Profit and Loss Account for the year ended March 31, 2014.

	(₹ in thousand)
Sales	36,402
Cost of Goods sold	(18,600)
Compensation Received in Law suit	550
Interest received on Investments	210
Profit on Sale of Investments	75
Sundry Operating Expenses	(7,835)
Interest on Debentures	(660)
Provision for Bad Debts	(10)
Provision for Depreciation	(1,800)
Underwriting Commission written off	(12)
Net Profit before Tax	8,320
Tax for the year Paid	4,160
Net Profit after Tax	4,160

Supplementary Information:
Ventex Ltd. informs you that the Debentures have been redeemed at par.
Required:
Prepare the CASH FLOW statement for the year ended March 31, 2014 in accordance with AS-3 (Revised) using the 'Direct Method'. **(10 marks)**

Answer:

Cash Flow Statement for the year ended 31st March, 2014 (Direct Method)

Particulars	**Amount (₹ '000)**	**Amount (₹ '000)**
Cash Flow from Operating Activities		
- Collection From Debtors	36,202	
Less: - Paid to Creditors	(19,346)	

- Operating Expenses Paid	(7,779)	
- Tax paid	(4,160)	
Cash Flow from Operating Activities Excluding Extraordinary items	**4,917**	
Add: - Compensation Received in Law Suite	550	
Net Cash Flow From Operating Activity		5,467
Cash Flow from Investing Activity		
- Sale of Investment	1,575	
- Interest Received on Investment	210	
Less: - Purchase of PPE	(2,000)	
Net Cash Flow from Investing Activity		(215)
Cash Flow From Financing Activity		
Less: - Redemption of Debentures	(1,000)	
- Interest paid on Debentures	(660)	
- Dividend Paid	(3,000)	
Net Cash Flow from Financing Activity		(4,660)
Net Cash Flow from All Activities		592
Add: Opening Cash & Cash Equivalents		1,342
Closing Cash & Cash Equivalents		**1,934**

Working Notes:

1. **Investment A/c**

Particulars	**Amount (₹ '000)**	**Particulars**	**Amount (₹ '000)**
To Balance b/d	2,500	By Sales (balancing fig.)	1,575
To Profit & Loss A/c	75	By Balance c/d	1,000
Total	**2,575**	**Total**	**2,575**

2. **Debtors A/c**

Particulars	Amount (₹ '000)	Particulars	Amount (₹ '000)
To Balance b/d	1,600	By Cash (balancing fig.)	36,202
To Sales	36,402	By Balance c/d	1,800
Total	**38,002**	**Total**	**38,002**

3. **Reserve A/c (retained earning)**

Particulars	Amount (₹ '000)	Particulars	Amount (₹ '000)
To Dividend Paid (balancing fig.)	3,000	By Balance b/d	8,300
		BY Profit & Loss A/c	4,160
To Balance c/d	9,460		
Total	**12,460**	**Total**	**12,460**

4. **Trade Creditors A/c**

Particulars	Amount (₹ '000)	Particulars	Amount (₹ '000)
To Cash (balancing fig.)	19,346	By Balance b/d	1,025
To Balance c/d	1,217	By Purchases	19,538
Total	**20,563**	**Total**	**20,563**

5. **Operating Expenses A/c**

Particulars	Amount (₹ '000)	Particulars	Amount (₹ '000)
To Cash (balancing fig.)	7,779	By Balance b/d	218
To Balance c/d	274	By Profit & Loss A/c	7,835
Total	**8,053**	**Total**	**8,053**

6. **Fixed Assets A/c**

Particulars	Amount (₹ '000)	Particulars	Amount (₹ '000)
To Balance b/d	24,000		
To Purchase (balancing Fig.)	2,000	By Balance c/d	26,000
Total	**26,000**	**Total**	**26,000**

Note: We are assuming that all the Purchase and sales were made on credit basis only.

—— Space to write important points for revision ——

2015 - June [1] (a) Neel Limited is developing a new production process. During the financial year ended 31st March, 2014, the company has incurred total expenditure of ₹ 60 lakhs on the process. On 1st December, 2013 the process has met the norms to be recognised as intangible assets and the expenditure incurred till that date is ₹ 25 lakhs. During the financial year ending on 31st March, 2015, the company has further incurred ₹ 90 lakhs. The recoverable amount as on 31.3.2015 of the process is estimated to be ₹ 85 lakhs. You are required to work out as per AS-26:

(i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and

(ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015.

(5 marks)

(b) Zoom Limited purchased a machine four years ago for ₹ 30 lakhs and depreciates it at 10% p.a. on Straight-line Method. At the end of fourth year, it has revalued the machine at ₹ 15 lakh and has written off the loss on revaluation to Profit and Loss Account. However, on the date of revaluation, the market price is ₹ 14 lakhs and expected disposal costs are ₹ 50,000.

(i) Compute amount of impairment loss as per AS-28, on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.

(ii) What will be the accounting treatment in respect of impairment loss computed above? **(5 marks)**

Answer: (a)

(i) Calculation of amount to be charged in P & L A/c:

- **For F.Y. 2013-14**

  Expenditure incurred up to 1-12-2013 i.e. before the date of recognition will be taken up to profit and loss account for the financial year ended 31-03-2014, which is ₹ 25,00,000.

- **For F.Y. 2014-15**

  Impairment loss of F.Y. will be charged to profit and loss account of 2014-15, which will be calculated as:

Particulars	Amount (₹)
Carrying amount as on 31-03-2014	35,00,000
Expenditure during 2014-15	90,00,000
Total Book Cost of Intangible Assets	1,25,00,000
Less: Recoverable amount, as estimated	85,00,000
Difference to be charged to Profit and Loss A/c, as impairment	40,00,000

(ii) Calculation of carrying value of intangible assets:

- **In F.Y. 2013-14**

  Carrying amount will be the expenditure incurred after the date of recognition of impairment assets i.e. Expenditure incurred after 1-12-2013 i.e. ₹ 35,00,000 (₹ 60,00,000 - 25,00,000).

- **In F.Y. 2014-15**

  Carrying amount as on 31-03-2015 will be cost of intangible assets less impairment loss i.e. ₹ 85,00 ,000 (₹ 1,25,00,000 - 40,00,000).

Answer: (b)

(i) Computation of Impairment loss:

Particulars	Amount (₹)

Net selling price = Market Value- Disposal Costs = ₹ 14,00,000 - ₹ 50,000	13,50,000
Value in use	12,00,000
Recoverable Amount = Net Selling Price or Value in use, whichever is higher	13,50,000
Carrying Amount after revaluation	15,00,000
Impairment Loss = Carrying Amount- Recoverable Amount	(1,50,000)

(ii) Accounting Treatment of Impairment Loss:

Date	**Particulars**	**Dr. (₹)**	**Cr. (₹)**
At the end of Fourth year	Impairment Loss A/c To Machine A/c (Being machine impaired)	1,50,000	1,50,000
At the end of Fourth year	Profit & Loss A/c To Impairment Loss A/c (Being Loss charged to P&L A/c)	1,50,000	1,50,000

—— Space to write important points for revision ——

2015 - Dec [1] (a) M/s. Eagle Ltd. gives you the following information as on 31.03.2015:

(i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.

(ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.

(iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.

(iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.

(v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

You are required to compute the deferred tax assets and deferred tax liability as on 31.03.2015. The tax rate applicable is 30%. **(5 marks)**

Answer:

Statement showing Calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

Particulars	Amount of difference (₹)	Nature of difference	DTA @30% (₹)	DTL @ 30% (₹)
(i) Excess allowable depreciation as per income tax law	1,18,500	Timing	-	35,550
(ii) Disallowed expenses as per income tax	6,85,500	Permanent	-	-
(iii) Shares issue expenses charged in books but to be allowed as deduction in income tax from next year	5,46,400	Timing	1,63,920	-
(iv) Provision for doubtful debts-disallowed as per income tax law	45,600	Permanent	-	-
(v) Donation debited to P&L Account, but disallowed as per income tax	1,50,000	Permanent	-	-
Total			**1,63,920**	**35,550**

—— Space to write important points for revision ——

2015 - Dec [1] (b) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax) ₹ 86,50,000

No. of equity shares outstanding 25,00,000

No. of 10% convertible debentures of ₹ 100 each 1,00,000
Each debenture is convertible into 10 equity shares
Interest expenses for the current year ₹ 5,00,000
Tax relating to interest expenses 30% **(5 marks)**

Answer:

Statement of Diluted EPS

Particulars	Numerator	Denominator	Ratio
Basic	86,50,000	25,00,000	3.46
(+) Convertible Debenture	3,50,000 [5,00,000 × (1 - 0.30)]	5,00,000 [(1,00,000 × 10 × 6/12)]	
	90,00,000	**30,00,000**	**3.00**

—— Space to write important points for revision ——

2016 - June [1] {C} Answer the following:

(a) The fair value of plan assets of Prantick Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 2015. On 30th September, 2015, the plan paid out benefits of ₹ 38,000 and received inward contributions of ₹ 98,000. On 31st March, 2016, the fair value of plan assets was ₹ 3,00,000. On 1st April, 2015, the reporting company made the following estimates, based on market studies and prevailing prices:

	%
Interest and dividend income after tax payable by the fund	9.25
Realised gains on plan assets (after tax)	2.00
Fund Administrative costs	(1.00)
Expected rate of return	10.25

Required:

Calculate the Actual and Expected Returns on Plan Assets as on 31st March, 2016 as per AS-15. **(5 marks)**

(b) Global Ltd. is showing an intangible asset at ₹ 90 lakhs as on 01-04-2015. This asset was acquired for ₹ 120 lakhs on 01-04-2012 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(5 marks)

Answer :

(a) Calculation of Actual Return as on 31st March, 2016:

Sr. No.	Particulars	(₹)
a.	Closing balance of Fair Value of Plan Assets	3,00,000
b.	*Add:* Benefits paid	38,000
c.	*Less:* Contribution received	(98,000)
d.	*Less:* Opening balance of Fair Value of Plan Assets	(2,00,000)
e.	**Actual Return on Plan Assets**	**40,000**

Calculation of Expected Return as on 31st March, 2016:

Sr. No.	Particulars	(₹)
a.	Return on Opening balance of Fair Value of Plan Assets (₹ 2,00,000 × 0.1025)	20,500
b.	Return on Net Contribution Received [Contribution – Benefits Paid] [98,000 – 38,000) × 0.05]	3,000
c.	**Expected Return on Plan Assets**	**23,500**

Note: Equivalent half yearly compounding interest rate

$= \sqrt{1 + \text{Expected rate of return}} - 1$

$= \sqrt{1 + 0.1025} - 1 = 0.05$ or 5%

(b) The given problem is based upon AS-26, which provides for amortisation of intangible assets, over the useful life of the assets. In the given case there is no problem as the amortisation is being done as per SLM

method, in 12 years as per company's policy. Again it is being shown in the balance sheet at the depreciated value.

