



Advanced Accounting



I dedicate this book to **my grandfather Late Nagraj Ji Sancheti, my inspirational source - my father Mr. Rajendra Kumar Sancheti, my mother Mrs. Sarla Sancheti and my wife Mrs. Pragati Sancheti, my family, friends and students.** This book contains **all important and relevant questions** for Advance Accounts from **all the sources of ICAI.** I also thank **Miss Saloni Mundhra** for her efforts to compile this material for all of you.

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CHAPTERS QUESTION BANK

Chapter 1

Investment
Accounting

Accounting Standard Based

Question 1.

Ex. Book no. Pg.No.

Mr. Mohan has invested some money in various Mutual funds.

Following information in this regard is given :

Mutual Funds	Date of purchase	Purchase cost (₹)	Brokerage Cost (₹)	Stamp duty (₹)	Market value as on 31.03.2021 (₹)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to;

1. Classify his investment in accordance with AS-13 (revised).
2. Value of Investment in mutual fund as on 31.03.2021.

Question 2.

Ex. Book no. Pg.No.

ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state on the amount of transfer, based on the following information:

1. A portion of current investments purchased for ₹20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹25 lakhs.
2. Another portion of current investments purchased for ₹15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹6.5 lakhs.
3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹18 lakhs but had been written down to ₹12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

Investment A/c - Fixed Income Security

Question 3.

Ex. Book no.

Pg.No.

The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) ₹1,20,000, Cost ₹1,18,000 (Face value of each unit is ₹100).

- | | |
|-----------|--|
| 1.3.2008 | Purchased 200 units, ex-interest at ₹98. |
| 1.7.2008 | Sold 500 units, ex-interest out of original holding at ₹100. |
| 1.10.2008 | Purchased 150 units at ₹98, cum interest. |
| 1.11.2008 | Sold 300 units, ex-interest at ₹99 out of original holdings. |

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

Investment A/c - Variable Income Securities

Question 4.

Ex. Book no.

Pg.No.

Ram carried out the following transactions in the Shares of Ayodhya Ltd.:

- (a) On 1st April 2017, he purchased 20,000 Equity Shares of ₹1 each fully paid up for ₹30,000.
- (b) On 15th May 2017, he sold 4,000 Shares for ₹7,600.
- (c) At a Meeting on 15th June 2017, the Company decided:
 - (i) Make a Bonus Issue of 1 fully paid up share for every 4 Shares held on 1st June 2017, &
 - (ii) To give its members, the right to apply for one Share for every five Shares held on 1st June 2017 at a Price of ₹1.50 per Share of which ₹0.75 is payable on or before 15th July 2017 and the balance, ₹.75 per Share, on or before 15th September 2017.
 - (iii) The Shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2017.
- (d) Ram received his Bonus Shares and took up 2,000 Shares under the Rights, paying the sum thereon when due and selling the Rights of the remaining Shares at ₹0.40 per share. The proceeds were received on 30th September 2017.
- (e) On 15th March 2018, Ram received a dividend from Ayodhya Ltd of 15% in respect of the year ended 31st Dec 2017.
- (f) On 30th March 2018, Ram received ₹14,000 from the Sale of 10,000 Shares.

Record these transactions in the Investment Account in Ram's books for the year ended 31st March, 2018 transferring any Profits or Losses on these transaction to Profit and Loss Account. Apply Average Basis. Expenses and Tax to be ignored.

Question 5.

Ex. Book no.

Pg.No.

Mr. X acquires 200 shares of a company on cum right basis for ₹60,000. He subsequently receives an offer for right to acquire fresh shares in the Company in the proportion of 1:1 at ₹105 each. He does not subscribe but sells all the right for ₹15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹50,000. What should be the accounting treatment in this case?

Advanced Problems

Question 6.

Ex. Book no.

Pg.No.

A Ltd. purchased on 1st April, 8% Convertible Debentures in C Ltd. of Face Value of ₹2,00,000 @ ₹108. On 1st July, A Ltd purchased another ₹1,00,000 Debentures @ ₹112 Cum Interest. On 1st October, ₹80,000 Debenture was sold @ ₹105. On 1st December, C Ltd give option for conversion of 8% Convertible Debentures into Equity Shares of ₹10 each. A Ltd receive 5,000 Equity Share in C Ltd. In conversion of 25% Debentures held on that date. The Market Price of Debentures and Equity Shares in C Ltd at the end of year is ₹110 & ₹15 respectively. Interest is payable each year on 31st March & 30th September. Accounting Year of A Ltd is Calendar Year. Prepare Investment Account in the Books of A Ltd. on Average Cost basis.

Question 7.

Ex. Book no.

Pg.No.

Mr. Z has made following transactions during the financial year 2020-21 :

Investment 1: 8% Corporate Bonds having face value ₹100.

Date	Particulars
01-06-2020	Purchased 36,000 Bonds at ₹86 cum-interest. Interest is payable on 30 th September and 31 st March every year
15-02-2021	Sold 24,000 Bonds at ₹92 ex-interest

Interest on the bonds is received on 30th September and 31st March

Investment 2: Equity Shares of G Ltd having face value ₹10

Date	Particulars
01-04-2020	Opening balance 8,000 equity shares at a book value of ₹190 per share
01-05-2020	Purchased 7,000 equity shares @ ₹230 on cum right basis Brokerage of 1% was paid in addition.
15-06-2020	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2020	The company made a rights issue of 1 share for every 7 shares held at ₹230 per share. The entire money was payable by 31.08.2020

25-08-2020	Rights to the extent of 30% of his entitlements was sold @ ₹75 per share. The remaining rights were subscribed.
15-09-2020	Dividend @ ₹6 per share for the year ended 31.03.2020. was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01-12-2020	Sold 7,000 shares ₹260 per share. Brokerage of 1% was incurred extra.
25-01-2021	Received interim dividend @ ₹3 per share for the year 2020-21.
31-03-2021	The shares were quoted in the stock exchange @ ₹260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ ₹180.

You are required to:

- Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
- Profit and loss Account for the year 2020-21, based on the above information.
- Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Chapter 2

Financial Statements
of Company

Schedule III

Question 1.

Ex. Book no.

Pg.No.

On 31st March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 20X1.

Particulars	Amount (₹)	
	Dr. (₹)	Cr. (₹)
Equity Share Capital, fully paid shares of ₹50 each	-	80,00,000
Calls in arrear	15,000	-
Land	25,00,000	-
Buildings	30,00,000	-
Plant & Machinery	24,00,000	-
Furniture & Fixture	13,00,000	-
Securities Premium	-	15,00,000
General Reserve	-	9,41,000
Profit & Loss Account	-	5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)	-	26,30,000
Other Long Term Loans	-	22,50,000
Short Term Borrowings	-	4,60,000
Inventories: Finished goods	45,00,000	-
Raw materials	13,00,000	-
Trade Receivables	17,50,000	-
Advances: Short Term	3,75,000	-
Trade Payables	-	8,13,000
Provision for Taxation	-	3,80,000
Unpaid Dividend	-	70,000
Cash in Hand	70,000	-
Balances with Banks	4,14,000	-
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

- (1) 50,000 fully paid equity shares were allotted as consideration for land.
- (2) The cost of assets were:

Building	₹32,00,000
Plant and Machinery	₹30,00,000
Furniture and Fixture	₹16,50,000

- (3) Trade Receivables for ₹4,86,000 due for more than 6 months.
- (4) Balances with banks include ₹56,000, the Naya bank, which is not a scheduled bank.
- (5) Loan from Public Finance Corporation repayable after 3 years.
- (6) The balance of ₹26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
- (7) Other long term loans (unsecured) includes:

Loan taken from Nixes Bank	₹13,80,000
(Amount repayable within one year	₹4,80,000)
Loan taken from Directors	₹8,50,000

- (8) Bills Receivable for ₹1,60,000 maturing on 15th June, 20X1 has been discounted.
- (9) Short term borrowings includes:

Loan from Naya bank	₹1,16,000 (Secured)
Loan from directors	₹48,000

- (10) Transfer of ₹35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.
- (11) Inventory of finished goods includes loose tools costing ₹5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures.

Question 2.

Ex. Book no.

Pg.No.

The following is the Trial Balance of Anmol Limited as on 31st March, 2022 :

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000	General Reserve	10,00,000
Selling & Distribution Expenses	4,36,000	Surplus (P & L A/c) 01.04.2021	8,75,500
Directors Fees	32,000	Securities Premium	2,50,000
Bad Debts	38,500	Term Loan from Public Sector Bank	1,02,00,000
Interest on Term Loan	8,05,000	Trade Payables	55,08,875
Land	24,00,000	Provision for Depreciation:	
Factory Building	36,80,000	On Plant	9,37,500
Plant and Machinery	62,50,000	On Furniture and Fittings	82,500
Furniture and Fittings	8,25,000	On Factory Building	1,84,000
Trade Receivables	64,75,000	Provision for Doubtful Debts	25,000
Advance Income Tax Paid	37,500	Bills Payable	1,25,000
Stock (1st April, 2021)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875	Total	3,28,47,875

Following information is provided :

- (1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹10 each. The Company has issued 1,00,000 Equity Shares of ₹10 each.
- (2) Rent of ₹20,000 and Wages of ₹1,56,500 are outstanding as on 31st March, 2022.
- (3) Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.
- (4) Closing Stock as on 31st March, 2022 is ₹11,37,500.
- (5) Make a provision for Doubtful Debts @ 5% on Debtors.
- (6) Make a provision of 25% for Corporate Income Tax.
- (7) Transfer ₹1,00,000 to General Reserve.
- (8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹17,00,000.
- (9) Trade Receivables of ₹85,600 are outstanding for more than six months.
- (10) The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures.

Question 3.

Ex. Book no.

Pg.No.

The following is the Trial Balance of H Ltd. as on 31st March, 2021.

Particulars	Dr. (₹)	Cr. (₹)
Equity Capital (Shares of 100 each)	-	8,05,000
5,000, 6% preference shares of ₹100 each	-	5,00,000
9% Debentures	-	4,00,000
General Reserve	-	40,00,000
Profit & Loss A/c. (of previous year)	-	72,000
Sales	-	60,00,000
Trade Payables	-	10,40,000
Provision for Depreciation on Plant & Machinery	-	1,72,000
Suspense Account	-	40,000
Land at cost	24,00,000	-
Plant & Machinery at cost	7,70,000	-
Trade Receivables	19,60,000	-
Inventories (31-03-2020)	9,50,000	-
Bank	2,30,900	-
Adjusted Purchases	22,32,100	-
Factory Expenses	15,00,000	-
Administration Expenses	3,00,000	-
Selling Expenses	14,00,000	-
Debenture Interest	36,000	-
Goodwill	12,50,000	-
Total	1,30,29,000	1,30,29,000

Additional Information :

(i) The authorised share capital of the company is :

5000, 6% preference shares of ₹100 each 5,00,000

10000, equity shares of ₹100 each 10,00,000

Issued equity capital as on 1st April 2020 stood at ₹7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹60 paid. The directors made a call of ₹40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹90 per share as fully paid.

(ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares.

(iii) The company on the advice of independent valuer wishes to revalue the land at ₹36,00,000.

(iv) Suspense account of ₹40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹1,00,000 and the accumulated depreciation thereon being ₹30,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation.

Question 4.

Ex. Book no.

Pg.No.

Om Ltd. has the Authorised Capital of ₹15,00,000 consisting of 6,000, 6% Redeemable Preference shares of ₹100 each and 90,000 Equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr. (₹)	Cr. (₹)
Investment in shares at cost (non-current investment)	1,50,000	-
Purchases	14,71,500	-
Selling expenses	2,37,300	-
Inventory as at the beginning of the year	4,35,600	-
Salaries and wages (included ₹30,000 being Director's Remuneration)	1,56,000	-
Cash in hand	84,000	-
Bills receivable	1,24,500	-
Interest on Bank overdraft	29,400	-
Interest on debentures up to 30th Sep (1st half year)	11,250	-
Sundry Debtors and Sundry Creditors	1,50,300	2,63,550
Freehold property at cost	10,50,000	-
Furniture at cost less depreciation of ₹45,000	1,05,000	-
6% Redeemable Preference share capital	-	6,00,000
Equity share capital fully paid up	-	6,00,000
5% mortgage debentures secured on freehold properties	-	4,50,000
Dividends received	-	12,750
Profit and Loss A/c (opening balance)	-	85,500
Sales (Net)	-	20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)	-	4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	-
Audit fees	18,000	-
Total	44,72,850	44,72,850

Other Information:

- Closing Stock was valued at ₹4,27,500.
- Purchases include ₹15,000 worth of goods & articles distributed among valued customers.
- Salaries & Wages include ₹6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
- Bills Receivable include ₹4,500 being dishonored bills. 50% of which had been considered

irrecoverable.