But here it is not clear in the question about the nature of the intangible assets, if we assume it as goodwill then it should be amortised within 10 years. In that case amortisation is not proper. Accordingly, Global Ltd. would be required to restate the carrying amount of intangible assets as on 01-04-2015 at ₹ 120 lakhs less ₹ 36 lakhs (₹ 120 lakhs/10 years × 3 years) ₹ 84 lakhs. The difference of ₹ 6 lakhs i.e. (₹ 90 lakhs – ₹ 84 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 84 lakhs would be amortized over remaining 7 years by ₹ 12 lakhs per year.

—— Space to write important points for revision ——

2016 - June [6] (b) A Ltd. has its financial year ended 31- 03 - 2016, fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the probable outcomes as below:

Result	Probability	Amount of Loss (₹)
For first ten cases:		
Win	0.5	--
Loss — low damages	0.3	80,000
Loss — high damages	0.2	1,00,000
For remaining five cases:		
Win	0.6	--
Loss — low damages	0.3	70,000
Loss — high damages	0.1	2,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others. Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. **(8 marks)**

Answer:

According to AS 29 'Provisions, Contingent Liabilities and contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied;

(i) present obligation must exist on balance sheet date;
(ii) present obligation must be probable causing outflow of resources embodying economic benefits;
(iii) no provision for cost that needs to be incurred to operate in the future or future operating losses;
(iv) it is not necessary to identify the party to whom obligation is owed, it may be public at large;
(v) when obligations arises due to changes in the law, provision should be recognised only when the legislation is virtually certain to be enacted;

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next 10 cases is 60% and for remaining 5 cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

Expected loss in next 10 cases = 30% of ₹ 1,20,000 + 10% of ₹ 2,00,000 = ₹ 56,000.

Expected loss in remaining five cases = 30% of ₹ 1,00,000 + 20% of ₹ 2,10,000 = ₹ 72,000.

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of ₹ 9,20,000 (₹ 56,000 × 10 + ₹ 72,000 × 5) as contingent liability.

—— Space to write important points for revision ——

2016 - June [7] (b) ABC Ltd. has three segments viz. A, B and C. The total assets of the company is ₹ 20 crores. The assets of each of the above segments are as under:

	₹ in crores
Segment A	2.10
Segment B	8.90
Segment C	9.00
	20.00

Assets of each segment include deferred tax assets of ₹ 0.60 crores in A, ₹ 0.50 crores in B and ₹ 0.40 crores in C.

The accountant of ABC Ltd. contends that all the segments are reportable segments. Comment. **(8 marks)**

Answer:

According to AS-17: Segment Reporting, segment assets do not include income tax assets. The revised assets and reportable segments can be showed as:

Particulars	**Segments**			
	A	**B**	**C**	**Total**
	₹ in crores	**₹ in crores**	**₹ in crores**	**₹ in crores**
Segment Assets	2.10	8.90	9.00	20.00
Less: Deferred Tax Assets	(0.60)	(0.50)	(0.40)	(1.50)
Net Segment Assets	1.50	8.40	8.60	18.50
Percentage to total net segment assets	8.11%	45.40%	46.49%	100%

AS per As 17 'Segment Reporting', one of the criteria for identification of a business segment as a reportable segment is, when its segment assets are 10% or more of the total assets of all segments accordingly the following are reportable segments B and C.

2016 - Dec [1] {C} Answer the following:

(a) SWIFT Ltd. acquired a patent at a cost of ₹ 144 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 24 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 48 lakh, ₹ 72 lakh, ₹ 60 lakh, ₹ 56 lakh and ₹ 52 lakh respectively.
Find out the amortization cost of the patent for each of the years, as per AS-26.

(b) PLATINUM LTD. supplied the following information:

Net profit for 2014-15	₹ 33 lakh
Net profit for 2015-16	₹ 49.50 lakh
No. of shares before rights issue	1,65,000
Rights issue ratio	One for every four held
Right issue price	₹ 270
Date of Exercising Rights Option	30th June, 2015 (fully Subscribed on this date)
Fair value of share before rights issue	₹ 405

You are required to compute:
(i) Basic earnings per share and
(ii) Adjusted earnings per share as per AS-20.

(c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability as per AS-22 and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Particulars	₹

Accounting profit	15,00,000
Book profit as per MAT	13,50,000
Profit as per Income-tax Act	2,00,000
Tax rate	30%
MAT rate	7.50%

(5 marks each)

Answer:

(a)

Total cost of the patent is ₹ 144 lakhs.

Amortization for first 3 years = (144/6) × 3 = ₹ 72 lakhs.

Unamortized amount of ₹ 144 lakhs – ₹ 72 lakhs = ₹ 72 lakhs to be written off for next 5 years in proportion of cash flows from the product in these years. The amount to be written off during next year's calculated as follows:

Year	Net cash flow (₹)	Ratio	Amortization Amount (₹)
4	48	0.167	12.02
5	72	0.25	18.00
6	60	0.208	14.98
7	56	0.194	13.97
8	52	0.181	13.08
Total	288	1.00	72.00

(b) Basic EPS: Profit available to equity shareholders/ No. of shares

	2014 – 2015	2015 – 2016

Basic EPS	$\frac{33,00,000}{1,65,000}$ = ₹ 20 per share	$\frac{49,50,000}{1,65,000}$ = ₹ 30 per share
Adjusted earnings per share	$\frac{33,00,000}{1,65,000 \times 1.070}$ = ₹ 18.69 per share	$\frac{49,50,000}{(1,65,000 \times 1.07 \times 0.25) + (2,06,250 \times 0.75)}$ = $\frac{49,50,000}{1,98,825}$ = ₹ 24.90 per share

Right factor = $\frac{\text{Fair value per share prior to right issue}}{\text{Theoretical ex-right fair value per share}}$	405/378 = 1.071

Right factor:

Theoretical Ex-right Fair Value =

$$\frac{\text{Aggregate fair value of share prior to right issue + Proceeds from right issue}}{\text{No. of shares outstanding after right issue}}$$

$$= \frac{(₹405 \times 1,65,000) + (₹270 \times 41,250)}{2,06,250} = \frac{7,79,62,500}{2,06,250}$$

= ₹ 378.

(c)

Tax expense as per accounting profit	15,00,000 × 30%	= ₹ 4,50,000
Tax as per Income tax profit	2,00,000 × 30%	= ₹ 60,000
Tax as per MAT	13,50,000 × 7.5%	= ₹ 1,01,250
Deferred tax liability as on 31-03-2016 (Tax expense – Current tax)	4,50,000 – 60,000	= ₹ 3,90,000

Amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Current tax	₹ 60,000
Deferred tax liability	₹ 3,90,000
Excess of MAT over current tax	₹ 41,250
Total	₹ 4,91,250

Space to write important points for revision

2016 - Dec [7] (a) PARASHI LTD. granted ₹ 15 lakh loan to its employees on April 1, 2015 at a concessional interest rate 4% per annum. Loan is to be repaid in five equal annual installments along with interest. Market rate of interest for such loan is 10% per annum.

Required:

(i) Record the entries for the year ended 31st March, 2016 for the loan transaction.

(ii) At what value loan should be recognized initially and also calculate the amortized cost for all the subsequent five years, keeping in view provisions of AS-30 (Financial instruments: Recognition and Measurement).

Given: The present value of ₹ 1 receivable at the end of each year based on discount factor of 10% is as under:

Year ended March 31	2016	2017	2018	2019	2020
PVIF (at 10%)	0.9091	0.8264	0.7513	0.6830	0.6209

(8 marks)

Answer:

(i) Calculation of Initial Recognition Amount of Loan to Employees: (That will be discount P.V. of future cash flows from the repayment of the loan)

Year ended March, 31	Cash inflow		Total	PV factor 10%	Present value
	Principal ₹	Interest @ 4% ₹			
2016	3,00,000	60,000	3,60,000	0.9091	3,27,276
2017	3,00,000	48,000	3,48,000	0.8264	2,87,587
2018	3,00,000	36,000	3,36,000	0.7513	2,52,437
2019	3,00,000	24,000	3,24,000	0.6830	2,21,292
2020	3,00,000	12,000	3,12,000	0.6209	1,93,721
Present value or fair value					12,82,313

Entries:

	₹	₹
1. Staff Loan A/c Dr. To Bank A/c	15,00,000	 15,00,000
2. Staff Cost Dr. To Staff Loan A/c	2,17,687	 2,17,687

(As the value of loan is ₹ 12,82,313. It will be initially recognized at this value and balance amount debited to staff cost account.)

(ii) Calculation of amortized cost of loan to employees at the end of each year:

Year ended March, 31	Balance ₹ (1)	Interest to be recognized (10%) ₹ (2)	Repayment including interest ₹ (3)	Amortized cost (Closing Balance) ₹ (4) = (1+2) – (3)
2016	12,82,313	1,28,231	3,60,000	10,50,544
2017	10,50,544	1,05,054	3,48,000	8,07,598
2018	8,07,598	80,760	3,36,000	5,52,358
2019	5,52,358	55,236	3,24,000	2,83,594
2020	2,83,594	28,406 (Balancing fig.)	3,12,000	Nil

—— Space to write important points for revision ——

2016 - Dec [7] (b) X Ltd. had the following summarised Balance Sheet as at 31st March, 2015:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Stock	3,75,000	Land	2,00,000
Retained Earnings	1,22,500	Plant and Machinery	3,37,500
Bonds Payable	1,25,000	Investments	1,00,000
Long-term loan	1,27,500	Account Receivable	1,50,000
Current Liabilities	75,000	Cash	37,500

Total	8,25,000	Total	8,25,000

During 2015-16, the following transactions took place:

(i) A piece of land was purchased for ₹ 38,750 in cash.

(ii) Bonds payable worth ₹ 30,000 were paid in cash at face value.

(iii) An additional amount of ₹ 1,00,000 was received in cash on issue of equity shares.

(iv) Dividend totalling ₹ 46,875 was paid.

(v) Net income for 2015-16 was ₹ 1,42,250, after allowing depreciation of ₹ 47,500.

(vi) Another land was purchased through the issuance of bonds worth ₹ 1,12,500.

(vii) A part of investments portfolio was sold for ₹ 64,375 in cash. The transaction resulted in a gain of ₹ 6,875.

(viii) Current liabilities increased to ₹ 90,000 as on 31.03.2016.

(ix) Accounts receivable as on 31.03.2016 total ₹ 1,90,000.

Prepare a statement of cash flow for 2015-16 using indirect method, as per AS-3 (Revised). **(8 marks)**

Answer:

Cash Flow Statement for the year ended 31.03.2016

Cash Flows from Operating Activities	₹	₹
Net Profit	1,42,250	
Add: Depreciation	47,500	
Less: Gain on sale of investment	(6,875)	
Operating profit before working capital changes	1,82,875	
Add: increase in current liabilities	15,000	
Less: increase in account receivable	(40,000)	
Net Cash flow from operating activities		1,57,875
Cash flow from Investing Activities		
Sale of investment	64,375	
Purchase of Land	(38,750)	

Net Cash from investing activities		25,625
Cash Flows from Financing Activities		
Issue of shares	1,00,000	
Redemption of Bonds	(30,000)	
Dividend paid	(46,875)	
Net Cash from financing activities		23,125
Net increase in cash and cash equivalents during the period		2,06,625
Add: Cash and cash equivalents in the beginning of the period		37,500
Cash and cash equivalents at the end of the period		2,44,125

Note: Significant non-cash transaction: Purchase of land by issue of Bonds ₹ 1,12,500.

—— Space to write important points for revision ——

2017 - June [2] (a) Shiva Infrastructures Limited obtained a contract for construction of a bridge for ₹ 100 Lakhs. The contract will be completed within 3 years for which total cost to be incurred is ₹ 85 Lakhs. The following data pertain to the construction period: **(₹ in Lakhs)**

Particulars/Year	**I**	**II**	**III**
Cumulative costs incurred to date	30	70	85
Estimated cost yet to be incurred at year end	60	10	—
Progressive billing made during the year	20	65	15
Collections of billings	15	60	25

You are required to calculate the stage of completion and profit recognized in Statement of Profit and Loss as per AS-7 **(8 marks)**

(b) Compute Basic and Adjusted Earnings per share from the following information:

Net Profit for 2015-16	₹ 44 Lakhs
Net Profit For 2016-17	₹ 65 Lakhs
No. of shares before Rights Issue	110000
Right Issue Ratio	Two for every four held
Right Issue Price	₹ 180
Date of exercising Rights Option	31st July 2016
Fair Value of shares before Right Issue	₹ 270

(8 marks)

Answer:

(a)

Particulars	**₹ in Lakhs**	**₹ in Lakhs**	**₹ in Lakhs**
Initial amount of Revenue agreed in contract	100	100	100
Variation	–	–	–
Total Contract Revenue (A)	100	100	100
Contract Cost Incurred	30	70	85
Contract cost yet to be incurred to complete	60	10	–
Total Estimated Contract Cost (B)	90	80	85
Estimated Profit [(A) – (B)]	10	20	15
Stage of Completion	$\frac{30}{90} \times 100$ = 33.33%	$\frac{70}{80} \times 100$ = 87.5%	$\frac{85}{85} \times 100$ = 100%

Profit to be recognized in statement of profit as per AS-7

Particulars	Year I	Year II	Year III
(A) Stage of Completion in %	33.33%	87.50%	100%
(B) Revenue to be recognized Total Contract Revenue × Stage of Completion i.e. 100 Lakhs × A	33.33	87.50	100.00
(C) Cumulative Cost Incurred till the year end	30.00	70.00	85.00
(D) Cumulative Profit to be recognized at the end of each year (Revenue Recognized each year-Cumulative Cost) i.e. (B – C)	3.33	17.50	15.00
(E) Profit/(Loss) recognized each year = Cumulative profit to be recognized at the end of current year – Cumulative Profit recognized till previous year	3.33	14.17 i.e. (17.50 – 3.33)	(2.50) i.e. (15.00 – 17.50)

(b) EPS of the year 2015 – 2016 (originally reported) = $\frac{₹44,00,000}{₹1,10,000}$ = ₹ 40

EPS for the year 2015 – 2016 (Restated for the Right Issue)

$= \frac{₹44,00,000}{₹1,10,000 \times 1.125}$

$= \frac{₹44,00,000}{₹1,23,750}$ = ₹ 35.56

EPS of the year 2016 – 2017 including effect of Right issue

$= \frac{₹44,00,000}{₹1,23,750}$

$= \frac{₹65,00,000}{\left(₹1,10,000 \times 1.125 \times \frac{4}{12}\right) \times \left(1,65,000 \times \frac{8}{12}\right)} \times \frac{₹65,00,000}{₹1,51,250}$ = ₹ 42.98

Working Notes:

1. Calculation of Theoretical Ex- Rights Fair Value Per Share

$$\frac{\text{Fair Value of all outstanding Shares Immediately prior to right issue} + \text{Total amount received from execise of rights}}{\text{Number of Shares outstanding before exercise of rights} + \text{Shares issued in the exercise of rights}}$$

$$= \frac{(1,10,000 \times 270) + \left(1,10,000 \times \frac{2}{4}\right) \times 180}{1,10,000 + 55,000}$$

$$= \frac{₹2,97,00,000 + ₹99,00,000}{₹1,65,000}$$

= ₹ 240

2. Calculation of Adjustment Factor

$$= \frac{\text{Fair Value per Share before exercise of rights}}{\text{Theoretical Ex-rights Fair Value per share}} = \frac{₹270}{₹240} = 1.125$$

—— Space to write important points for revision ——

2017 - June [3] (a) Sewada Ltd. made the following payments during the year ended 31st March 2017:

	Payment made for	₹ in Lakhs
(i)	To acquire a Software	204
(ii)	To acquire a Website for a period of 8 years	165
(iii)	To acquire a Copyright for a period of 15 years	135
(iv)	To acquire Goodwill of a firm	155
(v)	To acquire Goodwill arising under amalgamation in the nature of purchase	110
(vi)	To acquire a Patent for a period of 5 years. The net cash flows from the product during these 5 years are expected to be ₹ 36 Lakhs; ₹ 46 Lakhs; ₹ 44 Lakhs; ₹ 40 Lakhs and ₹ 34 Lakhs	60

You are required to find out the amortization cost of the each of the item to be charged to Statement of Profit and Loss as per AS-26. **(8 marks)**

Answer:

(i) Amortization Cost of Software = ₹ 204 Lakhs/5 = ₹ 40.80 Lakhs per year (Since maximum amortization period of software is 5 years)

(ii) Amortization Cost of Website = ₹ 165 Lakhs/5 = ₹ 33 Lakhs per year (Since maximum amortization period of Website is 5 years)

(iii) Amortization Cost of Copy-right = ₹ 135 Lakhs/10 = ₹ 13.50 Lakhs per year (Since maximum amortization period of Copy-right is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(iv) Amortization Cost of Goodwill = ₹ 155 Lakhs/10 = ₹ 15.50 Lakhs per year (Since maximum amortization period of Goodwill is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(v) Amortization Cost of Goodwill arising under amalgamation in the nature of purchase = ₹ 110 Lakhs/5 = ₹ 22 Lakhs per year (Since maximum amortization period of such Goodwill is 5 years)

(vi) Amortization Cost of Patent

Year	Net Cash Flow (₹)	Amortization Ratio	Amortization Amount (₹)
1	36,00,000	0.18	10,80,000
2	46,00,000	0.23	13,80,000
3	44,00,000	0.22	13,20,000
4	40,00,000	0.20	12,00,000
5	34,00,000	0.17	10,20,000
	2,00,00,000	1.00	60,00,000

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2017 - Dec [2] (a) N. Ram Co. are heavy engineering contractors specializing in construction of dams. From the records of the company the following data is available pertaining to year ended 31st March, 2017:

	₹ in Crores
Total Contract Price	720
Work Certified	300

Work pending certification	60
Estimated further cost to completion	420
Stage wise payments received	264
Progress payments in pipe line	72

Using these data and applying the relevant accounting standard you are required to

(i) compute the amount of profit/loss for the year ended 31st March, 2017.

(ii) arrive at the contract work in progress as at the end of financial year 2016-2017.

(iii) determine the amount of revenue to be recognized out of the total contract value.

(iv) work out the amount due from/to customers as at year end.

(v) list down relevant disclosures with figures as per relevant accounting standard. **(8 marks)**

Answer:

(i) **Calculation of Contract Work – in – Progress and Stage of Completion**

(₹ in Crores)

Particulars	**2017**
A. Work Certified	300
B. Work pending Certification	60
C. Contract Work – in – Progress (A + B)	**360**
D. Estimated Cost for Completion of Contract	420
E. Total Completion Cost of Project (C + D)	780
F. Stage of Completion (Cost Incurred till year End/ Total Completion Cost of Project) i.e. (C/E)	0.461538 or 46.1538%

(ii) **Revenue and Profit/Loss to be recognized in statement of profit as per AS – 7**

(₹ in Crores)

Particulars	**2017**

A. Revenue to be recognized Total Contract Revenue × Stage of Completion i.e. ₹ 720 Lakhs x 46.1538%	332.31
B. Cost Incurred till the year end (Contract Expenses recognized during the year)	360.00
C. Loss to be recognized at the end of each year (Revenue Recognized in year – Cost Incurred till year End) i.e. (A – B)	27.69
D. Total Expected Loss on Contract i.e. Total Estimated Cost for Completion of Contract – Total Contract Revenue = ₹ 780 Lakhs – ₹ 720 Lakhs	60.00
E. Further Loss to be recognized in year = D – C	32.31

(iii) **Amount due from/to customers**

(₹ **in Crores)**

Particulars	2017
A. Contract Work – In – Progress	360.00
B. *Add:* Contract Revenue Recognized during the year	332.31
C. *Less:* Contract Expenses Recognized during the year	360.00
D. *Less:* Further loss recognized during the year	32.31
E. *Less:* Progress Payment Received/to be Received (₹ 264 Lakhs + ₹ 72 Lakhs)	336.00
F. Amount Due from/(to) Customers (A + B – C – D – E) As this amount is in negative it would be treated as amount due to customers and will be shown in current liabilities.	(36)

(iv) **The relevant disclosures under AS 7 (Revised) are given below:**

	₹ **in crores**
Contract revenue till 31st March, 2017	332.31

Contract expenses till 31st March, 2017	360.00
Recognized losses for the year 31st March, 2017	(60)
Progress billings (264 + 72)	336
Retention (billed but not received from contractee)	72
Gross amount due to customers	36

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2017 - Dec [2] (b) Mahi Ltd. began construction of a new building on 1st April, 2016. It obtained ₹ 50 Lakhs special loan from State Bank of India to finance the construction of the building on 1st April, 2016 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 80 Lakhs	11%
₹ 150 Lakhs	13%