5. Bills Receivable of ₹6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include ₹18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

Dividend

Question 5.

Ex. Book no.

Pg.No.

Due to inadequacy of profits during the year ended 31st March, 2021, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

Particulars	(₹)
17,500, 9% Preference shares of ₹100 each, fully paid up	17,50,000
8,00,000, Equity shares of ₹10 each, fully paid up	80,00,000
General Reserves as on 1.4.2020	25,00,000
Capital Reserves as on 1.4.2020	3,00,000
Revaluation Reserves as on 1.4.2020	3,50,000
Net profit for the year ended 31st March, 2021	3,00,000
Average rate of dividend during the last three year has been 12%	

Chapter 3

Buyback
of Securities

Question 1.

Ex. Book no. Pg.No.

Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores ₹)

Particulars			Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	100
	B	Reserves and Surplus	2	300
2		Current liabilities		
	A	Trade Payables		40
		Total		440
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	3	NIL
	B	Non-Current Investments	4	100
2		Current assets		
	A	Trade receivables		140
	B	Cash and Cash equivalents		200
		Total		440

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed share capital:	
	12% Redeemable preference shares of ₹ 100 each, fully paid up	75
	Equity shares of ₹ 10 each, fully paid up	25
	Total	100

2	Reserves and Surplus	
	Capital reserve	15
	Securities premium	25
	Revenue reserves	260
	Total	300
3	Property, Plant and Equipment	
	PPE Cost	100
	Less: Provision for depreciation	(100)
	Net carrying value	NIL
4	Non-Current Investments	
	Non-current investments at cost (Market value ₹ 400 Cr.)	100

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- Pass journal entries to record the above.
- Prepare balance sheet as at 1.4.20X1.

Question 2.

Ex. Book no. Pg.No.

Perrotte Ltd, (a non-listed company) has the following Capital Structure as on 31.03.2021:

	Particulars	(₹ in crores)	(₹ in crores)
(1)	Equity Share Capital (Shares of ₹10 each fully paid)		330
(2)	Reserves and Surplus:		
	General Reserve	240	
	Securities Premium Account	90	
	Profit & Loss Account	90	
	Infrastructure Development Reserve	<u>180</u>	600
(3)	Loan Funds		1800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2021, a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

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

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2021, show the accounting entries in the company's books in each situation.

Question 3.

Ex. Book no.

Pg.No.

Mohan Ltd. furnishes the following summarised Balance Sheet as on 31st March, 2021:

(₹ in Lakhs)

Particulars	₹
Equity and Liabilities	
Shareholders' Funds	
Share Capital	
Equity shares of ₹ 10 each, fully paid up	780
6% Redeemable Preference Shares of ₹50 each fully paid up	240
Reserves and Surplus	
Capital Reserves	58
General Reserves	625
Security Premium	52
Profit and Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non - Current liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
Total	2652
Assets:	
Non - Current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
Total	2652

Other information :

- (1) The company redeemed preference shares at a premium of 10% on 1st April, 2021.
- (2) It also offered buy back the maximum permissible number of equity shares of ₹10 each at ₹30 per share on 2nd April, 2021 .
- (3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets .

- (4) The company had investment in own debentures costing ₹60 lakhs (face value ₹75 lakhs). The debentures were cancelled on 2nd April, 2021.
- (5) On 4th April, 2021 company issued one fully paid up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders .

You are Required to:

- (a) Calculate maximum possible number of equity shares that can be bought back as per Companies Act, 2013 and
- (b) Record the journal Entries for the above mentioned information.

Chapter 4

Cash Flow Statement



Basic Understanding

Question 1.

Ex. Book no.

Pg.No.

Classify the following items under different activities in a Cashflow Statement:

Loans/Advances given and Interests earned:

- (i) Loans and advances given and interests earned on them in the ordinary course of business for financial enterprises.
- (ii) Loans and advances given and interests earned on them for non-financial enterprises.
- (iii) Loans and advances given to subsidiaries and interests earned on them.
- (iv) Loans and advances given to employees and interests earned on them.
- (v) Advance payments to suppliers and interests earned on them.
- (vi) Interests earned from customers for late payments.

Loans/Advances taken and interests paid:

- (i) Loans and advances taken and interests paid on them in the ordinary course of business for financial enterprises.
- (ii) Loans and advances taken and interests paid on them for non-financial enterprises.
- (iii) Loans and advances taken from subsidiaries and interests paid on them.
- (iv) Advance taken from customers and interests paid on them.
- (v) Interests paid to suppliers for late payments.
- (vi) Interests taken as part of inventory costs in accordance with AS 16.

Question 2.

Ex. Book no.

Pg.No.

From the following information of XYZ Ltd. Calculate Cash & Cash equivalent as on 31-03-2021 as per AS-3:

Particulars	₹
Balance as per Bank Statement	25,000
Cheque issued but not presented in the Bank	15,000
Short term investment in liquid equity shares of ABC Ltd.	50,000
Fixed deposit created on 1-11-2020 and maturing on 15-4-2021	75,000
Short term investment in highly liquid sovereign Debt mutual funds on 1-3-2021 (having maturity period of less than 3 months)	1,00,000
Bank balance in a Foreign currency account in India (Conversion rates: On date of deposit ₹69/\$, as on 31-3- 2021 ₹70/\$)	\$1,000

Direct Method

Question 3.

Ex. Book no.

Pg.No.

The following information was provided by PQR Ltd. for the year ended 31st March, 2024 :

- (1) Gross Profit Ratio was 25% for the year, which amounts to ₹3,75,000.
- (2) Company sold goods for cash only.
- (3) Opening inventory was lesser than closing inventory by ₹25,000.
- (4) Wages paid during the year ₹5,55,000.
- (5) Office expenses paid during the year ₹35,000.
- (6) Selling expenses paid during the year ₹15,000.
- (7) Dividend paid during the year ₹40,000.
- (8) Bank Loan repaid during the year ₹2,05,000 (included interest ₹5,000)
- (9) Trade Payables on 31st March, 2023 were ₹50,000 and on 31st March, 2024 were ₹35,000.
- (10) Amount paid to Trade payables during the year ₹6,10,000.
- (11) Income Tax paid during the year amounts to ₹55,000. (Provision for taxation as on 31st March, 2024 ₹30,000)
- (12) Investments of ₹8,20,000 sold during the year at a profit of ₹20,000.
- (13) Depreciation on furniture amounts to ₹40,000.
- (14) Depreciation on other PPE amounts to ₹20,000.

- (15) Plant and Machinery purchased on 15th November, 2023 for ₹3,50,000.
- (16) On 31st March, 2024 ₹2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
- (17) Cash and Cash equivalents on 31st March, 2023 ₹2,25,000.
- (i) Prepare cash flow statement for the year ended 31st March, 2024, using direct method.
- (ii) Calculate cash flow from operating activities, using indirect method.

Indirect Method

Question 4.

Ex. Book no.

Pg.No.

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 2021.

Particulars	₹
Net Profit	25,000
Dividend (including dividend tax) paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investment sold	100
Carrying amount of investments sold	27,765
Interest income on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

Prepare the Cash Flow Statement for the year 2021 in accordance with AS 3. (Make Necessary Assumptions).

Question 5.

Ex. Book no.

Pg.No.

The following figures have been extracted from the Books of X Limited for the year ended on 31.03.2021. You are required to prepare a cash flow statement.

- Net profit before taking into account Income Tax and Income from law suits but after taking into Account the following items was ₹20 lakhs:
 - Depreciation on Fixed Assets ₹5 lakhs
 - Discount on issue of Debentures written off ₹30,000.
 - Interest on Debentures paid ₹3,50,000.
 - Book value of investments ₹3 lakhs (Sold Investments for ₹3,20,000)
 - Interest received on investments ₹60,000
- Compensation received ₹90,000 by the company in the suit filed.
- Income tax paid during the year ₹10,50,000.
- 15,000 10% preference shares of ₹100 each were redeemed on 31.03.2021 at a premium of 5%. Further the company issued 50,000 equity shares of ₹10 each at a premium of 20% on 2.4.2020. Dividend on preference shares were paid at the time of redemption.
- Dividends paid for the year 2019-2020 ₹5 Lakhs and Interim dividend paid ₹3 lakhs for the year 2020-21.
- Land was purchased on 2.4.2020 for ₹2,40,000 for which the company issued 20,000 equity shares of ₹10 each at a premium of 20% to the land owner as consideration.

Current assets and Current liabilities in the beginning at the end of the years were as detailed below:

Particulars	As on 31.03.2020	As on 31.3.2021
	₹	₹
Stock	12,00,000	13,18,000
Sundry Debtors	2,08,000	2,13,100
Cash-in-hand	1,96,300	35,300
Bills receivable	50,000	40,000
Bills payable	45,000	40,000
Sundry Creditors	1,66,000	1,71,300
Outstanding expenses	75,000	81,800

Question 6.

Ex. Book no.

Pg.No.

From the following particulars calculate cash flows from Operating activities:

Particulars	₹
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional information:

Particulars	31.03.2022	31.3.2023
	₹	₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepaid Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

Question 7.

Ex. Book no.

Pg.No.

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 2019:

(i) 10% Debentures issued:

As on 01-04-2018 ₹1,10,000

As on 31-03-2019 ₹77,000

(ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.

(iii) Unpaid Interest on Debentures:

As on 01-04-2018 ₹275

As on 31-03-2019 ₹1,175

(iv) Debtors of ₹36,000 were written off against the Provision for Doubtful Debts A/c during the year.

(v) **10% Bonds (Investments):**

As on 01-04-2018 ₹3,50,000

As on 31-03-2019 ₹3,50,000

(vi) Accrued Interest on Investments: As on 31-03-2019 ₹10,500.

Question 8.

Ex. Book no.

Pg.No.

The Balance Sheet of New Light Ltd. for years ended 31st March, 2020 and 2021 are as follows:

Liabilities	31.3.20 (₹)	31.3.21 (₹)	Assets	31.3.20 (₹)	31.3.21 (₹)
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10% Preference share capital	4,00,000	2,80,000	Less: Depreciation	9,20,000	11,60,000
Capital Reserve	Nil	40,000		22,80,000	26,40,000
General Reserve	6,00,000	7,60,000	Investment	4,00,000	3,20,000
Profit and Loss A/c	2,40,000	3,00,000	Cash	10,000	10,000
9% Debentures	4,00,000	2,80,000	Other current assets	11,10,000	13,10,000
Current liabilities	4,80,000	5,20,000			
Dividend payable	1,20,000	1,44,000			
Provision for Tax	3,60,000	3,40,000			
Unpaid dividend	Nil	16,000			
	38,00,000	42,80,000		38,00,000	42,80,000

Additional information:

- The company sold one fixed asset for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.
- The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
- Depreciation on fixed assets provided ₹ 3,60,000.
- Company sold some investment at a profit of ₹ 40,000, which was credited to capital reserve.
- Debentures and preference share capital redeemed at 5% premium.
- Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.2020 was ₹ 2,16,000. The inventory on 31.3.2021 was correctly valued at ₹ 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by Indirect method.

Question 9.

Ex. Book no.

Pg.No.

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. for the year ended 31st March, 2021:

Balance Sheet

Particulars	31st March, 2021	31st March, 2020
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	—	2,00,000
Capital Redemption Reserve	1,00,000	—
Capital Reserve	1,00,000	—
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	—
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	15,00,000	12,50,000
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12,50,000

Additional Information:

1. A piece of land has been sold out for ₹ 1,50,000 (Cost – ₹ 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
2. On 1st April, 2020 a plant was sold for ₹ 90,000 (Original Cost – ₹ 70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹ 1 lakh was issued at par as part consideration for plant of ₹ 4.5 lakhs acquired.
3. Part of the investments (Cost – ₹ 50,000) was sold for ₹ 70,000.
4. Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of investment.
5. Directors have declared 15% dividend for the current year.
6. Voluntary separation cost of ₹ 50,000 was adjusted against General Reserve.
7. Income-tax liability for the current year was estimated at ₹ 1,35,000.
8. Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

Foreign Currency - Cash and Bank Balance

Question 10.

Ex. Book no.

Pg.No.

Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹16,76,250 using the rate of ex-change ₹67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹67.80 and the bank balance had to be restated at ₹16,95,000. Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

Chapter 5

Internal Reconstruction



Question 1.

Ex. Book no.

Pg.No.

C Ltd. had ₹5,00,000 authorized capital on 31-12-2021 divided into shares of ₹100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023.

Question 2.

Ex. Book no.

Pg.No.