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

	₹ in Lakhs
April 2016	50
July 2016	55
October 2016	125
March 2017	36

Building was completed by 31st March, 2017. Following the principles prescribed in AS-16 Borrowing Cost, calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing cost in respect of the building. **(8 marks)**

Answer:

(i) **Computation of average accumulated expenses**

	₹ in Lakhs
₹ 50 Lakhs × 12/12	50.00
₹ 55 Lakhs × 9/12	41.25

₹ 125 Lakhs × 6/12	62.50
₹ 36 Lakhs × 1/12	3.00
	156.75

(ii) **Calculation of average interest rate other than for specific borrowings.**

Amount of Loan (₹)	Rate of Interest	Amount of Interest (₹)
₹ 80 Lakhs	11%	= 8.80
₹ 150 Lakhs	13%	= 19.50
₹ 230 Lakhs		= 28.30
Weighted average rate of interest 28.30/230		= 12.304% (approx)

(iii) **Interest on average accumulated expenses**

	₹ in Lakhs
Specific borrowings (₹ 50 Lakhs × 10%)	5.0000
Non-specific borrowings ₹ 156.75 – ₹ 50 = ₹ 106.75 Lakhs × 12.304%	13.1345
Amount of interest to be capitalized	18.1345

Actual Interest Cost

(50 ×10%) + (80×11%) + (150×13%) = 33.3

Amount to be capitalised is ₹ 18.1345 as it is not more than 33.3 (actual interest)

(iv) **Total expenses to be capitalized for building**

	₹ in Lakhs
Cost of building (50 + 55 + 125 + 36) Lakhs	266.0000
Add: Amount of interest to be capitalized	18.1345
	284.1345

(v) **Journal Entry** **₹ in Lakhs**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.17	Building A/c Dr. To Bank A/c (Being amount of cost of building and borrowing cost thereon capitalized)		284.1345	 284.1345

Space to write important points for revision

2017 - Dec [3] (a) Sanwar Ltd. made a loss of ₹ 50 Lakhs for the year ending 31st March, 2015. For the year ending 31st March, 2016 and 31st March, 2017 it made profits of ₹ 25 Lakhs and ₹ 32 Lakhs respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 30%. By the end of the 31.03.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending on 31st March, 2016 and 2017 for tax purposes. Prepare a statement showing Profit and Loss before Tax and after Tax for the years ending 31st March, 2015, 2016 and 2017. **(8 marks)**

Answer:

Particulars	2014-15	2015-16	2016-17
(a) Accounting Profit / Loss	(50,00,000)	25,00,000	32,00,000
(b) Income Tax Profit before adjustment	(50,00,000)	25,00,000	32,00,000
(c) *Less:* Set off of Brought Forward Losses	-	(25,00,000)	(25,00,000)

(d) Loss Carried Forward to Subsequent Years	(50,00,000)	(25,00,000)	-
(e) Income Tax Profit = (b) – (c)	NIL	NIL	7,00,000
(f) Difference between Accounting and Taxable Profit (e – a)	50,00,000	(25,00,000)	(25,00,000)
(g) Income Difference classified into: 1. Permanent Diff. 2. Timing Diff. – Originating 3. Timing Diff. – Reversing	 NIL (50,00,000) NA	 NIL NA (25,00,000)	 NIL NA (25,00,000)
(h) Current Tax = (e) × 30%	-	-	2,10,000
(i) Deferred tax - DTA / (DTL) originating during the year	(50,00,000 × 30%) 15,00,000	-	
- (DTA) / DTL reversing during the year	-	(7,50,000) (25,00,000 ×30%)	(7,50,000) (25,00,000 ×30%)
(j) Tax Expense = Current Tax + Deferred Tax	(15,00,000)	7,50,000	9,60,000
(k) Book Profit after Tax = (a – j)	(35,00,000)	1,750,000	22,40,000

—— Space to write important points for revision ——

2018 - June [2] (a) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing Balance	500 units
	₹ per unit
Cost price including GST	200
GST (Input credit is receivable on the GST paid)	10

Freight inward	20
Unloading charges	10
Replacement cost	150
Finished Goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20000 units.

Calculate the value of the closing stock, when

(i) Realizable Value of the Finished Goods Y is ₹ 440 and Realizable Expenses ₹ 40

(ii) Realizable Value of the Finished Goods Y is ₹ 330 and Realizable Expenses ₹ 30 **(4 + 4 = 8 marks)**

Answer:

Calculation of Cost per unit of Raw Material

Particulars	₹
Cost Price including GST	200
Less: GST	10
Cost Price net of GST	190
Add: Freight Inward	20
Add: Unloading Charges	10
Cost per unit of Raw Material	220

Calculation of Cost per unit of Finished Goods

Particulars	₹
Raw Materials Consumed	220

Add: Direct Labour	60
Add: Direct Overhead	40
Add: Fixed Overhead (₹ 2,00,000/20,000 units)	10
Cost per unit of Finished Goods	330

Calculation of Value of Closing Stock when Net Realisable Value of Finished Goods is more that Cost of Finished Goods i.e. ₹ 440 - ₹ 40 = ₹ 400.

Particulars	₹
Cost of Raw Materials (₹ 220 × 500 units)	1,10,000
Cost of Finished Goods (₹ 330 × 1,200 units)	3,96,000
Value of Closing Stock	5,06,000

Calculation of Value of Closing Stock when Net Realisable Value of Finished Goods is less than Cost of Finished Goods i.e. ₹ 330 - ₹ 30 = ₹ 300

Particulars	₹
Raw Materials to be valued at Replacement Cost (₹ 150 × 500 units)	75,000
Finished Goods to be valued at Net Realisable Value (₹ 300 × 1,200 units)	3,60,000
Value of Closing Stock	4,35,000

—— Space to write important points for revision ——

2018 - June [2] (b) The Chief Accountant of STOCK Ltd. gives the following data regarding its six segments:

							₹ in lakhs
Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	50	25	10	5	5	5	100
Segment Results	–50	–140	80	10	–10	10	–100

Segment Revenue	200	320	200	90	90	100	1000

Identify the Reportable Segments as per AS-17 **(8 marks)**

Answer:

As per Para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

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

(ii) Its segment result whether profit or loss is 10% or more of:
The combined result of all segments in profit or the combined result of all segments in loss, whichever is greater in absolute amount; or

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

Criteria For Reportable Segment	**Reportable Segment Fulfilling Criteria**
1. 10% of Total Revenue (i.e.10% of ₹ 1,000 Lakhs)	M, N, O and R
2. 10% of Total Result (i.e.10% of ₹ 200 Lakhs)	M, N, O
3. 10% of Total Assets (i.e.10% of ₹ 100 Lakhs)	M, N, O

Hence, Reportable Segments as per AS 17 are M, N, O and R only.

—— Space to write important points for revision ——

2018 - June [3] (a) From the given information, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March, 2018. The tax rate applicable is 35%.

(i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.

(ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.

(iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.

(iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.

(v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law. **(8 marks)**

Answer:

COMPUTATION OF DTA / DTL (₹)

Description	Adj	Net Amt Diff.	Nature of	Treatment	DTA/DTL at 35%
Profit before Tax as per Books		XXX			
Add: Depreciation as per Books	7,42,900		Timing	Difference Originating in the current year. So, Create DTL.	(42,875)
Less: Depreciation as per IT	(8,65,400)	(1,22,500)	Permanent	Ignored	NA
Add: Provision disallowed in IT		(54,300)	Timing	Difference originating in the current year. So, Create DTA.	2,18,225
Add: Share Issue Exp. Disallowed u/s 35D		6,23,500	Permanent	Ignored	NA

Add: Expense					
Disallowed under IT (assumed to be permanent diff)		7,84,500			
Add: Donation (50% of 2 Lakhs)		1,00,000	Permanent	Ignored	NA
Total Income		XXX			

—— Space to write important points for revision ——

2018 - June [3] (b) What are the objectives and scopes of Ind AS–1–Presentation of Financial statements?

A Company made a Profit of ₹ 15 lakhs by selling a portion of vacant factory land and in the same year lost ₹ 5 lakhs due to a Fire, which destroyed a part of Factory Shed, which was not in use. The Company Accountant wanted to set off the loss of ₹ 5 lakhs against the Profit on sale of land. Advise whether it would be correct as per Ind AS–1. **(8 marks)**

Answer:

Objective:

Ind AS 1 - Presentation of Financial Statements prescribes the basis for presentation of General Purpose Financial Statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope:

An entity shall apply this Standard in preparing and presenting General Purpose Financial Statements in accordance with Indian Accounting Standards (Ind AS).

An Entity should not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS. When material, such items are to be disclosed separately. Therefore, disclosing Net Profit by setting off loss due to fire against Profit from sale of Land is not correct. As per Ind AS-1, Profit on Sale of Land and loss due to fire should be disclosed separately.

2018 - Dec [2] (a) State whether or not Ind AS are applicable for the following Companies/Banks. If yes, also state the effective date of applicability.

(i) A chemical company having Net Worth below INR 250 crore already listed on National Stock Exchange in India.
(ii) A publishing company having Net Worth below INR 250 crore in process of listing on National Stock Exchange in India.
(iii) An Unlisted FMCG Company having Net Worth of INR 250 crore.
(iv) An Unlisted NBFCs having Net Worth of INR 500 crore
(v) An Unlisted NBFCs having Net Worth of INR 250 crore
(vi) Scheduled Commercial Banks (excluding RRB's and UCBs)
(vii) Insurance Companies
(viii) A chemical company listed on SME exchange
(ix) An Unlisted FMCG Company having Net Worth below INR 250 crore
(x) A listed NBFCs having Net Worth below INR 250 crore
(xi) A Regional Rural Bank having Net Worth of INR 250 crore
(xii) An Urban Cooperative Bank having Net Worth of INR 250 crore

(8 marks)

Answer:

Companies	Whether applicable	With effect from
1. A chemical company having Net Worth below 250 crore already listed on National Stock Exchanges in India .	Yes	1st April, 2017 (with comparatives)
2. A publishing company having Net Worth below 250 crore in process of listing on National Stock Exchanges in India.	Yes	1st April, 2017 (with comparatives)
3. An Unlisted FMCG Company having	Yes	1st April, 2017

	Net Worth of INR 250 crore		(with comparatives)
4.	An Unlisted NBFCs having Net Worth of INR 500 crore.	Yes	1st April, 2018 (with comparatives)
5.	An Unlisted NBFCs having Net Worth of INR 250 crore.	Yes	1st April, 2019 (with comparatives)
6.	0 Scheduled Commercial Banks (excluding RRB's & UCBs)	Yes	1st April, 2019 (with comparatives)
7.	0 Insurance Companies	Yes	1st April, 2020 (with comparatives)
8.	A chemical company listed on SME exchange.	No	
9.	An Unlisted FMCG Company having Net Worth below INR 250 crore.	No	
10.	A listed NBFCs having Net Worth below INR 250 crore	No	
11.	A Regional Rural bank having Net Worth of INR 250 crore.	No	
12.	An Urban Co-operative bank having Net Worth of INR 250 crore.	No	

Space to write important points for revision

2018 - Dec [2] (b) Zee Ltd. purchased raw material of 20000 units at ₹ 10 per kilogram during the year 2017-2018. They provide you with the following other information for the year ended 31st March, 2018:

Particulars	Units	₹
Opening inventory:		
Finished goods	2000	50,000
Raw materials	2200	22,000

Labour		1,53,000
Fixed overhead		1,50,000
Sales	20000	5,60,000
Closing inventory:		
Finished goods	2400	
Raw materials	1800	

The expected production of the finished product for the year was 30000 units. Each unit of finished product requires one unit of Raw Material purchased. Due to a fall in the market demand, the price of the finished goods in which the raw material is incorporated is, expected to be sold at ₹ 20 per unit. The replacement cost of raw material was ₹ 9.50 per unit on the closing day of the accounting period.

You are required to value the closing inventory as on 31st March, 2018 with reference to Ind AS-2. **(8 marks)**

Answer:

Calculation of cost for closing inventory (Finished Goods)

Particulars	₹
Cost of raw material consumed (Refer W.N.) (20,400 kg x ₹ 10 per kg)	2,04,000
Director labour	1,53,000
Fixed overhead $\frac{1,50,000}{30,000} \times 20,400$	1,02,000
Cost of production	4,59,000
Cost of closing inventory of finished goods per unit (4,59,000/20,400)	₹ 22.50
Net realizable value (NRV) per unit	**₹ 20.00**

Since net realizable value is less than cost, closing inventory of finished goods will be valued at ₹ 20 per unit.
As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50 per kg.

Therefore, value of closing inventory :

Finished goods (2,400 units x ₹ 20 per unit)	₹ 48,000
Raw materials (1,800 kg x ₹ 9.50 per kg)	₹ 17,100
	₹ 65,100

Working Note :

Calculation of Raw material as consumed during the year

	Units in kg
Opening inventory of raw material	2,200
Add: Purchases of raw material	20,000
	22,200
Less: Closing inventory of raw material	(1,800)
Raw material consumed	20,400

—— Space to write important points for revision ——

2018 - Dec [3] (a) Bharat Tushar Ltd. borrowed funds for modernization and development of its factory as follows

Date on which Funds borrowed	**Funds Borrowed (₹)**	**Rate of Interest**
01.04.2018	12,00,000	13%
01.07.2018	40,00,000	14%
01.10.2018	16,00,000	15.5%

Expenditure incurred on Construction of a Building (₹)	**Date on which it is incurred**

6,00,000	01.04.2017
2,00,000	01.05.2017
3,00,000	01.07.2017
8,00,000	01.12.2017

The Construction of a Building completed on 31.12.2017. However, it was put to use only on 01.04.2018. A sum of ₹ 20 lakhs has been advanced for purchase of Plant & Machinery which was installed by 31st March, 2018. ₹ 29 lakhs has been utilized for working capital requirements. Show the treatment of Interest as per AS-16. **(8 marks)**

Answer:

As per AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time (usually 12 months or more) to get ready for its intended use or sale. If an asset is ready for its intended use or sale at time of its acquisition then it is not treated as a qualifying asset for that purposes of AS 16.

Particulars	Nature	Treatment of Interest
1. Construction of a building = ₹ 1.12 lakhs	Qualifying Asset	Interest to be capitalized As per W.N. (iii)
2. Advance for Purchase of Plant & Machinery	Not a Qualifying Asset*	Interest to be charged to P&L A/c.
*On the basis that Plant & Machinery is ready for its intended use at the time of its acquisition/purchase.		
3. Working Capital	Not a Qualifying Asset	Interest to be charged to P&L A/c.

Interest Costs to be charged to Profit & Loss Account = Total Interest – Interest to be capitalized = ₹ 7,00,000 – ₹ 1,12,000 = ₹ 5,88,000.

(I) **Calculation of Capitalized Rate**

Date of Loan	O/S Loan	Interest Rate	Months for Loan is O/S	Product	Total Interest
A	B	C	D	E = B x D	F = B x C x D/12
1/4/2017	12,00,000	13%	12	1,44,00,000	1,56,000
1/7/2017	40,00,000	14%	9	3,60,00,000	4,20,000
1/10/2017	16,00,000	15.5%	6	96,00,000	1,24,000
			Total	6,00,00,000	7,00,000

Average Amount Outstanding = 600,00,000/12 = 50,00,000

Capitalization Rate = (7,00,000 / 50,00,000) × 100 = 14 %

(II) **Calculation of Average Carrying Amount of the Building during a Period**

Expenditure incurred is incurred	Date on which it	Months	Products
A	B	C	D = A x C
6,00,000	01/04/2017	9	54,00,000
2,00,000	01/05/2017	8	16,00,000
3,00,000	01/07/2017	6	18,00,000
8,00,000	01/12/2017	1	8,00,000
		Total	96,00,000

Average carrying amount of Building during a period = 96,00,000 /12 = 8,00,000

(III) Interest to be capitalized = Average carrying amount of Building x Capitalization

Rate = ₹ 8,00,000 = 0.14 x ₹ 1,12,000

—— Space to write important points for revision ——

2018 - Dec [3] (b) Discuss the following situations with reference to relevant Accounting Standard regarding treatment in the Accounts:

(i) An airline is required by law to overhaul its aircraft once in every three years. A company which operates aircrafts does not provide any provision as required by law in its Final Accounts.

(ii) A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The Directors are of the opinion that the claim can be successfully resisted by the company. **(4 +4 = 8 marks)**

Answer:

Provision of AS 29: As per Para 14 of AS 29, 'Provision, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event ;

(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation ; and

(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provisions should be recognized.

If these conditions are not met, no provision should be recognized.

(i) **Advice :** In the given case, there is no present obligation, therefore no provisions is recognized as per AS 29. The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprises can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of three years. Assessment of probability of incurring fine and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than three years.

(ii) **Advice :** Since the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. The company will disclose the same

as contingent liability by way of the following note : "Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 900 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

—— Space to write important points for revision ——

2019 - June [2] (b) Following are the Extracts of Balance Sheets of Mirchiram Ltd.:

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Equity Share Capital	9,10,000	5,00,000
General Reserve	2,10,000	2,50,000
Profit and Loss A/c	9,50,000	(40,000)
Securities Premium	50,000	—
Capital Redemption Reserve	—	1,00,000
Capital Grant	8,00,000	Nil
Convertible Debentures (into equity shares at 25% premium)	—	2,00,000
Trade Payables	1,05,000	1,00,000
Goodwill	15,000	—
Plant and Machinery	7,65,000	5,00,000
Inventories	95,640	54,000
Trade Receivables	7,50,000	6,25,000
Less: Provision for Doubtful Debts	(1,90,000)	(1,50,000)
Voluntary Separation Payments	1,25,000	65,000

Additional Information:

(i) Depreciation on Plant and Machinery written off @ 15%

(ii) It was decided to value Inventories at cost whereas previously the practice was to value Inventories at cost less 10%. However the closing stock on 31st March, 2019 was correctly valued at cost.

(iii) On 31st March, 2019, the business of Y Ltd. was purchased for ₹ 60,000 payable in fully paid equity shares of ₹ 10 each at a premium of 20%. The assets included Inventories ₹ 26,640, Trade Receivables ₹ 10,000 and Machine ₹ 18,360.In addition Trade Payables of ₹ 15,000 were taken over.

(iv) Debtors of ₹ 2,30,000 were written off against the Provision for Doubtful Debts A/c during the year. Grant of ₹ 10,00,000 amortised in P&L A/c. Compensation received in a suit filed by the Company ₹ 90,000. Voluntary Separation Payments ₹ 50,000 adjusted against General Reserve.

Required: Calculate
(a) Cash Flow Operating Activities.
(b) Cash Flow from Investing Activities.
(c) Cash Flow From Financing Activities.
for preparing Cash Flow Statement as per AS-3. **(8 marks)**

Answer:

Cash flow statement
for the year ended 31st March, 2019:

A	Cash Flow from Operating Activities		₹
	Net Profit [9,50,000 - (40,000) + 10,000, (t/f to Reserve)]		10,00,000
	Add: Depreciation [(7,65,000 Á15/85)]		1,35,000
	Add: Goodwill amortised [60,000 - (26,640 + 10,000 + 18,360 - 15,000)] - 15,000		5,000
	Less: Under valuation of Opening stock (54,000 × 10/90)		(6,000)
	Less: Compensation received		(90,000)
	Less: Capital Grant amortised		(10,00,000)
	Operating Profit before Working Capital changes		44,000

	Add: Increase in Provision for doubtful debts	40,000	
	Less: Increase in Inventories [(95,640 - 26,640) - (54,000 + 6,000)]	(9,000)	
	Increase in Trade Receivables [(7,50,000 - 10,000) - 6,25,000]	(1,15,000)	
	Decrease in Trade Payables [(1,05,000 - 15,000) - 1,00,000]	(10,000)	(94,000)
	Operating Profit before extraordinary items		(50,000)
	Add: Compensation received		90,000
	Less: Voluntary Separation Payments [(1,25,000+50,000) - 65,000]		(1,10,000)
	Cash used in Operating Activities		(70,000)
B	Cash Flow from Investing Activities		
	Purchase of Machinery [(7,65,000+1,35,000) - 5,00,000 - 18,360]		(3,81,640)
C	Cash Flow from Financing Activities		
	Issue of Equity Share Capital [(9,10,000 – 50,000 (Vendor) - 1,00,000 (Bonus) – 1,60,000 Conversion) – 5,00,000] Grant Received		1,00,000 18,00,000

Space to write important points for revision

2019 - June [3] (a) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 80,000. The (internal rate of return) IRR of the investment is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. The present value of ₹ 1 due at the end of 1st 2nd 3rd year at 8% rate of interest is 0.9259, 0.8573 and 0.7938 respectively.

(i) Calculate unearned finance income.