The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	1,50,00,000
	B	Reserves and Surplus	2	(6,00,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	40,00,000
3		Current liabilities		
	A	Trade Payables		50,00,000
	B	Short term provisions	4	1,00,000
		Total		2,35,00,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment		1,25,00,000
	B	Non-current investment	5	10,00,000
2		Current assets		1,00,00,000
		Total		2,35,00,000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital	
	1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
	50,000, 12% Cumulative Preference shares of ₹ 100 each	50,00,000
		1,50,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	Long-term borrowings	
	40,000, 10% debentures of ₹100 each	40,00,000
		40,00,000
4	Short term provisions	
	Provision for taxation	1,00,000
		1,00,000
5	Non-current investments	
	Investments (market value of ₹ 9,50,000)	10,00,000
		10,00,000

The following scheme of reorganization is sanctioned:

- (i) All the existing equity shares are reduced to ₹ 40 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
- (v) Property, plant and equipment are to be written down by 30%.
- (vi) Current assets are to be revalued at ₹ 45,00,000.
- (vii) The taxation liability of the company is settled at ₹ 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of company after giving effect to the above.

Question 3.

Ex. Book no.

Pg.No.

The Balance Sheet of A & Co. Ltd. as at 31-3-20X2 is as follows:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	11,50,000
	B Reserves and Surplus	2	(5,35,000)
2	Non-current liabilities		
	A Long-term borrowings	3	3,75,000
3	Current liabilities		
	A Trade Payables		3,00,000
	B Short term borrowings - Bank Overdraft		1,95,000
	C Other current liabilities	4	1,22,500
	Total		16,07,500
	Assets		
1	Non-current assets		
	A Property, plant and equipment	5	4,75,000
	B Intangible assets	6	1,67,500
	C Non-current investments	7	55,000
2	Current assets		
	A Inventories		4,25,000
	B Trade receivables		4,85,000
	Total		16,07,500

Notes to accounts:

	Particulars	₹
1	Share Capital	
	Equity share capital:	
	75,000 Equity Shares of ₹ 10 each	7,50,000
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000
		11,50,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(5,35,000)
		(5,35,000)
3	Long-term borrowings	
	6% Debentures (secured on the freehold property)	3,75,000
		3,75,000

4	Other current liabilities	
	Loan from directors	1,00,000
	Interest payable on 6% debentures	22,500
		1,22,500
5	Property plant and Equipment	
	Freehold property	4,25,000
	Plant	50,000
		4,75,000
6	Intangible assets	
	Goodwill	1,30,000
	Patents	37,500
		1,67,500
7	Non-current investments	
	Investments at cost	55,000
		55,000

The Court approved a Scheme of re-organization to take effect on 1-4-20X2, whereby:

- (i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- (ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.
- (iii) Interest payable on debentures to be paid in cash.
- (iv) Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.
- (v) Patents and Goodwill to be written off.
- (vi) Inventory to be written off by ₹ 65,000.
- (vii) Amount of ₹ 68,500 to be provided for bad debts.
- (viii) Remaining freehold property after giving to debenture holders, to be revalued at ₹ 3,87,500.
- (ix) Investments be sold for ₹ 1,40,000.
- (x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.
- (xi) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

Question 4.

Ex. Book no.

Pg.No.

Given below is the Balance sheet of Rebuilt Ltd. as at 31.3.20X1:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	13,50,000
	B Reserves and Surplus	2	(4,51,000)
2	Non-current liabilities		
	A Long-term borrowings (Loan)	3	5,73,000
3	Current liabilities		
	A Trade Payables		2,07,000
	B Other current liabilities		35,000
	Total		17,14,000
	Assets		
1	Non-current assets		
	A Property, plant and equipment	4	6,68,000
	B Intangible assets	5	3,18,000
2	Current assets		
	A Inventories		4,00,000
	B Trade receivables		3,28,000
	Total		17,14,000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital	7,50,000
	15,000 Equity Shares of ₹ 50 each	
	Preference share capital	
	12,000, 7% Cumulative Preference Shares of ₹ 50 each	6,00,000
	(Preference dividend is in arrears for five years)	
	Total	13,50,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(4,51,000)
		(4,51,000)
3	Long-term borrowings	
	Loan	5,73,000
		5,73,000
4	Property, plant and Equipment	
	Building at cost less depreciation	4,00,000

	Plant at cost less depreciation	2,68,000
		6,68,000
5	Intangible assets	
	Trademarks and Goodwill at cost	3,18,000
		3,18,000

The Company is not earning profits, short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- (a) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.
- (b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.
- (c) Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.
- (d) The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.
- (e) Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.
- (f) The equity share capital cancelled is to be applied:
 - i. to write off the debit balance in the profit and loss A/c; and
 - ii. to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

Question 5.

Ex. Book no.

Pg.No.

M/s Platinum Limited has decided to reconstruct Balance Sheet since it has accumulated huge losses. Following is Balance Sheet of company as on 31st March, 2020 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		Goodwill	22,00,000
50,000 shares of ₹50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of ₹ 50 each ₹ 40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of ₹ 100 each	4,00,000	Inventories	3,20,000
12% Debentures of ₹ 100 each	6,00,000	Trade receivables	10,90,000
Trade Creditors	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

Particulars	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of ₹40 each for ₹ 12,50,000.
- (3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Question 6.

Ex. Book no.

Pg.No.

The Balance Sheet of R Ltd., at 31 March, 2020 was as follows:

Liabilities	₹	Assets	₹
Share capital		Intangibles	68,000
Authorised:		Freehold premises at cost	1,40,000
Issued and subscribed capital:	14,00,000	Plant and equipment at cost less depreciation	2,40,000
64,000 8% cumulative Preference shares of ₹ 10 each, fully paid	6,40,000	Investments in shares in Q Ltd. at cost	3,24,000
64,000 Equity shares of ₹10 each, ₹7.50 paid	4,80,000	Stock	2,48,000
Loans from directors	60,000	Debtors	3,20,000
Sundry creditors	4,40,000	Deferred Revenue expenditure	48,000
Bank overdraft	2,08,000	Profit & Loss account	4,40,000
	18,28,000		18,28,000

Note: The arrear of preference dividends amount to ₹51,200.

A scheme of reconstruction was duly approved with effect from 1st April, 2020 under the conditions stated below:

- The unpaid amount on the Equity shares would be called up.
- The Preference share holders would forego their arrear dividends. In addition, they would accept a reduction of ₹2.5 per share. The dividend rate would be enhanced to 10%.
- The Equity shareholders would accept a reduction of ₹7.5 per share.
- R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the Share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is ₹2,50,000. The shares would be valued based on 12% capitalization rate.
- A bad debt provision at 2% would be created.
- The other assets would be valued as under:

Particulars	₹
Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	2,50,000

- The Profit and Loss account debit balance and the balance standing to the debit of the deferred Revenue Expenditure account would be eliminated.

- (h) The Directors would have to take equity shares at the new face value of ₹2.5 per share in settlement of their loan.
- (i) The Equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.
- (j) The Preference shareholders would take up one new preference share for every four held.
- (k) The authorized Share capital would be restated to ₹14,00,000.
- (l) The new face values of the shares-preference and equity will be maintained at their reduced levels.

You are required to prepare:

- (i) Necessary Ledger accounts to effect the above; and
- (ii) The Balance Sheet of the company after reconstruction.

Question 7.

Ex. Book no.

Pg.No.

The Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	10,00,000
	B Reserves and surplus	2	(6,00,000)
2	Non-current liabilities		
	A Long-term borrowings	3	2,00,000
3	Current liabilities		
	A Trade Payables		72,000
	B Other current liabilities	4	24,000
	C Short term provisions	5	24,000
	Total		7,20,000
	Assets		
1	Non-current assets		
	A Property, Plant and Equipment	6	1,00,000
2	Current assets		
	A Inventory		3,20,000
	B Trade receivables		2,70,000
	C Cash and cash equivalents		30,000
	Total		7,20,000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital	
	10,000 Equity Shares of ₹ 100 each	10,00,000
		10,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	Long-term borrowings	
	12% debentures	2,00,000
		2,00,000
4	Other current liabilities	
	Interest payable on debentures	24,000
		24,000
5	Short term provisions	
	Provision for taxation	24,000
		24,000
6	Property, Plant and Equipment	
	Machinery	1,00,000
		1,00,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
- The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- Balance of profit and loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

Chapter 6

Amalgamation Of Companies



Purchase Consideration

Question 1.

Ex. Book no.

Pg.No.

Following is the balance sheet of A Ltd. as on 31st March, 20X1

	Particulars	Notes	₹ (000)
	Equity and Liabilities		
1	Shareholders' funds		
	Share capital	1	22,50
	Reserves and Surplus	2	9,00
2	Non-current liabilities		
	Long-term borrowings	3	7,00
3	Current liabilities		
	Trade Payables		5,00
	Total		43,50
	Assets		
1	Non-current assets		
	Property, Plant and Equipment	4	32,50
	Non-current investments	5	6,00
2	Current assets		
	Inventories		2,00
	Trade receivables		2,00
	Cash and Cash equivalents		1,00
	Total		43,50

Notes to accounts

1	Share Capital	₹ in ('000)
	Equity share capital	
	1,50,000 Equity Shares of ₹ 10 each	15,00

	7,500 14% Preference Shares of ₹ 100 each	7,50
		22,50
2	Reserves and Surplus	
	General reserve	9,00
3	Long-term borrowings	
	15% Debentures	7,00
4	Property, plant and Equipment	
	Land and Building	32,50
5	Non-current investments	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

- Discharge 15% debentures at a premium of 10% by issuing 15% debentures of X Ltd.
- PPE at 10% above the book value and investments at par value.
- Current assets at a discount of 10% and Current liabilities at book value.
- Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of ₹100 each.
- Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. & pay balance in cash.

Calculate Purchase consideration.

Question 2.

Ex. Book no.

Pg.No.

Akash Ltd. agreed to absorb Raunak Ltd. on 31st March, 2019, whose Balance Sheet stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
80,000 equity shares of ₹10 each	8,00,000	Fixed Assets	7,00,000
Reserves & Surplus	1,00,000	Stock in trade	1,00,000
Sundry Creditors	1,00,000	Sundry Debtors	2,00,000
	10,00,000		10,00,000

The consideration was agreed as follows:

- A payment in Cash of ₹5 per share in Raunak Ltd.; and
- Issue of shares of ₹10 each in Akash Ltd. on the basis of 2 equity shares (valued at ₹15 each) and one 10% Preference Share (valued at ₹10 each) for every 5 shares held in Raunak Ltd.

The whole of Share Capital of Raunak Ltd. consists of shareholdings in exact multiple of five except the following holding:

Shareholder	No. of Shares (₹)
A	116
B	76
C	72
D	28
Others	8 (eight members holding one share each)
Total	300

It was agreed that Akash Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Raunak Ltd.

Prepare a statement showing the purchase consideration receivable in shares and cash.

Books of Purchasing Company - Purchase Method

Question 3.

Ex. Book no.

Pg.No.

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

Particulars		Notes	₹ P Ltd	₹ Q Ltd
	Equity and Liabilities			
1	Shareholders' funds			
	A Share capital	1	8,00,000	4,00,000
	B Reserves and Surplus		3,00,000	2,00,000
2	Non-current liabilities			
	A Long-term borrowings	2	2,00,000	1,50,000
3	Current liabilities			
	A Trade Payables		2,50,000	1,50,000
	Total		15,50,000	9,00,000
	Assets			
1	Non-current assets			
	A Property, Plant and Equipment		7,00,000	2,50,000
	B Non-current investments		80,000	80,000
2	Current assets			
	a Inventories		2,40,000	3,20,000
	b Trade receivables		4,20,000	2,10,000
	c Cash and Cash equivalents		1,10,000	40,000
	Total		15,50,000	9,00,000

Notes to accounts

	Particulars	P Ltd.	Q Ltd.
1	Share Capital		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	4,00,000
2	Long term borrowings		
	12% Debentures	2,00,000	1,50,000
		2,00,000	1,50,000

Details of Trade receivables and trade payables are as under:

Liabilities	P Ltd. (₹)	B Ltd.(₹)
Trade Receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade Payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

- 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
- 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.
- 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
- ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.
- Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

- Journal entries in the books of P Ltd.
- Statement of consideration payable by P Ltd.

Question 4.

Ex. Book no.

Pg.No.

X Ltd. and Y.Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹40,00,000 divided into 8,00,000 equity shares of ₹5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows :

Particulars	X Ltd. ₹	Y Ltd. ₹
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information :

The following revalued figures of non-current and current assets are :

Particulars	X Ltd. ₹	Y Ltd. ₹
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures:

- (a) 6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows :

Particulars	X Ltd. ₹	Y Ltd. ₹
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

- (b) 7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

You are required to :

- Compute the amount of debenture and shares to be issued to "X" Ltd. and 'Y' Ltd.
- A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

Question 5.

Ex. Book no.

Pg.No.