(ii) Segregate the finance income in the hands of lessor. **(8 marks)**

Answer:

(i) Calculation of Annual Payment:

	₹
Cost of equipment	6,00,000
Less: PV of unguaranteed residual value for 3 years @ 8% (₹ 80,000 × 0.7938)	(63,504)
Fair value to be recovered from 3 years Annual Lease Payment	5,36,496
Annuity for 3 years @ 8% (0.9253 + 0.8573 + 0.7938)	2.577
Annual Lease Payment (₹ 5,36,496 / Annuity for 3 years @ 8%)	2,08,186

(ii) Unearned Finance Income:

	₹
Total Lease payment (₹ 2,08,186 × 3)	6,24,558
Add: Residual value	80,000
Gross investment	7,04,558
Less: Present / Fair value of Investment	(6,00,000)
Unearned Finance Income	1,04,558

(iii) Segregation of Finance Income

(All figures in ₹)

Year	Lease	Finance charges @ 8% on outstanding	Repayment	Outstanding
	Rentals	amount of the year		Amount
	(a)	(b)	(c)	(d)
		(d of previous year × 8%)	a-b	(d = d of previous year - c of current year)
0				6,00,000
I	2,08,186	48,000	1,60,186	4,39,814
II	2,08,186	35,185	1,73,001	2,66,813
III	2,08,186	21,373**	1,86,813	80,000*
	6,24,558	1,04,558	5,20,000	

*This amount is unguaranteed residual value of equipment i.e. ₹ 80,000

** Difference in interest value is due to approximation.

Alternative Calculation:

Year	Net Investment in the Lease = Receivable (₹)	Finance Income @ 8% on Nil (₹)	Total Lease Payments received from Leasee (₹)	Balance Reduction in Receivable (i.e. Principal) (₹)
1	**2**	**3 = 2 × 8%**	**4**	**5 = 4-3**
1	6,00,000	48,000	2,08,186	1,60,186
2	6,00,000 - 1,60,186 = 4,39,814	35,185	2,08,186	1,73,001
3	4,39,814 - 1,73,001 = 2,66,813	21,345	2,08,186	1,86,841
3 (end)	2,66,813 - 1,86,841 = 79,972	–	80,000 (URV)	(difference is due to rounding off) Nill

—— Space to write important points for revision ——

2019 - June [3] (b) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crore. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crore. Depreciation estimated for the financial year 2018-19 is ₹ 1crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant accounting standard for applicability of the impairment are satisfied:

(i) What should be carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakh, how would you answer to question (i) and (ii) above? **(8 marks)**

Answer:

(b) As per the requirements of the question, the following solution has been drawn on the basis of AS 28:

(₹ in crore)

(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.40
(ii)	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(iii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr-0.98 Cr)	1.42
	If the plant had been revalued 10 years ago	
	Debit to revaluation reserve	0.48
	Amount charged to Capital profit and loss (1.42-0.48)	0.94

Working Notes:

1. Calculation of closing Book Value as at 31st March, 2019:

	₹ in crore
Opening book value as on 01.04.2018	3.40
Less: Depreciation for financial year 2018-2019	(1.00)
Closing book value as on 31.03.2019 (before impairment)	2.40

2. Calculation of Estimated Net selling price on 31st March, 2019:

	₹ in crore
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of ₹ 1.20 Cr.)	(0.24)
Estimated net selling price as on 31.03.2019	0.96

3. Calculation of Estimated Value in Use of Plant on 31st March, 2019:

	₹ in crore
Estimated value in sue on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of ₹ 1.40 Cr.)	(0.24)

Estimated value in use as on 31.03.2019	0.98

4. Recoverable amount as on 31.03.2019 is equal to higher of Net selling price and value in use:

	₹ in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount - Recoverable amount i.e. (2.40 Cr. -098 Cr.)]	1.42
	0.98

Note: Since question requires computation of Impairment loss on 31.3.2019, hence impairment probability on 31.03.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year afer impairment and then calculate the impairment possibilities at the end of the year.

Accordingly the solution will be as follows:

	₹ in crore
Carrying amount before impairment on 1.4.2018 (20-16.60)	3.40
Recoverable amount i.e., higher of NSP (1.20 cr.) and the value in use (1.40 cr.)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 01.04.2018	1.40
Less: Depreciation for 2018-19 (as given in the question)	(1.00)
Carrying amount as on 31.03.2019	0.40
Recoverable amount as on 31.03.2019 (Refer W.N 2,3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

2019 - Dec [2] (b) State with reference to accounting standard (AS 2), how you will value the inventories in the following cases:

(i) Raw material was purchased at ₹100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kg of raw material is on stock at the year end. Replacement cost is ₹80 per kg.

(ii) In a production process, normal waste is 5% of input 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹1,000. The entire quantity of waste is on stock at the year end.

(iii) Per kg of finished goods consisted of –
Material cost- ₹100 per kg
Direct labour cost– ₹20 per kg
Direct variable production overheads – ₹10 per kg
Fixed production charges for the year on normal capacity of one lakh kg. are ₹10 lakhs. 2,000 kg of finished goods are on stock at the year end. **(8 marks)**

Answer:

(i) As per para24 of AS 2 (Revised) on Valuation of Inventories, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Hence, in the given case, the stock of 10,000 kgs of raw material will be valued at ₹ 80 per kg. The finished goods, if on stock, should be valued at cost or net realizable value whichever is lower.

(ii) As per para 13 of AS 2 (Revised), abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end.

1. Normal Loss Qty = 5% of 5,000 MT = 250 MT
2. Cost per Good unit = (5000 × ₹ 1,000)/(5000 – 250) = ₹ 1052.6316
3. Cost of Closing Inventory = (5,000 MT – 250 MT – 50 MT) × ₹ 1052.6316 = ₹ 49,47,368

(iii) In accordance with para 8 and 9 of AS – 2 (Revised), the cost of conversion include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Thus, cost per kg. of finished goods can be computed as follows:

	₹
Material Cost	100
Direct labour	20
Direct Variable production overhead	10
Fixed production overhead	10
	140

Thus, the value of 2,000 kgs. of finished goods on stock at the year ended will be ₹ 2,80,000 (2,000 kgs × ₹ 140).

—— Space to write important points for revision ——

2021 - Dec [1] Property, Plant & Equipment appeared at ₹ 50,00,000 in the Trial Balance of MALLYA co which is not a going concern. Property, Plant & Equipment are subject to depreciation @10% on WDV basis. Realizable value of Property, Plant & Equipment 80%. Realizable Expenses 5%. At

what amount depreciation will be shown in the Income Statement of MALLYA co. **(1 mark) [Sec. B - SAQ]**

Answer:

As Mallaya Co. is not a going concern, therefore Property. Plant & Equipment would be shown at Net Realizable Value. Hence the amount of Depreciation would be = ₹ 12,00,000 [₹ 50,00,000 – ₹ 38,00,000 (i.e. ₹ 50,00,000 x 0.80 x 0.95)]

—— Space to write important points for revision ——

2021 - Dec [2] While finalizing the financial statements of the year ending 31/03/2021 the company finds that the stock sheets of 31/03/2020 did not include two pages containing details of inventory worth ₹ 10 lakhs. Comment.

(1 mark) [Sec. B - SAQ]

Answer:

In this case, the stock sheet of 31/03/2020 (prior year) did not include two pages containing details of inventory worth ₹ 10 lakhs which is the omission, and this omission was detected in the current period i.e. 31/03/2021. Therefore, it is a prior item as per AS – 5. It has resulted in understatement of profit of previous period.

—— Space to write important points for revision ——

2021 - Dec [5] A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 500 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How will you deal with this case?

(1 mark) [Sec. B - SAQ]

Answer:

Since the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of resources. The company will disclose the same as a contingent liability by way of the following note: "Litigation is in the process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 500 lakhs. However, the

directors are of the opinion that the claim can be successfully resisted by the company."

—— Space to write important points for revision ——

2021 - Dec [8] A Cosmetic articles producing company provides the following information:

Particulars	Cold Cream	Vanishing Cream
January, 2020 - September, 2020 per month	5,00,000	5,00,000
October, 2020 - December, 2020 per month	2,50,000	7,50,000
January, 2021 - March, 2021 per month	0	10,00,000

The company has enforced a gradual change in product-line on the basis of an overall plan.

The Board of Directors of the company has passed a resolution in March, 2020 to this effect.

The company follows calendar year as its accounting year. State with reason whether this should be treated as a discontinuing operation.

(1 mark) [Sec. B - SAQ]

Answer:

The company is changing only the product mix and is not disposing of any of its components. Changing only the product mix is not a discontinuing operation as per AS 24.

—— Space to write important points for revision ——

2021 - Dec [9] On 1st April, 2020, the Share Capital of S Ltd. consists of ₹ 10 crore Equity Share Capital (₹ 10 each) and ₹ 12 crore, 10% Preference Share Capital (₹ 100 each) (Convertible into Equity Shares of ₹ 10 each).On 1st July, 2020, H Ltd. acquires 50 lac equity shares and 6.2 lac Preference

Shares of S Ltd. with a view to their subsequent disposal on 1st June, 2021? State how will you deal with this case as per AS 21.

(1 mark) [Sec. B - SAQ]

Answer:

Investment in S Ltd. shall be accounted for in accordance with AS 13. Hence, the Cost of Control is not required to be calculated on 31st March 2021.

—— Space to write important points for revision ——

2021 - Dec [10] P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd. How would you assess the situation from the viewpoint of AS 18 on Related Party Disclosures?

(1 mark) [Sec. B - SAQ]

Answer:

(1) P Ltd. has a direct economic interest in R Ltd to the extent of 14%, and through Q Ltd. in which it is the majority shareholder therefore it has further control of 12% in R Ltd. (i.e. 60% of Q Ltd is 20%). These two taken together (14% + 12%) make the total control of 26%.

(2) In the present case, the control of P Ltd. in R Ltd. directly and through Q Ltd. does not go beyond 26%. However, as per AS 18, significant influence may be exercised if investing party (P Ltd.) holds, directly or indirectly through intermediaries, 20% or more of the voting power of the R Ltd.

(3) As R Ltd. is a listed company and regularly supplies goods to P Ltd. therefore, related party disclosure, as per AS 18, is required.

—— Space to write important points for revision ——

2021 - Dec [11] Cashier of X Ltd. embezzled cash amounting to ₹ 5,00,000 during March, 2021. However same comes to the notice of Company management during April, 2021 only. Financial statements of the company are not approved by the Board of Directors of the company. With the help of provisions of AS 4 "Contingencies and Event Occurring after the Balance

Sheet Date" decide, whether the embezzlement of cash should be adjusted in the books of accounts for the ending March, 2021?

(1 mark) [Sec. B - SAQ]

Answer:

The embezzlement of cash should be adjusted as per AS – 4 in the books of accounts for the ending March 2021 because though the theft, by the cashier ₹ 5,00,000 was detected after the balance sheet date (before approval of financial statements) but it is additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date.

—— Space to write important points for revision ——

2021 - Dec [12] Y Ltd. purchased a machinery for ₹ 80 lakhs. (Useful life 4 years and residual value ₹ 16 lakhs). Government grant received is ₹ 32 lakhs. Refund of grant was made in the beginning of 3rd year. Calculate the Depreciation for the 3rd year if the Grant is credited to Deferred Grant Account. **(1 mark) [Sec. B - SAQ]**

Answer:

Depreciation to be provided in 3rd Year = 16 Lakhs

Depreciation in each year is calculated as $\frac{180 \text{ lakhs} - 16 \text{ lakhs}}{4 \text{ years}}$

—— Space to write important points for revision ——

2021 - Dec [13] Cashier of Y Ltd. embezzled cash amounting to ₹ 5,00,000 during March, 2021. However the same comes to the notice of Company only after approval of financial statements by the Board Directors of the company during April, 2021 only. How will you deal with this case?

(1 mark) [Sec. B - SAQ]

Answer:

If embezzlement of cash comes to the notice of company management only after approval of financial statements by the board of directors of the

company, then its treatment shall be done as a Prior Period item as per the provisions of AS 5. The nature and the amount of prior period items should be separately disclosed on the Statement of Profit and Loss in a manner that its impact can be perceived in the next year. This being is also an extraordinary item and as such disclosed separately.

—— Space to write important points for revision ——

2021 - Dec [14] The Chief Accountant of JIWARAM COFECTIONERS Ltd. gives the following data regarding its six segments:

							₹ in lakhs
Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	100	50	20	10	10	10	200
Segment Results	-100	-280	160	20	-20	20	-600
Segment Revenue	400	640	400	180	180	200	2000

Identity the Reportable Segments as per AS 17.

(1 mark) [Sec. B - SAQ]

Answer:

Reportable Segments as per AS – 17 are M, N, O and R

Criteria for identifying Reportable Segments Segments fulfilling Criteria

(1) 10% of Total Revenue i.e. 200 M, N, O and R

(2) 10% of Total Result (Profit or Loss whichever is greater in the absolute term) i.e. 40 M, N and O

(3) 10% of Total Assets i.e. 20 M, N and O

—— Space to write important points for revision ——

2021 - Dec [15] The Cost of the Closing Stock was ₹ 5,00,000. Realizable value 120%. Realizable Expenses 5%.At what amount stock wil be shown in the Income Statement of Mallaya co which is not a going concern.

(1 mark) [Sec. B - SAQ]

Answer:

Stock to be shown at Net Realizable Value since Mallaya Co. is not a going concern. The Net Realizable Value of Stock is ₹ 5,00,000 x 1.20 x 0.95 = ₹ 5,70,000

—— Space to write important points for revision ——

2021 - Dec [16] An airline is required by law to overhaul its aircraft once in every three years. A company which operates aircrafts does not provide any provision as required by law in its final account. State with reason whether there is any need for provision. **(1 mark) [Sec. B - SAQ]**

Answer:

No Present Obligation as per AS – 29 because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating aircraft. However, a provision should be recognized for the best estimate of any fines and penalties if the airline continues to operate aircraft for more than three years.

—— Space to write important points for revision ——

2021 - Dec [17] State the treatment of ₹ 20 lakhs received from the Central Govt. as subsidy for setting up a Plant in backward area. Cost of Plant ₹ 100 lakhs. **(1 mark) [Sec. B - SAQ]**

Answer:

As per AS 12, Government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds. In this case grant of ₹ 20 lakhs is in nature of promoters' contribution hence it should be credited to Capital Reserve which can neither be distributed as divided nor considered as deferred income.

—— Space to write important points for revision ——

2021 - Dec [18] X Ltd. purchased a machinery for ₹ 80 lakhs. (Useful life 4 years and residual value ₹ 16 lakhs). Government grant received is ₹ 32 lakhs. Refund of grant was made in the beginning of 3rd year. Calculate the Depreciation for the 3rd year if the Grant is credited to Fixed Assets. **(1 mark) [Sec. B - SAQ]**

Answer:

Particulars	₹ lakhs
Original Cost of Machinery	80
Less: Residual value	16
Less: Government Grant	32
Depreciable Cost	32
Less: Depreciation written off during first 2 years on SLM $\left(\frac{32}{4}\times 2\right)$	16
Balance of cost of machinery as on begining or 3rd year	16
Add: Refund of Government Grant	32
Value of fixed assets at the begining of 3 year	48
Depreciation to be provided at the end of 3rd year (₹ 48/2)	24

Depreciation to be provided in 3rd Year = 24 Lakhs

—— Space to write important points for revision ——

2021 - Dec [19] State the treatment of Refund of grant of ₹ 10 crores received from Government for employees welfare activities due to non-fulfilment of prescribed the conditions. **(1 mark) [Sec. B - SAQ]**

Answer:

As per AS 12, the amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to the Profit and Loss Statement as an extraordinary item as per AS-5. Hence, a Refund of the grant of ₹ 10 crores should be charged to the Profit and Loss Account of the company as an extra-ordinary item.

—— Space to write important points for revision ——

2021 - Dec [20] Z Ltd. signed an agreement with its employees union for revision of wages in June, 2021. The wage revision is with retrospective effect from 1.4.2019. The arrear wages upto 31.3.2021 amounts to ₹ 50 lakhs. Arrear wages for the period from 1.4.2021 to 30.6.2021 (being the date of agreement) amounts to ₹ 10 lakhs. Decide whether a separate disclosure of arrear wages is required. **(1 mark) [Sec. B - SAQ]**

Answer:

Additional liability on account of wages amounting to ₹ 60 lakhs (from 01/04/2019 to 30/06/2021) should be included in the current year's wages. It may be mentioned that additional wages are expenses arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item.

Wages payable for the current year (from 01/04/2019 to 31/03/2021) amounting to ₹ 50 lakhs is not a prior period item hence need not be disclosed separately. This may be shown as current year wages.

—— Space to write important points for revision ——

2021 - Dec [1] PRITHVI Ltd. provides the following extracts of its Balance Sheets:

Particulars	**31.3.2021 (₹)**	**31.3.2020 (₹)**
Equity Share Capital	9,10,000	5,00,000
General Reserve	2,10,000	2,50,000
Profit & Loss A/c	6,61,500	(1,40,000)
Employees Stock Option Outstanding A/c	3,00,000	1,00,000
Securities Premium	50,000	—
Capital Redemption Reserve	—	1,00,000
Capital Grant	8,00,000	Nil
Convertible Debentures (into equity shares at 25% premium)	—	2,00,000

Trade Payables	1,05,000	1,00,000
Goodwill	15,000	—
Plant & Machinery	7,65,000	5,00,000
Non-Current Investments	35,000	50,000
Inventories	95,640	54,000
Trade Receivables	7,10,000	5,85,000
Less: Provision for Doubtful Debts	(1,90,000)	(1,50,000)
Voluntary Separation Payments	1,25,000	65,000
Cash and Cash Equivalents	14,69,360	6,000
Advance Tax (including ₹ 1,500 being 15% tax on gain on sale of investments)	11,500	

Additional Information:

(a) Depreciation on Plant & Machinery written off @ 15%. A fully depreciated machine costing ₹ 1,00,000 was also discarded.

(b) It was decided to value inventories at cost whereas previously the practice was to value Inventories at cost less 10%. However the closing stock on 31.03.2021 was correctly valued at cost.

(c) On 31st March 2021, the business of Y Ltd. was purchased for ₹ 60,000 payable in fully paid equity shares of ₹ 10 each at a premium of 20%. The assets included inventories ₹ 26,640, Trade Receivables ₹ 10,000, and Machine ₹ 18,360. In addition Trade Payables of ₹ 15,000 were taken over.

(d) Debtors of ₹ 2,30,000 were written off against the Provision for Doubtful Debts A/c during the year. Grant of ₹ 10,00,000 amortised in P&L A/c. compensation received in a suit filed by the company ₹ 90,000. Voluntary Separation Payments ₹ 5,000 adjusted against General Reserve.

(c) Dividend received amounted to ₹ 2,100 which included pre acquisition dividend of ₹ 600. Some investments were sold at profit of 25% on cost.

[**Note:** Cash flow Statement is not required to be prepared.]

(i) Calculate Operating Profit before Working Capital Changes.

(ii) Calculate Cash Flow from Operating Activities
(iii) Calculate Cash Flow from Investing Activities
(iv) Calculate Cash Flow from Financing Activities

(4+2+3+3 = 12 marks) **[Sec. C - Two LAQ]**

Answer:

Working Note: 1

	₹
Closing stock on 31-03-2020	54,000
Add: Increase $\left(\frac{54,000}{90\%} \times 10\%\right)$	6,000
	60,000
P/L balance as on 31-03-2020	(1,40,000)
Add: Increase in profit due to increase in stock	6,000
	(1,34,000)

Working Note: 2

Dr. **Profit & Loss A/c** **Cr.**

To Balance b/d	1,34,000	By Voluntary separation payment	1,10,000
To Provision for bad debt A/c	2,70,000	By Capital Grant	10,00,000
To Capital redemption reserve	1,00,000	By Surplus (B/F)	65,500
To G.R.	10,000		
	11,75,500		11,75,500

Working Note: 3

Dr. **General Reserve A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)

To Voluntary separation payment	50,000	By b/d	2,50,000
To c/d	2,10,000	By P/L A/c (b/f)	10,000
	2,60,000		2,60,000

Working Note: 4

Provision for Bad Debt

To Bad Debt	2,30,000	By b/d	1,50,000
To c/d	1,90,000	By P/L (B/F)	2,70,000
	4,20,000		4,20,000

Working Note: 5

Capital Grant A/c

To P/L A/c	10,00,000	By b/d	—
To c/d	8,00,000	By Bank A/c	18,00,000
	18,00,000		18,00,000

Working Note: 6

Voluntary Separation Payment A/c

To b/d	65,000	By GR	50,000
To Bank A/c (Payment)	1,10,000	By c/d	1,25,000
	1,75,000		1,75,000

So, the following answers can be derived from above working:

(i) Operating Profit (Before Working Capital Changes) = ₹ 44,000

(ii) Cash flow from Operating Activities = ₹ – 80,000

(iii) Cash flow from Investing Activities = ₹ – 3,56,640

(iv) Cash flow from Financing Activities = ₹ 19,00,000

2021 - Dec [1] Given the following information of NIKITA Ltd.