The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2020 is as follows:

Balance Sheet as on 31-3-2020

Particulars	Abhay Ltd. (₹)	Asha Ltd. (₹)
Sources of Funds		
Share Capital - Issued and Subscribed:		
15,000 equity shares @ ₹ 100, fully paid	15,00,000	-
10,000 equity shares @ ₹ 100, fully paid	-	10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Security Premium	1,50,000	50,000

Particulars	Abhay Ltd. (₹)	Asha Ltd. (₹)
Contingency Reserve	45,000	30,000
12% Debentures, @ ₹ 100 fully paid	-	2,50,000
Sundry Creditors	55,000	35,000
	21,00,000	15,15,000
Applications of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill	-	1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
	21,00,000	15,15,000

They decided to merge and form a new company M/s. Abhilasha Ltd. as on 1-4-2020 on the following terms:.

1. Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill. Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.
2. Land and Buildings, Plant and Machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.
3. 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.
4. Sundry creditors to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2020.
5. The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2:1.

You are required to:

- (i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.
- (ii) Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1-4-2020 after the amalgamation.

Books of Vendor Company

Question 6.

Ex. Book no.

Pg.No.

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2020 was as under:

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Total	13,50,000	5,70,000

Liabilities	Hari Ltd. (₹)	Vayu Ltd. (₹)
Equity Shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹ 100 each	1,00,000	-
10% Preference Shares of ₹ 100 each	-	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
Total	13,50,000	5,70,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2020.

Question 7.

Ex. Book no.

Pg.No.

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

Liabilities	K Ltd. (₹)	L Ltd. (₹)	Assets	K Ltd. (₹)	L Ltd. (₹)
Share Capital:			Goodwill	80,000	-
Equity Shares of ₹100 each	8,00,000	3,00,000	Land & Building	4,50,000	3,00,000
7% Preference Share of ₹100 each	4,00,000	3,00,000	Furniture and Fittings	60,000	20,000
5% Debentures	2,00,000	-	Trade receivables	2,75,000	1,75,000
General Reserve	-	1,00,000	Stores and Inventory	2,25,000	1,40,000
Profit and Loss Account	3,71,375	97,175	Cash at Bank	1,20,000	55,000
Trade Payables	1,00,000	2,10,000	Cash in hand	41,375	17,175
Secured Loan	-	2,00,000	Plant & Machinery	6,20,000	5,00,000
Total	18,71,375	12,07,175	Total	18,71,375	12,07,175

The terms of amalgamation are as under:

1. The assumption of liabilities of both the Companies.
2. Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹18 paid up at premium of ₹4 per share for each preference share held in both the Companies.
3. Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
4. Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.
5. The assets and liabilities are to be taken at book values except inventory and trade receivables for which provisions at 2% and 2.50 % respectively to be raised.
6. The trade receivables of K Ltd. include ₹20,000 due from L Ltd.
7. The LK Ltd. is to issue 15,000 new equity shares of ₹20 each, ₹18 paid up at premium of ₹ 4 per share so as to have sufficient working capital.

Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

Question 8.

Ex. Book no.

Pg.No.

The following Balance Sheets are given as at 31st March, 20X1:

Particulars		₹ Best Ltd. (in lakhs)	₹ Better Ltd. (in lakhs)
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	20	10
	(shares of ₹ 100 each, fully paid)		
	B Reserves and Surplus	10	8
2	Current liabilities	20	2
	Total	50	20
	Assets		
1	Non-current assets		
	A Property, Plant and Equipment	25	15
	B Non-current investments	5	-
2	Current assets	20	5
	Total	50	20

The following further information is given:

- Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.
- It was agreed that Best Ltd. will take over the business of Better Ltd. on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.
- The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.
- Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

Question 9.

Ex. Book no.

Pg.No.

The summarised Balance Sheet of Mars Limited as on 31st March, 2020 was as follow:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		Fixed Assets:	
1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	Land and building	7,64,000
Reserve and surplus:		Inventory	7,75,000
Capital reserve	42,000	Trade receivables	1,82,000
Contingency reserve	2,70,000	Cash at bank	3,29,000
Profit and loss A/c	2,52,000		
Current Liabilities & Provisions:			
Trade payables	2,66,000		
Provision for income tax	2,20,000		
	20,50,000		20,50,000

On 1st April, 2020, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- Jupiter Limited will take over the assets at the following values:

Liabilities	Amount (₹)
Land and building	10,80,000
Inventory	7,70,000
Bills receivable	30,000

- Purchase consideration will be settled by Jupiter Ltd. as under:
4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.
- Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.
- Trade receivables realized ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.
- Trade payables were finally settled with cash remaining after meeting liquidation expenses amounting to ₹ 8,000.
- Details of trade receivables and trade payables as under:

Trade Receivables		
Debtors	1,60,000	
Less: Provision for doubtful debts	(8,000)	1,52,000
Bill receivable		30,000
		1,82,000

Trade Payables	
Bills payable	40,000
Creditors	2,26,000
	2,66,000

You are required to:

- Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration
- Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd.

Pooling of Interest Method

Question 10.

Ex. Book no.

Pg.No.

The following was the Balance Sheet of V Ltd. as on 31st March, 2020:

Particulars	Note No.	Amount (₹ in lakhs)
Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
Long-term Borrowings	3	630
(3) Current Liabilities		
Trade Payables		170
Total		1,863
Assets		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		1,863

Notes:

(1) Share Capital	₹
Authorised:	1,500
Issued, Subscribed and Paid up:	
80 lakhs Equity Shares of ₹ 10 each, fully paid up	800

35 lakhs 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	350
Total	1,150
(2) Reserves and Surplus:	
Profit & Loss Account	(87)
Total	(87)
(3) Long-term Borrowings	
10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630
(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152
(5) Cash and Cash Equivalents	
Balance at Bank	69
Cash in hand	6
Total	75

On 1st April, 2020, P Ltd. took over the entire business of V Ltd. on the following terms:

1. V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹ 10 each issued at a premium of ₹ 2.50 each for every five shares held by them in V Ltd.
2. Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd., in lieu of their present holding.
3. All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the take over by P Ltd., which would also pay outstanding debenture interest in cash.
4. Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 lakhs. P Ltd. discovered that its trade payables included ₹ 7 lakhs due to V Ltd. for goods purchased.
5. Also P Ltd.'s Inventory included goods of the invoice price of ₹ 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

Advance Problem

Question 11.

Ex. Book no.

Pg.No.

Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 2021:

Liabilities	₹ ('000)	Assets	₹ ('000)
Share Capital:		Land & Buildings	50,00
Equity Shares of ₹ 10 each	75,00	Plant & Machinery	45,00
14% Preference Shares of ₹100 each	25,00	Furniture	10,50
Reserves & Surplus:		Investments	5,00
General Reserve	12,50	Inventory	23,00
12% Debentures	40,00	Trade receivables	24,00
Trade payables and other Current liabilities	20,00	Cash & Bank balance	15,00
	172,50		172,50

Other Information:

- Y Ltd. takes over X Ltd. on 10th April, 2021.
 - Debentureholders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
 - 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).
 - Intrinsic value of equity share of X Ltd. is ₹ 20 & that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy equity shareholders of X Ltd. on basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.
- Compute the purchase consideration.

Question 12.

Ex. Book no.

Pg.No.

Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	Banu Ltd. (₹)
Share Capital:		
50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	-
37,500 Equity Shares of ₹10 each, Fully Paid	-	3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000

Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

- Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.
- Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.
- The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

- Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.
- Draw up Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed.

Question 13.

Ex. Book no.

Pg.No.

The following information from Balance Sheet of X Ltd. as at 31st March, 2023:

Particulars	Amount (₹)
4,000 Equity shares of ₹100 each	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

- (1) Y Ltd. would take over all assets except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that normal rate of return be 8% on combined amount of share capital & general reserve.
- (2) Y Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹3,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹62,200. The liquidation expenses amounted to ₹8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹60,000 to X Ltd. for ₹80,000. ₹50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 2023. Trade payables of X Ltd. include ₹20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 2023 after the takeover.

Chapter 7

Consolidated Financial Statements



(A) AS 21 - Consolidated Financial Statements

Question 1.

Ex. Book no.

Pg.No.

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

Particulars	Amount (₹ in lakhs)
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017.

Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

Question 2.

Ex. Book no.

Pg.No.

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014- 15, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

Question 3.

Ex. Book no.

Pg.No.

Gamma Ltd. acquired 24,000 equity shares of ₹10 each, in Beta Ltd. on October 1, 2023 for ₹4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹15,000 on April 1, 2023. The plant and machinery of Beta Ltd. which stood in the books at ₹2,25,000 on April 1, 2023 was considered worth ₹2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

Particulars	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	-
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery.

Question 4.

Ex. Book no.

Pg.No.

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Particulars	H Ltd.	S Ltd.
	₹ in lakhs	₹ in lakhs
Liabilities		
Share Capital:		
Authorized	15,000	6,000
Issued and Subscribed:		
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	-
Total	21,387	9,208
Assets		
Land and Buildings	2,718	-
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	-	520
Total	21,387	9,208

The following information is also provided to you:

1. H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹3,000 lakh and ₹1,200 lakh respectively.
2. On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.
3. On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.
4. On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

5. On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.

Question 5.

Ex. Book no.

Pg.No.

On 31st March, 20X1, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The position of Q Ltd. on that date was as under:

Particulars	₹
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of ₹ 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 20X3:

Particulars	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	—
Pre-incorporation profits	—	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	—
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.20X3 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 20X3

- (i) Cost of Control/Capital Reserve;
- (ii) Minority Interest;
- (iii) Consolidated Profit and Loss Account in each of the following cases:
 - (a) Before issue of bonus shares;
 - (b) Immediately After issue of bonus shares.

Question 6.

Ex. Book no.

Pg.No.

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹4,80,000 on 1.7.2016. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 2016 showed an opening balance of ₹ 1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record the entry in the books of H Ltd., in respect of the dividend. Assume calendar year as accounting year.

Question 7.

Ex. Book no.

Pg.No.

Consider the following summarized balance sheets of subsidiary B Ltd.:

Liabilities	2015 (₹)	2016 (₹)	Assets	2015 (₹)	2016 (₹)
Share Capital: Issued & subscribed			Fixed Assets:	3,20,000	3,20,000
5,000 equity shares of ₹100 each	5,00,000	5,00,000	Cost		
			Less: Accumulated depreciation	(48,000)	(96,000)
Reserves & Surplus:				2,72,000	2,24,000
Revenue reserves	2,86,000	7,14,000	Investments at cost	-	4,00,000
Current Liabilities & Provisions:			Current Assets:		
Trade Payables	4,90,000	4,94,000	Inventory	5,97,000	7,42,000
Bank overdraft	-	1,70,000	Trade Receivables	5,94,000	8,91,000
Provision for taxation	3,10,000	4,30,000	Prepaid Expenses	72,000	48,000
			Cash at Bank	51,000	3,000
	15,86,000	23,08,000		15,86,000	23,08,000

Also consider the following information:

1. B Ltd. is a subsidiary of A Ltd. Both companies follow calendar year as the accounting year.
2. A Ltd. values inventory on LIFO basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹12,000 at the end of 2015 and ₹34,000 at the end of 2016.
3. Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.
4. B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
5. Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2015 and ₹ 30,000 in 2016, being part of initial advertising expenditure of ₹ 90,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2015.

Restate the balance sheet of B Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

Question 8.

Ex. Book no.

Pg.No.

H Limited acquired 64,000 Equity Shares of ₹10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd.	S Ltd.
Equities and Liabilities:		
Equity Share Capital: Shares of ₹10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	36,55,200	16,60,000
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	36,55,200	16,60,000

Additional Information:

- (1) The Profit & Loss Account of S Ltd. showed credit balance of ₹1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.
- (2) The Plant & Machinery of S Ltd. which stood at ₹6,00,000 on 1st April, 2019 was considered worth ₹5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020.

Question 9.

Ex. Book no.

Pg.No.

Following condensed balance sheet of H Ltd. & S Ltd. were prepared as on 31st December, 2016:

Particulars	H Ltd. (₹)	S Ltd. (₹)
Assets		
Goodwill	1,12,000	40,000
Plant & Machinery	95,000	50,400
Furniture	7,000	4,600
9,000 ordinary shares in S Ltd.	1,20,000	-
Inventory-in-trade	48,000	1,14,000
Trade Receivables	70,000	45,000
Cash at Bank	17,000	37,000
Total	4,69,000	2,91,000
Liabilities		
Share Capital:		
Ordinary shares of 10 each	1,80,000	1,00,000
7½% Pref. shares of ₹ 10 each	1,50,000	80,000
Premium on ordinary shares	36,000	-
Reserves	26,000	30,000
Profit & Loss Account	60,000	20,000
Trade Payables	17,000	61,000
Total	4,69,000	2,91,000

Trade Payables of H Ltd. include ₹15,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The Inventory of H Ltd. includes goods costing ₹ 33,000 purchased from S Ltd. H Ltd. acquired the shares of S Ltd. on 1st July, 2016. As at the date of last preceding balance sheet of S Ltd., viz., 31st December, 2015; the plant and machinery stood in the books at ₹ 56,000, the reserve at ₹ 30,000 and the profit and loss account at ₹ 8,000. The plant was revalued by H Ltd. on the date of acquisition of the share of S Ltd. at ₹60,000 but no adjustments were made in the books of S Ltd. On 31st December, 2015, the debit balance of profit and loss account was ₹ 22,750 in the books of H Ltd.