Goods of ₹ 60,000 were sold on 20-3-2021 but at the request of the buyer these were delivered on 10-4-2021.

On 15-1-2021 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2021.
₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2017. The period of approval was 3 months after which they were considered sold, buyer sent approval for 75% goods up to 31-1-2021 and no approval or disapproval received for the remaining goods till 31-3-2021.
Apart from the above, the company has made cash sales of ₹ 8,70,000 (gross). Trade discount of 5% was allowed on the cash sale.
Calculate the total revenue to be recognized for the year ending 31-3-2021.

(3 marks) [Sec. C - Five LAQ]

Answer:

Total Revenue to be recognized for the year ending 31/03/2021 = ₹ 10,06,500

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2021 - Dec [2] X Ltd. entered into an agreement with Y Ltd. for sale of goods costing ₹ 2,40,000 at a profit of 20 % on sale. The sale transaction took place on 1st February, 2021. On the same day X Ltd. entered into another agreement with Y Ltd. for repurchasing the same goods at ₹ 3,20,000 on 1st August, 2021. The predetermined repurchasing price covers, *inter alia*, the holding cost of Y Ltd. Calculate the amount of revenue as per AS - 9 for the financial statements of X Ltd. for the year 2020–2021.

(3 marks) [Sec. C - Five LAQ]

Answer:

Revenue should not be recognised since the transaction between X Ltd. and Y Ltd. on 1st February 2021 is a financing transaction rather than a sale. The resulting cash inflow of ₹ 3,00,000 [i.e. ₹ $\frac{2,40,000}{0.8}$] is not revenue as per AS-9.

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2021 - Dec [3] SB Advertisers obtained advertisement rights for one day world cup cricket tournament to be held in May 2021 for ₹ 1,200 lakhs in February 2021. By 31/3/2020, they had paid ₹ 500 lakhs to secure these advertisements rights. The balance ₹ 300 lakhs was paid in April 2021. By

March 2021, they procured advertisement for 75% of the available time for ₹ 1500 lakhs. The advertisers paid 60 % of the amount by that date. The balance 40 % was received in April 2021.
Advertisements for balance 25 % time were procured in April 2021 for ₹ 300 lakhs. The advertisers paid the full amount while booking the advertisement. 25 % of the advertisement time is expected to be available in May 2021 and balance in June 2021. Calculate the amount of net revenue as per AS - 9 to be recognised in June, 2021.

(3 marks) [Sec. C - Five LAQ]

Answer:

Amount of Net Revenue as per AS - 9 to be recognised in June, 2021 = ₹ 450 lakhs

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2021 - Dec [4] BS Ltd acquired machinery on lease from BHARAT Ltd on the following terms:
Lease Term 5 Years, Fair Value of Machinery (useful life 15 years) ₹ 45 lakhs, Annual Lease Rental payable at ₹ 10 lakhs, ₹ 8 lakhs, ₹ 6 lakhs, ₹ 4 lakhs, ₹ 2 lakh at the end of each year, Implicit Rate of Return (IRR) 15%
State with reason whether the Lease is Operating Lease or Finance Lease. Present value. factors @ 15% for years 1 to 5 are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.
Who will provide Depreciation and of what amount for the First year? Lessee follows Depreciation rate@ 10% p.a. on straight line basis. Lessor follows Depreciation rate@ 6–2/3 % p.a. on straight line basis.

(3 marks) [Sec. C - Five LAQ]

Answer:

(i) It is an operating lease since the Present Value of Minimum Lease Payment is substantially less than the Fair Value of Machinery.
Present Value of Minimum Lease Payment = (10 lakhs × 0.8696) + (8 lakhs × 0.7561) + (6 lakhs × 0.6575) + (4 lakhs × 0.5718) + (2 lakhs × 0.4972) = ₹ 21.9714 lakhs, whereas Fair Value of Machinery = ₹ 45 lakhs and Lease Term (i.e. 5 years) is substantially less than the useful life of Machinery (i.e. 15 years).

(ii) In the case of Operating Lease, Lessor will provide Depreciation = ₹ 45 lakhs × $6\frac{2}{3}$% = ₹ 3 lakhs

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2021 - Dec [1] TUSHAR & TASHIKA LTD. Provides you the following information:

Date	Particulars	No. of Shares
01.04.2020	Balance at the beginning of year	5,00,000
01.06.2020	Issue of Shares for Cash	1,20,000
01.07.2020	Issue of Shares to Underwriters	6,000
01.08.2020	Buy-Back of Shares	2,69,250
01.09.2020	Issue of Shares against Purchase of Building (acquisition is recognized on the same day)	30,000
01.10.2020	Issue of Shares in settlement of liability	15,000
01.11.2020	TUSHAR & TASHIKA Ltd. purchased Y Ltd. on the basis of intrinsic value of shares of both the companies. The intrinsic value of shares of TUSHAR & TASHIKA Ltd. and Y Ltd. are ₹ 60 and ₹ 15 respectively Shares outstanding on 1st April, 2020 of Y Ltd. are 4,80,000.	
01.12.2020	Split up of shares into shares of ₹ 10 each	
01.01.2021	Bonus issue: I share for every 2 held	

No. of 12% convertible Debentures of ₹ 100 each	1,00,000
Interest on Debentures since issue	3,00,000

Conversion Ratio of Debentures	10 shares per debenture
Net Profit for year ended 31.03.2020	₹ 85,00,000
Net Profit for year ended 31.03.2021	₹ 1,10,00,000
Tax Rate	30%
10% Cumulative Preference Shares	₹ 1,00,00,000
12% Non-Cumulative Preference Shares	₹ 1,00,00,000

Note: No dividend has been paid on Preference Shares for the last 3 years.

(i) Compute the Net Profit attributable to Equity Shareholders for the year 2019-2020 and 2020-2021.

(ii) Compute the Weighted Average Number of Shares Outstanding as on 31.03.2021 for Basic EPS and Diluted EPS.

(iii) Compute the Basic EPS (earning per share) for the year 2020-2021.

(iv) Compute the Net Profit attributable to Equity Shareholders for the year 22020-2021 for Diluted EPS (earning per share) for the year 2020-2021.

(v) Compute the Diluted EPS (earning per share) for the year 2020-2021.

(vi) Compute the Adjusted EPS for the year 2019-2020.

(2+6+1+1+1+1 = 12 marks) [Sec. D - CSQ]

Answer:

(i) Net profit attributable to equity shareholder

Particulars	**2019-2020**	**2020-2021**
Net-profit (given in question)	₹ 85,00,000	1,10,00,000
Less: Dividend @ 10% to cumulative pref. shares	₹ 10,00,000	10,00,000
Net profit attributable to equity shareholders	₹ 75,00,000	₹ 1,00,00,000

(ii) Weighted number of shares outstanding on 31/03/2021 for Basic EPS = ₹ 75,00,000

Weighted number of shares outstanding on 31/03/2021 for diluted EPS = ₹ 77,50,000

(iii) Computation of Basic EPS for the year 2020-2021

Net Profit/Earning Before Tax	₹ 1,10,00,000
Less: Tax attributable to the period @ 30%	33,00,000
Less: Pref. dividend @ 10% for cumulative preference shares	10,00,000
(A) Profit for purpose of calculating EPS	67,00,000
(B) No. of outstanding shares	50,37,597
Basic EPS (A/B)	₹ 1.33

(iv) Net profit attributable to equity shareholders for the year 2020-21 for diluted EPS = ₹ 1,02,10,000

(v) Diluted EPS for the year 2020-21 = ₹ 1.3174 per shares

(vi) Adjusted EPS for the year 2019-20 = ₹ 1 per shares.

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Topic Not Yet Asked But Equally Important for The Examination

SHORT NOTES

Q1. Write short notes on 'Revenue from contracts with customers as per Ind AS-115.

Answer:

Ind AS-115 sets the principles about how to recognize revenue and to measure the amount at which revenue is recognized from contracts with customers.

Revenue is the consideration for satisfying performance obligation undertaken in the contract. Revenue is recognized as and when performance

obligation is satisfied and it is measured at the amount of transaction price attributable to the satisfied performance obligation.

In an ordinary contract for sale of goods the performance obligation is satisfied when goods are transferred to the customer and revenue (Sale) is recognized at the (sale value) transaction price.

But there may be complications at different stages in revenue recognition and measurement. The different stages can be enumerated as below:

I. Identifying the contract.
II. Identifying performance obligation.
III. Satisfaction of performance obligation.
IV. Determination of and allocation of transaction price to performance obligation.

While stages I to III are for recognition of revenue stage IV is for its measurement.

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customers. An asset is transferred when (or as) the customer obtains control of that asset.

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation.

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.

An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis as per the standard, except for allocating discounts and allocating variable consideration.

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DESCRIPTIVE QUESTIONS

Q1. What is the definition of "Investment Property"? Give 5 examples of investment property as per Ind AS-40.

Answer:

(I) About Investment Property:

This standard prescribes accounting treatment of investment property and related disclosure.

Investment property is property (land or a building-or part of a building-or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both and it is dealt in Ind AS 40.

It is different from owner-occupied property which is held [by the owner (Ind AS 16) or by the lessee as a right-of-use asset (Ind AS 116)] for use in the production or supply of goods or services or for administrative purposes.

(II) Examples:

The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

An entity shall adopt as its accounting policy the cost model for subsequent measurement of all of its investment property.

Space to write important points for revision

Q2. How the lessor measures the right-of-use assets at the time of commencement date and after the commencement date as per Ind AS-116?

Answer:

(I) At the commencement date, a lessee shall measure the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

(i) the amount of the initial measurement of the lease liability

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(i) fixed payments (including in-substance fixed payments as described in paragraph 842), less any lease incentives receivable;
(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(iii) amounts expected to be payable by the lessee under residual value guarantees;
(iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model unless it applies the revaluation model as applied to the particular class of PPE.

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and
(b) adjusted for any remeasurement of the lease liability specified.

(II) **After the commencement date,** a lessee shall measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;
(b) reducing the carrying amount to reflect the lease payments mode; and
(c) remeasuring the carrying amount to reflect any reassessment or lease modifications.

A lessee shall either present in the balance sheet, or disclose in the notes:

(a) right-of-use assets separately from other assets.

(b) lease liabilities separately from other liabilities.

A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in financial statements.

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Table Showing Marks of Compulsory Questions

Year	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**	**19 J**	**19 D**	**21 D**
Practical		10	15							
Total		10	15							