Both the companies have provided depreciation on all their fixed assets at 10% per annum. You are required to prepare a consolidated balance sheet on 31st December. Also give supporting schedule for computation.

Question 10.

Ex. Book no.

Pg.No.

On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. for ₹14,80,000.

On 31 March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. for ₹3,80,000.

The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31 March, 2024:

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit & Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information:

- The Profit & Loss account of Cool Ltd. showed a credit balance of ₹30,000 on 1st April, 2023.
- The General Reserve balance is brought forward from the previous year.
- On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.
- Best Ltd. purchased goods costing ₹5,00,000 from Cool Ltd. on 15th June, 2023 at a price of ₹6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.
- Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.

You are required to calculate:

- Trade Payable (Consolidated)
- Current Assets (Consolidated)
- Minority Interest
- Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares
- Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares
- Profit & Loss Account (Consolidated)

- (7) General Reserve (Consolidated)
(8) Revenue from Operations (Consolidated)
(9) Cost of material purchased/consumed (Consolidated)

Question 11.

Ex. Book no.

Pg.No.

Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2023:

Particulars	H Ltd.	S Ltd.
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information:

- On 1st September 2020 Chand Ltd., acquired 5,000 equity shares of ₹100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of ₹ 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include ₹21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include ₹28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹5,000 to Chand Ltd. as royalty.
- Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013.

(B) AS - 23 - Accounting for Investments in Associates in CFS

Question 12.

Ex. Book no.

Pg.No.

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

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

During the year ended 31.3.20X2 the following are the additional information available:

- A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
- B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.
- B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

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

Calculate:

- Goodwill if any on acquisition of B Ltd.'s shares.
- How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
- How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

Question 13.

Ex. Book no.

Pg.No.

Hill Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. Sun Ltd. acquired 15% shares in Hill Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of Hill Ltd. These debentures will be converted at par into equity shares of Hill Ltd. after 3 years. State whether, as per AS 23, Hill Ltd. is an Associate of Sun Ltd. or not with reasons?

(C) AS - 27 - Financial Reporting of Interests in JV

Question 14.

Ex. Book no.

Pg.No.

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.20X1 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.20X1 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

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

Question 15.

Ex. Book no.

Pg.No.

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

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	16,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	-
Current Assets	2,00,000	1,25,000	50,000

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

Space for Self Notes

Chapter 8

Branch
Accounting

Dependent Branch

Question 1.

Ex. Book no.

Pg.No.

Widespread invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits balance of cash to head office after withholding ₹10,000 necessary for meeting immediate requirements of cash. On 31st March, 2021 assets at branch were as follows :

Particulars	(₹ '000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 2022 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 132 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at the branch during the year were as follows :

Particulars	(₹ '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 2022 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque. On 31st March, 2022 branch expenses amounting to ₹ 6,000 were out standing and cash in hand was again ₹ 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2022.

Question 2.

Ex. Book no.

Pg.No.

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2021:

Particulars	₹
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2021 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000
Cash Sales for the year @ invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balances	1-1-2021	31-12-2021
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 2021.

Question 3.

Ex. Book no.

Pg.No.

Easwar & Co., with its Head Office in Chennai, invoiced goods to its Branch at Pune, at 20% less than the Catalogue Price, which is Cost plus 50%, with instructions that Cash Sales were to be made at Invoice Price & Credit Sales at Catalogue Price. Discount on Credit Sale at 15% on prompt payment will be allowed.

From the following particulars available from the Branch, prepare the Branch Trading and Profit & Loss Account of the Branch for the financial year:

Particulars	₹	Particulars	₹
Opening stock (Invoice price)	12,000	Discount allowed on Debtors	13,365
Goods received from Head Office (Invoice Price)	1,32,000	Expenses at the Branch	6,000
Debtors on 1st April (Year beginning)	10,000	Remittance to Head Office	1,20,000
Cash Sales	46,000	Debtors on 31st March (Year end)	11,000
Credit Sales	1,00,000	Cash in Hand on 31st March (Year end)	5,635
Cash realised from debtors	85,635	Closing Stock on 31st March (Year end)	15,000

It was reported that a part of Stock at the Branch was lost by fire during the year, whose value is to be ascertained, and Provision should be made for Discount to be allowed to Debtors as on 31st March (year-end) on the basis of the year's occurrence of prompt payment.

Question 4.

Ex. Book no.

Pg.No.

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ ₹ 1,000 per tin and 15 tins of Ghee @ ₹ 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

Particulars		Delhi	Lucknow
		₹	₹
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year (including Cash Sales)		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

(Delhi)

Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	1,50,000	3,12,500
Oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

(Lucknow)

Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	17,000	13,250
Oil	27,000	44,750
Debtors	75,750	?
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

Addition to Plant/Machinery on 1-1-20X1 ₹ 6,02,750.

Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).

The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of ₹ 2,000 p.m. General expenses incurred by H.O. ₹ 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

Question 5.

Ex. Book no.

Pg.No.

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office.

The following details for the year ended 31st March, 2020 are given as follows:

Particulars	₹	Particulars	₹
Opening stock (Invoice price)	12,000	Discount allowed on Debtors	13,365
Goods received from Head Office (Invoice Price)	1,32,000	Expenses at the Branch	6,000
Debtors on 1st April (Year beginning)	10,000	Remittance to Head Office	1,20,000
Cash Sales	46,000	Debtors on 31st March (Year end)	11,000
Credit Sales	1,00,000	Cash in Hand on 31st March (Year end)	5,635
Cash realised from debtors	85,635	Closing Stock on 31st March (Year end)	15,000

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020.

Question 6.

Ex. Book no.

Pg.No.

Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. Branch makes both cash & credit sales. Branch expenses are met partly from H.O. & partly by branch. Statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2023:

Particulars	₹
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2023 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000
Cash Sales for the year @ invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750
Balances as on 1-1-2023	31-12-2023
	₹
Stock 25,000 (Cost)	28,000 (invoice price)
Debtors 32,750	26,000
Cash in Hand 5,000	2,500

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023.

Question 7.

Ex. Book no.

Pg.No.

From the following particulars relating to Pune branch for the year ending December 31, 2024, prepare Branch Account in the books of Head office.

Stock at Branch on January 1, 2024	10,000
Branch Debtors on January 1, 2024	4,000
Branch Debtors on Dec. 31, 2024	4,900
Petty cash at branch on January 1, 2024	500
Furniture at branch on January 1, 2024	2,000
Prepaid fire insurance premium on January 1, 2024	150
Salaries outstanding at branch on January 1, 2024	100
Good sent to Branch during the year	80,000
Cash Sales during the year	1,30,000
Credit Sales during the year	40,000
Cash received from debtors	35,000
Cash paid by the branch debtors directly to the Head Office	2,000
Discount allowed to debtors	100
Goods returned by the Branch	1,000
Goods returned by the debtors	2,000

Stock on December 31, 2024		5,000
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2025	600	6,000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.



RTP - Sep'24



Question 8.

Ex. Book no.

Pg.No.

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2021.

Particulars	₹
Stock at the outlet 1.4.20	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.21	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.21:

- Outlet Stock Account.
- Outlet Profit & Loss Account.
- Stock Reserve Account.

Independent Branch

Question 9.

Ex. Book no.

Pg.No.

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

- i. Income of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.
- ii. Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 1,000.
- iii. Branch paid ₹ 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- iv. Branch incurred travelling expenses of ₹ 5,000 on behalf of other Branches, but not recorded in the books of Branch.
- v. A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- vi. Head Office allocates ₹ 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.
- vii. Head Office collected ₹ 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.
- viii. Goods dispatched by the Head office amounting to ₹ 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

Question 10.

Ex. Book no.

Pg.No.

Show adjustment Journal entry in the books of Head Office at the end of April, 2022 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. Delhi Branch:

1. Received goods from Mumbai - ₹ 35,000 and ₹ 15,000 from Kolkata.
2. Sent goods to Chennai - ₹ 25,000, Kolkata - ₹ 20,000.
3. Bill Receivable received - ₹ 20,000 from Chennai.
4. Acceptances sent to Mumbai - ₹ 25,000, Kolkata - ₹ 10,000.

B. Mumbai Branch (apart from the above):

5. Received goods from Kolkata - ₹ 15,000, Delhi - ₹ 20,000.
6. Cash sent to Delhi - ₹ 15,000, Kolkata - ₹ 7,000.

C. Chennai Branch (apart from the above):

7. Received goods from Kolkata - ₹ 30,000.
8. Acceptances and Cash sent to Kolkata - ₹ 20,000 and ₹10,000 respectively.

D. Kolkata Branch (apart from the above):

9. Sent goods to Chennai - ₹ 35,000.
10. Paid cash to Chennai - ₹15,000.
11. Acceptances sent to Chennai - ₹15,000.

Question 11.

Ex. Book no.

Pg.No.

On 31st March, 2022 Kanpur Branch submits the following Trial Balance to its HO at Lucknow:

Particulars	₹ in lacs
Debit Balances	
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2021	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2022 was valued at ₹ 62 lacs. On 29th March, 2022 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2022. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry.

You are required to:

- (i) Pass Journal Entries in the books of the Branch to make the necessary adjustments
- (ii) Prepare Final Accounts of the Branch including Balance Sheet, and
- (iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance.

Foreign Branch

Question 12.

Ex. Book no.

Pg.No.

DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£ Dr.	£ Cr.
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch A/c	49,26,000	By Balance C/d	17,20,000
	69,36,000		69,36,000

The following further information is given:

(a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.

(b) On 31-3-2021:

Expenses outstanding - £400

Prepaid expenses - £200

Closing stock - £ 8,000

(c) Rate of Exchange:

1st April, 2017 - ₹ 70 to £ 1

1st April, 2020 - ₹ 76 to £ 1

31st March, 2021 - ₹ 77 to £ 1

Average - ₹ 75 to £ 1

You are required to prepare:

- Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.
- Trading and profit and loss account for the year ended 31st March, 2021 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM.

Question 13.

Ex. Book no.

Pg.No.

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	-
Furniture and Fixtures	3,200	-
Stock (April 1st, 2021)	22,400	-
Purchases	96,000	-
Sales	-	1,66,400
Goods sent from H.O	32,000	-
Salaries	3,200	-
Carriage inward	400	-
Rent, Rates & Taxes	800	-
Insurance	400	-
Trade Expenses	400	-
Head Office Account	-	45,600
Sundry Debtors	9,600	-
Sundry Creditors	-	6,800
Cash at Bank	2,000	-
Cash in Hand	400	-
	2,18,800	2,18,800

The following further informations are given:

- Salaries outstanding \$ 400.
- Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- The Head Office sent goods to Branch for ₹15,80,000
- The Head Office shows an amount of ₹20,50,000 due from Branch.
- Stock on 31st March, 2022 - \$21,500.
- There were no transit items either at the start or at the end of the year.

7. On April 1st, 2020 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 1st, 2021, the rate was ₹ 47 per \$. On March 31st, 2022 the rate was ₹ 50 per \$. Average rate during the year was ₹ 45 to one \$.

Prepare:

- (a) Trial balance incorporating adjustments given converting dollars into rupees.
- (b) Trading, Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as on date depicting the profitability and net position of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

Question 14.

Ex. Book no.

Pg.No.

ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2023, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch:

Particulars	Delhi (₹ thousands)		New York (\$ thousands)	
	Debit	Credit	Debit	Credit
Share Capital		1250		
Reserve & Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Machinery Depreciation Reserve		500		20
Trade receivables/payables	500	270	60	20
Stock (01-04-2022)	250		25	
Branch Stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/Sales	275	600	25	125
Goods sent to Branch		1,500	30	
Managing Director's salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25		12	
Commission receipts		275		100
Branch/H.O. Current A/c	800			15
	5,600	5,600	280	280

The following information is also available:

1. Stock as at 31 -03-2023 Delhi - ₹2,00,000
New York - \$ 10,000 (all stock received from Delhi)
2. Head Office always sent goods to the Branch at cost plus 25%.
3. Provision is to be made for doubtful debts at 5%.
4. Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down values.

You are required:

- (a) To convert the branch Trial Balance into rupees, using the following rates of exchange:
Exchange:

Opening rate	1 \$ = ₹ 50
Closing rate	1 \$ = ₹ 55
Average rate	1 \$ = ₹ 52
For fixed assets	1 \$ = ₹ 45

- (b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2023, showing to the extent possible, Head Office results and Branch results separately.

Question 15.

Ex. Book no.

Pg.No.

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.

Mumbai branch furnishes you with its trial balance as on 31st March, 2023 and the additional information given thereafter:

Particulars	Rupees in Thousands	
	Dr.	Cr.
Stock on 1st April, 2022	300	-
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Computers	240	-
Bank balance	420	-
New York office A/c	-	1,620
	3,360	3,360

Additional information:

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Mumbai branch was worth ₹ 4,20,000 on 31st March, 2023.
- (c) The rates of exchange may be taken as follows:
 - on 1.4.2022 @ ₹ 40 per US \$
 - on 31.3.2023 @ ₹ 42 per US \$
 - average exchange rate for the year @ ₹ 41 per US \$
 - conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2023 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.2023 in New York books and there were no items pending reconciliation.

Space for Self Notes

Space for Self Notes

Accounting Standard Question Bank



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IMPORTANT POINTS

Question	Reply
Tentative Marks	35 marks (12-14 MCQ's & 20-25 Subjective)
Type of questions	a) Numericals b) Case Based c) Theoretical
Do I need to learn AS by heart	Yes, few points in every AS which are repeatedly tested in exams.
Are AS theoretical?	No, type of Questions asked in exam needs understanding of the Accounting principles.
How to write answer for case-based question	Para 1 : Provision of AS Para 2 : Explain the case Para 3 : Link the provision with case Para 4: Conclusion
How to write answer for numerical question	Para 1 : Relevant Provision of AS Para 2 : Solution
Study methodology	a) Understanding b) Application c) Summarize d) Practising



CA Inter
Advance Accounting

INTRODUCTION & APPLICABILITY OF ACCOUNTING STANDARDS

Question 1

Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II and Level III Level IV entities for the purpose of compliance of Accounting Standards in India.

- (a) Rama Textiles whose turnover (excluding other income) exceeds ten crores but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (b) Star Industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (c) Newman Industries is having borrowings (including public deposits) less than rupees fifty lakh at any time during the immediately preceding accounting year.
- (d) SS Finance is a financial institution carrying its business in India since last 10 years.
- (e) DD Finance, holding company of SS Finance. (Entity mentioned at Point (v) above)
- (f) Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.

Solution

- (a) Level III Entity – Rama textiles, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (b) Level III Entity – Star industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (c) Level IV Entity – Newman Industries is having borrowings (including public deposits) of less than rupees fifty lakhs at any time during the immediately preceding accounting year.
- (d) Level I Entity – SS is a financial institution carrying its business in India since last 10 years.
- (e) Level I Entity – DD finance, holding company of SS finance (Entity mentioned in point (d) above).
- (f) Level I Entity – Reliable co-operative banks carrying on banking business for the last 15 years.

Question 2

A company with turnover of ₹225 crores & borrowings of ₹51 crore during year ended 31st March, 2021, wants to avail exemptions available in adoption of Accounting Standards applicable to companies for year ended 31.3.2021. Advise management on exemptions that are available as per Companies (Accounting Standards) Rules, 2021.

Solution

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

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

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

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

Question 3

State the advantages and limitations of Accounting Standards.

Solution

Benefits of AS

- 1) **Standardisation of alternative accounting treatments:** Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- 2) **Requirements for additional disclosures:** There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

- 3) **Comparability of financial statements:** The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country.

Limitations of AS

- 1) **Difficulties in making choice between different treatments:** Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- 2) **Lack of flexibilities:** There may be a trend towards rigidity and away from flexibility in applying the accounting standards.
- 3) **Restricted scope:** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

Question 4

State the issues dealt by Accounting Standards.

Solution

Accounting standards deal with the following issues:

- (a) Recognition of events and transactions in the financial statements,
- (b) Measurement of these transactions and events,
- (c) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the users, and
- (d) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

SPACE FOR SELF NOTES

Accounting Standards on Assets in Financial Statements

AS – 2

VALUATION OF INVENTORIES

Question 1

An enterprise ordered 13,000 Kg. of certain material at ₹90 per unit. The purchase price includes excise duty ₹5 per Kg., in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹80,600. Normal transit loss is 4%. The enterprise actually received 12,400 Kg and consumed 10,000 Kg. Determine the cost of Inventory and its allocation into Materials consumed, Closing inventory and Abnormal loss?

Question 2

Z Ltd. ordered 13,000 kgs of chemicals @ ₹90/kg. The purchase price includes GST of ₹5/kg in respect of which full input credit is admissible. Further, state VAT is leviable at ₹2.5/kg on purchase price. Freight incurred amounted to ₹30,000. Normal transit loss is 4%. The company actually received 12,400 kgs and consumed 10,000 kgs. The company has received trade discount in the form of cash amounting to ₹1/kg. The chemicals were delivered in containers. The containers were not reusable, hence sold for ₹500. The administrative expenses incurred to bring the chemicals were ₹10,000. Compute the value of inventory and allocate the material cost as per AS-2.

Question 3

Normal production volume of Rama Ltd. is 1,00,000 units. Estimated fixed overheads are ₹5,00,000. Calculate fixed overhead per unit to be absorbed when actual production is (i) 1,00,000 units; (ii) 80,000 units and (iii) 1,20,000 units and find out unabsorbed amount to be transferred to P&L in all the situations?

Question 4

In a manufacturing process of Vijaya Ltd., one by-product BP emerges besides two main products MP1 and MP2 apart from scrap.

Details of cost of production process is here under:

Item	Units	Amount (₹)	Output (unit)	Closing stock
Raw Material	15,000	1,60,000	MP1 – 6,250	800
Wages	-	82,000	MP2 – 5,000	200
Fixed Overhead	-	58,000	BP – 1,600	-
Variable overhead	-	40,000	-	-

Average market price of MP1 and MP2 is ₹80/unit and ₹50/unit respectively. By-product is sold at ₹25/unit.

There is a profit of ₹5,000 on sale of by-product after incurring separate processing charges of ₹4,000 and packing charges of ₹6,000. ₹6,000 realised from sale of scrap. Calculate the value of Closing stock of MP1 and MP2?

Question 5

Calculate the value of raw materials and closing stock based on the following information:

Particulars	Amount (₹)
Raw Material X	
Closing Balance	500 units
	₹ per unit
Cost price including excise duty	200
Excise Duty (Cenvat credit is receivable)	10
Freight Inward	20
Unloading Charges	10
Replacement Cost	150
Finished Goods Y	
Closing Balance	1,200 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 20,000 units.

Calculate the value of the closing stock, when:

- 1) Net Realizable Value of the Finished Goods Y is ₹400.
- 2) Net Realizable Value of the Finished Goods Y is ₹300.

Question 6

Alpha Ltd. sells flavoured milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

Keeping this in view:

Decide whether the inventory of empty bottles is an asset of the company;

If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

Solution

As per the 'Framework on Presentation and Preparation of Financial Statements':

Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets.

Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale.

Therefore, empty bottles are assets for the company.

As per AS 2, inventories are assets held for sale in the ordinary course of business.

Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality.

Thus, inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

SPACE FOR SELF NOTES

AS – 10

PROPERTY, PLANT AND EQUIPMENT

Question 1

M/s. Versatile Limited purchased machinery for ₹4,80,000 (inclusive of excise duty of ₹40,000). CENVAT credit is available for 50% of the duty paid. The company incurred the following other expenses for installation:

	₹
Cost of preparation of site for installation	21,000
Total labour charges	66,000
(200 out of total of 600 men hours worked, were spent for installation of machinery)	
Spare parts and tools consumed in installation	6,000
Total salary of supervisor	24,000
(Time spent for installation was 25% of the total time worked.)	
Total administrative expenses	32,000
(1/10 relates to the plant installation)	
Test run and experimental production expenses	23,000
Consultancy charges to architect for plant set up	9,000
Depreciation on assets used for the installation	12,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹19,000 were incurred. Calculate the value at which the plant should be capitalized in the books of M/s. Versatile Limited.

Question 2

Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months' time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at ₹16,500 per month after adding 10% profit margin. The machine was purchased at ₹52,78,000. Sales Tax was charged at 4% on the invoice. ₹18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, Company made the payment in 2nd month. The company operates on Bank Overdraft @ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

Question 3

- Entity A exchanges surplus land with a book value of ₹10,00,000 for cash of ₹20,00,000 and plant and machinery valued at ₹25,00,000. What will be the measurement cost of the assets received?
- Entity A exchanges car X with a book value of ₹13,00,000 and a fair value of ₹13,25,000 for cash of ₹15,000 and car Y which has a fair value of ₹13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received?

Question 4

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed. Management has prepared the following budget for this period:

Salaries of staff engaged in preparation of restaurant before its opening	₹7,50,000
Construction and remodelling cost of restaurant	₹30,00,000

Explain the treatment of these expenditures as per the provision of AS-10?

Question 5

Bharat Infrastructure Ltd. acquired heavy machinery at cost of ₹1,000 lakhs, breakdown of its components is not provided. The estimated useful life of the machinery is 10 years. At the end of Year 6, the turbine, which is a major component of the machinery, needed replacement, as further usage and maintenance was uneconomical. The remainder of the machine is in good condition and is expected to last for the remaining 4 years. The cost of the new turbine is ₹450 lakhs. Give the accounting treatment for the new turbine, assuming SLM Depreciation and a discount rate of 8%.

Question 6

Argon Ltd. Purchased a shop on 1st January, 2001 at a cost of ₹8,50,000. The Useful life of the shop is estimated as 30 years with residual value of ₹25,000 and depreciation is provided on a straight-line basis. The shop was revalued on 30th June, 2015 for ₹19,50,000 and the revaluation was incorporated in the accounts.

Calculate:

- The surplus on revaluation:
- Depreciation to be charged in the profit and loss account for the year ended on 31st December, 2015.

Question 7

A property costing ₹10,00,000 is bought in 2016. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 20 years. The estimated residual value in 20 years' time, based on 2016 prices, is:

Case (a) ₹10,00,000

Case (b) ₹9,00,000.

Calculate the amount of depreciation.

Question 8

XYZ Limited provided you the following information for the year ended 31st March, 2022.

- (i) The carrying amount of a property at the end of the year amounted to ₹2,16,000 (cost/value ₹2,50,000 and accumulated depreciation ₹34,000). On this date the property was revalued and was deemed to have a fair value of ₹1,90,000. The balance in the revaluation surplus relating to a previous revaluation gain for this property was ₹20,000.

You are required to calculate the revaluation loss as per AS 10 (Revised) and give its treatment in the books of accounts.

- (ii) An asset that originally cost ₹76,000 and had accumulated depreciation of ₹62,000 was disposed of during the year for ₹4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS 10 (Revised).

Question 9

ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

Solution

AS 10 states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Further, the standard provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. The cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalization of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the given case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

Question 10

Akshar Ltd. installed a new Plant (not a qualifying asset), at its production facility, and incurred the following costs:

- Cost of the Plant (as per supplier's invoice): ₹30,00,000
- Initial delivery and handling costs: ₹1,00,000
- Cost of site preparation: ₹2,00,000
- Consultant fee for advice on acquisition of Plant: ₹50,000
- Interest charges paid to supplier against deferred credit: ₹1,00,000
- Estimate of Dismantling and Site Restoration costs: ₹50,000 after 10 years (Present Value is ₹30,000)
- Operating losses before commercial production: ₹40,000

The company identified motors installed in the Plant as a separate component and a cost of ₹5,00,000 (Purchase Price) and other costs were allocated to them proportionately. The company estimates the useful life of the Plant and those of the Motors as 10 years and 6 years respectively and SLM method of Depreciation is used.

At the end of Year 4, the company replaces the Motors installed in the Plant at a cost of ₹6,00,000 and estimated the useful life of new motors to be 5 years. Also, the company revalued its entire class of Fixed Assets at the end of Year 4. The revalued amount of Plant as a whole is ₹25,00,000. At the end of Year 8, the company decides to retire the Plant from active use and also disposed the Plant as a whole for ₹6,00,000.

There is no change in the Dismantling and Site Restoration liability during the period of use. You are required to explain how the above transaction would be accounted in accordance with AS 10.

SPACE FOR SELF NOTES

AS – 26

INTANGIBLE ASSETS

Question 1

During 20X1-X2, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

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

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

Question 2

A company with a turnover of ₹250 crores and an annual advertising budget of ₹2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹2 crore incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the company, correct?

Solution

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset". In the given case, advertisement expenditure of ₹ 2 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹ 25 crores. Here, no intangible asset or other asset is acquired or created that can be recognised. Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹ 2 crores to the Profit and Loss account of the year is correct.

* As per AS 26 "Intangible Assets", there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when asset is available for use. Amortisation should commence when asset is available for use.

Question 3

As per provisions of AS-26, how would you deal to the following situations:

- a) ₹23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.
- b) During the year 2018-19, a company spent ₹7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- c) A company spent ₹25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹25,00,000 by disclosing it as a prior period item.
- d) A company with a turnover of ₹200 crores and an annual advertising budget of ₹50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹50,00,000 incurred on extensive special initial advertisement campaign for the new product.

Solution

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

- (i) In the given case, the legal expenses to defend the patent of a product amounting ₹23,00,000 should not be capitalized and be charged to Profit and Loss Statement.
- (ii) The company is required to expense the entire amount of ₹7,00,000 in the Profit and Loss account for the year ended 31st March, 2019 because no benefit will arise in the future.
- (iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date.

Thus, the company cannot capitalize the amount of ₹25,00,000 and it should be recognized as expense.

- (iv) Expenditure of ₹50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

Question 4

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and up to 31st March, 2013, a sum of ₹8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹2 lakh per annum for next five years.

Cost of capital is 10%. Present value of annuity factor of ₹1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS 26.

Question 5

A Company acquired a patent at a cost of ₹1,60,00,000 for a period of 5 years and the product life cycle is also 5 years. The company capitalised the cost and started amortising the asset ₹16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After two years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flow from the product during these 5 years were expected to be ₹50,00,000, ₹30,00,000, ₹60,00,000, ₹70,00,000 and ₹40,00,000.

You are required to compute the amortisation cost of patent for each year.

Question 6

Surya Ltd. had the following transactions during the year ended 31st March, 2021.

- (i) It acquired the business of Gomati Limited on a going concern basis for ₹25,00,000 on 1st June, 2020. The fair value of the Net Assets of Gomati Limited was ₹18,75,000. Surya Ltd. believes that due to popularity of the products of Gomati Limited in the market, its goodwill exists.
- (ii) On 20th August, 2020, Surya Ltd. incurred cost of ₹6,00,000 to register the patent for its product. Surya Ltd. expects the Patent's economic life to be 8 years.

- (iii) On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlour from Volga Ltd. for ₹4,50,000 and at an Annual Fee of 10% of Net Revenues (after deducting expenditure). The franchise expires after six years. Net Revenue for the year ended 31st March, 2021 amounted to ₹1,50,000.

Surya Ltd. follows an accounting policy to amortize all Intangibles on Straight Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years (SLM). Prepare an extract showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at 31st March, 2021.

AS – 12

GOVERNMENT GRANTS

Question 1

Energy Ltd. has acquired a generator on 1.4.2023 for ₹100 lakh. On 2.4.2023, it applied to Indian Renewal Energy Development Authority (IREDA) for a subsidy. The subsidy was granted in June, 2024 after the accounts for 2023-2024 were finalized. The company has not accounted for the subsidy for the year ended 31.3.2024.

State:

- (i) Is this a prior period item?
- (ii) How should the subsidy be accounted in the accounting year 2024-2025?

Solution

- (a) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items are incomes or expenses arising out of errors in one or more prior accounting periods. The question is "whether co. has committed an error in 2023-24 by not recognising the subsidy?" The answer is there was no error, AS 12 (para 13) permits recognition of grant only when there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them, (ii) the subsidy will be received. Mere making application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Hence the company was not recognising the grant. Further, AS 4 requires adjustment of events occurring after the balance sheet date only up to the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting same in the accounts for the year 2023-24. Hence, this is not a prior period item.
- (b) Subsidy should be deducted from the cost of the generator. Revised unamortised, amount of generator should be written off over the remaining useful life.

Alternatively, the same may be treated as deferred income and allocated over the remaining useful life in the proportion in which depreciation is charged.

Question 2

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

- i. the grant amount is deducted from the value of fixed asset.
- ii. the grant is treated as deferred income?

Question 3

How would you treat the following in the accounts in accordance with AS-12?

- a) ₹35 lakhs received from local authority for providing medical facilities to employees.
- b) ₹100 lakhs received as subsidy from the Central government for setting up a unit in the notified backward area.
- c) ₹10 lakhs grant received from the Central government on installation of anti-pollution equipment.

Solution

- a) ₹35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as Other Income. Alternatively, ₹35 lakhs may be deducted in reporting the related expense i.e., employee benefit expenses.
- b) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, subsidy received from Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹100 lakhs should be credited to capital reserve.

- c) ₹10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of asset.

Thus, ₹10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

Question 4

On 01.04.2014, XYZ Ltd. received government grant of ₹100 lakhs for an acquisition of new machinery costing ₹500 lakhs. The grant was received and credited to the cost of the asset. The life span of machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant on 2nd April, 2017 due to non-fulfilment of conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the government in the books of XYZ Ltd. as per AS 12?

Question 5

V Ltd. received a specific grant of ₹30 lakhs for acquiring the plant of ₹150 lakhs during 2017-18 having the useful life of 10 years. The grant received was credited to deferred income in the Balance Sheet and was not deducted from the cost of plant. During 2020-21, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹21 lakhs and written down value of the plant was ₹105 lakhs. What should be the treatment of the refund of grant and the effect on cost of the asset and the amount of depreciation to be charged in 2020-21?

Question 6

D Ltd. acquired a machine on 01-04-2012 for ₹20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	Amount (₹)
Original Cost of Machine	20,00,000
Less: Accumulated Depreciation (from 1-4-12 to 31-3-15) [SLM]	12,00,000
WDV on 31-3-15	8,00,000
Less: Grant Received	16,00,000
Balance	(8,00,000)

How should the company deal with this asset in its accounts for 2015-16? Can it charge depreciation or negative depreciation for 2015-16? Can it credit ₹8,00,000 to Capital Reserve?

SPACE FOR SELF NOTES

AS – 16

BORROWING COSTS

Question 1

Raj & Co. has taken a loan of US\$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was ₹48 per 1 US\$. The exchange rate at the closing of the financial year was ₹50 per 1 US\$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11% per annum. Determine the treatment of borrowing cost in the books of accounts.

Question 2

A company incorporated in June 2020, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

Solution

As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered. It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months, then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

Question 3

On 1st April, 2009, Amazing Construction Ltd. obtained a loan of ₹32 crores to be utilized as under:

(i) Construction of sea link across two cities: (work was held up totally for a month during the year due to high water levels)	:	₹25 crores
(ii) Purchase of equipment's and machineries	:	₹3 crores
(iii) Working capital	:	₹2 crores
(iv) Purchase of vehicles	:	₹50,00,000
(v) Advance for tools/cranes etc.	:	₹50,00,000
(vi) Purchase of technical know-how	:	₹1 crores
(vii) Total interest charged by the bank for the year ending 31 st March, 2010	:	₹80,00,000

Show the treatment of interest by Amazing Construction Ltd.

Question 4

X Ltd. began construction of a new building on 1st January, 2012. It obtained ₹1 lakh special loan to finance the construction of the building on 1st January, 2012 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

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

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

Period	₹
Jan, 2012	2,00,000
April, 2012	2,50,000
July, 2012	4,50,000
Dec, 2012	1,20,000

Building was completed by 31st December, 2012. 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 building.

Question 5

On 1st April, 2022 Workhouse Limited took a loan from a Financial Institution for ₹25,00,000 for the construction of Building. The rate of interest is 12%.

In addition to above loan, the company has taken multiple borrowings as follows:

- (i) 8% Debentures ₹15,00,000
- (ii) 15% Term Loan ₹30,00,000
- (iii) 10% Other Loans ₹18,00,000

The company has utilised above funds in construction/purchase of following assets:

- (i) Building ₹70,00,000
- (ii) Furniture ₹22,00,000
- (iii) Plant & Machinery ₹90,00,000
- (iv) Factory Shed ₹43,00,000

The construction of Building, Plant & Machinery and Factory Shed was completed on 31st March 2023. Readymade Furniture was purchased directly from the market. The factory was ready for production on 1st April 2023.

You are required to calculate the borrowing cost for both qualifying and non-qualifying assets.

Question 6

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

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

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

Question 7

ABC Limited has started construction of an asset on 1st December, 2020, which continue still 31st March, 2021 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period.

The directly attributable expenditure at the beginning of the month on this asset was ₹10 lakh in December 2020 and ₹4 lakh in each of months of January to March 2021.

At the beginning of the year, the entity had taken Inter Corporate Deposits of ₹20 lakh at 9% rate of interest and had an overdraft of ₹4 lakh, which increased to ₹8 lakh on 1st March, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 and then the rate was increased to 12%.

You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS-16 'Borrowing Costs'.

Question 8

Loyal Ltd. has undertaken a project for expansion of capacity as per the following details:

	Plan (₹)	Actual (₹)
October, 2023	5,00,000	4,00,000
November, 2023	6,50,000	7,95,000
December, 2023	20,00,000	-
January, 2024	2,00,000	50,000
February, 2024	9,00,000	2,00,000
March, 2024	10,00,000	12,00,000

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had ₹20 lakh overdraft up to 31st December, surplus cash in January and again overdraft of ₹14 lakh from 1.2.2024 and ₹30 lakh from 1.3.2024.

The company had a strike during December and hence could not continue work during said period. However, substantial administrative work related to project was continued. Onsite work was again commenced on 1st January & all work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month.

Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure.

AS – 19 LEASES

Question 1

Classify the following into either operating or finance lease:

- a) Lessee has option to purchase asset at lower than fair value, at end of lease term;
- b) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;
- c) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;
- d) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of asset is "Y".

Solution

- (i) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease*.
- (ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.
- (iii) Since the asset is procured only for the use of lessee, it is a finance lease.
- (iv) The lease is a finance lease if $X = Y$, or where X substantially equals Y.

Question 2

S. Square Private Limited has taken machinery on lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹20,00,000

Lease rent = ₹6,25,000 p.a. at the end of year

Guaranteed residual value = ₹1,25,000

Expected residual value = ₹3,75,000

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS-19 and pass journal entries in books of lessee?

Question 3

Annual lease rents = ₹50,000 at the end of each year.

Lease period = 5 years;

Guaranteed residual value = ₹25,000

Unguaranteed residual value = ₹15,000

Fair Value at the inception (beginning) of lease = ₹2,00,000

Compute Interest rate implicit in the lease. Show unearned finance income for Lessor and pass journal entries in the books of lessor?

Question 4

B&P Ltd. availed a lease from N&L Ltd. The conditions of the lease terms are as under:

- (i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing ₹10,00,000 and has an expected useful life of 5 years.
- (ii) The Fair market value is also ₹10,00,000.
- (iii) The property reverts back to the lessor on termination of the lease.
- (iv) Unguaranteed residual value is estimated at ₹1,00,000 at the end of the year 2011.
- (v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

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

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

State whether lease constitute finance lease & also calculate unearned Finance income.

Question 5

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

1. Annual Lease Rent
2. Lease Rent income to be recognized in each operating year and
3. Depreciation for 3 years of lease.

Question 6

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

- (a) Sale price of ₹50 lakhs is equal to fair value.
- (b) Fair value is ₹60 lakhs.
- (c) Fair value is ₹45 lakhs and sale price is ₹38 lakhs.
- (d) Fair value is ₹40 lakhs and sale price is ₹50 lakhs.
- (e) Fair value is ₹46 lakhs and sale price is ₹50 lakhs
- (f) Fair value is ₹35 lakhs and sale price is ₹39 lakhs.

SPACE FOR SELF NOTES

AS – 28

IMPAIRMENT OF ASSETS

Question 1

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

<u>Year</u>	<u>Cash Flow (₹ in lakhs)</u>
2022	4,000
2023	6,000
2024	6,000
2025	8,000
2026	4,000

Residual value at the end of 2026	=	₹1,000 lakhs
Property, Plant and Equipment purchased on 1-1-2018	=	₹40,000 lakhs
Useful life	=	8 years
Net selling price on 31-12-2021	=	₹20,000 lakhs

Calculate on 31-12-2021:

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

Question 2

G Ltd., acquired a machine on 1st April, 20X0 for ₹7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 20X4, the carrying value of the machine was reassessed at ₹5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 20X6, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹79 lakhs. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of G Ltd. G Ltd., had followed the policy of writing down the revaluation surplus by increased charge of depreciation resulting from the revaluation.

Question 3

At the end of 20X0, enterprise M acquired 100% of enterprise Z for ₹3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of ₹1,200 lakhs, ₹800 lakhs and ₹400 lakhs respectively. M recognises goodwill of ₹600 lakhs (₹3,000 lakhs less ₹2,400 lakhs) that relates to Z. At the end of 20X4, A makes significant losses. Its recoverable amount is estimated to be ₹1,350 lakhs. Carrying amounts are detailed below:

(₹ In Lakh)

End of 20X4	A	B	C	Goodwill	Total
Net carrying amount	1300	1200	800	120	3420

Question 4

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 ₹1 crore. 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 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 end of the financial year.

Assuming that other conditions of relevant accounting standard for applicability of the impairment are satisfied: (i) What should be the 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?

Question 5

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹4,000 lakhs for ₹6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for ₹2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at ₹3,420 lakh.

Required:

- Calculation and allocation of impairment loss in 20X4.
- Reversal of impairment loss and its allocation as per AS 28 in 20X6.

Question 6

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Solution

Since the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.

Question 7

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

Whether it will be a cash-generating unit as per AS 28?

Solution

It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

SPACE FOR SELF NOTES

Presentation and Disclosure Based Accounting Standards

AS – 1

DISCLOSURE OF ACCOUNTING POLICIES

Question 1

Jagannath Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of ₹40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹10 crores. The board in consultation with the managing director, decided on the following:

- Value year-end inventory at works cost (₹50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹30 crores).
- Not to provide for “after sales expenses” during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of “matching of costs against revenue” and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹600 crores.
- Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

Solution

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

The notes on accounts of Jagannath Ltd. should properly disclose the change and its effect.

Notes on Accounts:

- (i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital-intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end

inventory has been valued at ₹50 crores and the profit for the year is increased by ₹20 crores.

- (ii) The company has been providing 2% of sales for meeting "after sales expenses" during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹12 crores than would have been the case if the old policy were to continue.
- (iii) The company has decided to provide ₹10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹10 crores.

Question 2

XYZ Company is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/ petitions in a Special Court. XYZ has accepted Inter-Corporate Deposits (ICDs) and, it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest on the due date to date of repayment was affected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the profit and loss accounts. State whether the treatment done by the Company is correct or not.

Solution

AS 1 'Disclosure of Accounting Policies' recognises 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Also, as per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non-payment of interest in

respect of overdue amount. From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct.

Question 3

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

- a) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- b) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- c) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of financial statements.
- d) Any change in accounting policy, which has a material effect should be disclosed. Where amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

Solution

- (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

- (iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Question 4

You are required to comment on the following cases as per the provisions of Accounting Standard-1 'Disclosure of Accounting Policies':

- (1) Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed in the Notes on Accounts. Management is of the view that the financial statements give a true and fair view as non-compliance with AS-2 is disclosed.
- (2) Cee Limited sold its Office Building for ₹10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is ₹4,00,000. On 31st March 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.
- (3) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.
- (4) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.

Solution

- (1) As per AS-1 disclosure of accounting policies is not a remedy for wrong or inappropriate treatment in accounting. In the given case the financial statement does not give a true and fair view as they are not in compliance with AS-2.
- (2) Considering the substance over form as per AS-1, documentation and legal formalities represent the form of the transaction, although the legal title has not been transferred, the economic reality and substance are that the rights and beneficial interest in the Office Building have been transferred. Therefore, recording of acquisition/ disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.
- (3) Accrual is a fundamental accounting assumption. If it is not followed by the company, the facts should be disclosed under AS-1. Hence the company should disclose the fact that the cash basis of accounting has been followed in the notes on accounts.
- (4) The practice followed by the company is not correct. It should be disclosed as part of financial statements (The director's report is not part of financial statements).

Question 5

Balance Sheet of Anurag Trading Co. on 31st March, 2017 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Fixed Assets	69,000
Profit & Loss A/c	22,000	Stock in trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,33,000		1,33,000

Additional Information:

1. Remaining life of fixed assets is 5 years with even use. The net realisable value of fixed assets as on 31st March, 2018 was ₹64,000.
2. Firm's Sales and purchases for the year 2017-18 amounted to ₹5 lakhs and ₹4.50 lakhs respectively.
3. The cost and NRV of stock were ₹34,000 and ₹38,000 respectively.
4. General expenses for the year amounted to ₹16,500.
5. Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2016-17 i.e., ₹5,000 p.a.
6. Out of debtors worth ₹10,000, collection of ₹4,000 depend on successful redesign of certain product already supplied to customer.
7. Closing trade payable is ₹10,000, which is likely to be settled at 95%.
8. There is pre-payment penalty of ₹2,000 for Bank loan outstanding.

Prepare Profit & Loss A/c for the year ended 31st March, 2018 under the two cases:

- a) Firm is a going concern
- b) Firm is not a going concern.

SPACE FOR SELF NOTES

AS – 4

CONTINGENCIES & EVENT OCCURING AFTER BALANCE SHEET DATE

Question 1

While preparing its final accounts for the year ended 31st March 2010, a company made a provision for bad debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2010, a debtor for ₹3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010.

Solution

As per AS-4 "Events occurring after the Balance Sheet date" but before the date of finalization of the balance sheet, the circumstances of which were existing on the balance sheet date must be adjusted in accounts. In the instant case, circumstances were existing on the balance sheet date and event of April (declaration of insolvency) only confirm the circumstances existing on the date of balance sheet i.e., 31-3-2010.

Hence company should provide for full loss arising out of insolvency of the debtors for the year ended 31-3-2010.

Question 2

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

- i. Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.
- ii. Cheques sent by the stockists through courier on or before 31st March, 2013.

Solution

- (i) Cheques collected by the marketing personnel of the company is an adjusting event as the marketing personnels are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockist to the marketing employees discharges the liability of the stockist. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2013 require adjustment from the stockists' accounts i.e., from 'Trade Receivables A/c' even though these cheques (dated on or before 31st March, 2013) are presented in the bank in the month of April, 2013 in the normal course. Hence, collection of cheques by marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'. Such 'cheques in hand' will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.
- (ii) Even if the cheques bear the date 31st March or before and are sent by the stockists through courier on or before 31st March, 2013, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2013 does not represent any condition existing on the balance sheet date i.e., 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

Question 3

F Ltd. has finalized their financial statements for the year ending 31st March, 2015 and approved by their approving authority on 30th June, 2015.

- A major fire broke out in the night of 31st May, 2015 destroying factory premises. Loss of property estimated to be ₹25 lakhs.
- Negotiations with another company started in April 2015 for acquisition of two manufacturing units which may involve additional investments of ₹50 lakhs.
- Foreign exchange loss during the period 1st April, 2015 and 1st June 2015 has resulted that asset being reduced by ₹30 lakhs.

You are requested to state how to deal with above information's in annual accounts.

Solution

For the information given, the following will be recommended treatment with reference to the provisions of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'.

- 1) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, the event appears to be of such significance as to require a disclosure in the report of the approving authority to enable users of the financial statements to make proper evaluation and decision, hence, such disclosure is recommended.
- 2) The closure of one of the manufacturing units on 15th May, 2015 is assumed not to have been anticipated at the year-end on 31.03.2015, hence, it would be treated as a non-adjusting event. Appropriate disclosure would be required in the report of the approving authority as non-disclosure would affect users' understanding of the financial statements.
- 3) AS 4 defines events occurring after the balance sheet date as those significant events both favorable and unfavorable that occur between the balance sheet date and the date on which the financial statements are approved by the approving authority. Accordingly, negotiation for acquisition of two manufacturing units which started in April, 2015 should be disclosed in the Board's Report. No adjustments of assets and liabilities are required, as the negotiation (which has only started) does not affect the determination and the conditions of the amounts stated in the financial statements for the year ended 31st March, 2015.
- 4) The declaration of dividend by the subsidiary company on 30th April, 2015 would be treated as a non-adjusting event. Further, it is to be noted that as per AS 9, the right to receive the dividend is established on 30th April 2015 only i.e., on the date of declaration.
- 5) The foreign exchange loss due to changes in exchange rates during the period between 1st April 2015 and 1st June 2015, is a non-adjusting event since it does not relate to the conditions existing at the balance sheet date. The amount of loss appears material and may be of such significance that requires disclosure in the report of the approving authority.

Question 4

The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided:

- a) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ₹25 lakhs.
- b) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ₹50 lakhs.
- c) Theft of cash of ₹5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.
- d) Company sent a proposal to sell an immovable property for ₹40 lakhs in March, 2018. The book value of the property was ₹30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.
- e) A major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above-mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

Solution

- (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.
- (ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2018. This is clearly an event occurring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2018.
- (iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 18 after approval of financial statements by the BOD, hence no treatment is required.

- (iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2018.
- (v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

Question 5

For five companies whose financial year ended on 31st March, 2023, the financial statements were approved by their approving authority on 15th June, 2023.

During 2023-2024, the following material events took place:

- A Ltd. sold a major property which was included in the balance sheet at ₹1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of ₹2,50,000.
- On 30th April, 2023, a 100% subsidiary of B Ltd. declared a dividend of ₹3,00,000 in respect of its own shares for the year ended on 31st March, 2023.
- On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to ₹2.5 million.
- On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for which there would be no corresponding recovery from the customer.
- Fire, on 2nd April, 2023, completely destroyed manufacturing plant of E Ltd. It was expected that loss of ₹10 million would be fully covered by insurance company.

You are required to state with reasons, how each of the above items numbered (a) to (e) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2023.

Solution

Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2023 and the profit on sale of property ₹1,50,000 would be treated as an extraordinary item.
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(b)	B Ltd.	The declaration of dividend on 30th April, 2023 of ₹3,00,000 would be treated as a non-adjusting event in the financial statements of 2022-2023. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared & not before that.
(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non-disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate financial statement/additional statement for the attention of the members in general meeting.
(e)	E Ltd.	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

Question 6

Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March 2020 are to be approved by the approving authority on 30th June 2020. During the first quarter of 2020-2021, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

- Tee Ltd. has an inventory of 50 stitching machines costing at ₹5,500 per machine as on 31st March 2020. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realizable value, whichever is lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during April, 2020 at a price of ₹4,000 per machine.
- A fire has broken out in company's godown on 15th April 2020. The company has estimated a loss of ₹25 lakhs of which 75% is recoverable from Insurance company.
- A suit against the company's advertisement was filed by a party on 10th April, 2020, 10 days after the year end claiming damages of ₹20 lakhs.

You are required to state with reasons, how the above transactions will be dealt with in the financial statements for the year ended 31 March 2020.

Solution

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate. In the given case, financial statements are approved by the approving authority on 30 June 2020. On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2020:

- (i) Since on 31 March 2020, Tee Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2020 will be considered as an adjusting event. Hence, Tee Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realizable value at the end of the reporting period. Accordingly, inventory should be written down to ₹4,000 per machine. Total value of inventory in the books will be 50 machines x ₹4,000 = ₹2,00,000.
- (ii) A fire took place after the balance sheet date i.e., during 2020-2021 financial year. Hence, the financial statements for the year 2019-2020 should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern, assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.
- (iii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

SPACE FOR SELF NOTES

AS – 5

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

Question 1

- i. During year 2016-2017, a medium size manufacturing company wrote down its inventories to net realisable value by ₹5,00,000. Is a separate disclosure necessary?
- ii. A company signed an agreement with the Employees Union on 1.9.2016 for revision of wages with retrospective effect from 30.9.2015. This would cost the company an additional liability of ₹5,00,000 per annum. Is a disclosure necessary for the amount paid in 2016-17?

Solution

- (i) Although the case under consideration does not relate to extraordinary item, but the nature and amount of such item may be relevant to users of financial statements in understanding the financial position and performance of an enterprise & in making projections about financial position & performance. AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states that:

"When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."

Circumstances which may give to separate disclosure of items of income and expense in accordance with AS 5 include the write-down of inventories to net realisable value as well as the reversal of such write-downs.

- (ii) It is given that revision of wages took place on 1st September, 2016 with retrospective effect from 30.9.2015. Therefore, wages payable for the half year from 1.10.2016 to 31.3.2017 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item.

Additional wages liability of ₹7,50,000 (for 1½ years @ ₹5,00,000 per annum) should be included in current year's wages. It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Such an

expense does not qualify as an extraordinary item. However, as per AS 5, when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Question 2

Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in future. Company decided to sell the land to tide over its liquidity problems & made a profit of ₹10 Lakhs by selling the said land. There was a fire in factory & part of the unused factory shed valued at ₹8 Lakhs was destroyed. Loss from fire was set off against the profit from sale of land & profit of ₹2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment & disclosure? If not, state your views.

Solution

As per AS 5, Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both events are material in nature & expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

Question 3

PQR Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2018. The company seeks your advice on the following:

- a) Goods worth ₹5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of ₹3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.
- b) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18. Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018.

The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra-ordinary item or prior period item?

Solution

- (i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

- (ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

Question 4

Explain whether the following will constitute a change in accounting policy or not as per AS 5.

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

Solution

As per AS 5 'Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions

that differ in substance from previously occurring events or transaction, will not be considered as a change in accounting policy.

- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
- (ii) Similar, the adoption of a new accounting policy for events or transaction which is not occur previously or that ere immaterial will not be treated as a change in an accounting policy.

Question 5

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard.

- (i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.
- (ii) During the year ended 31st March, 2019, management has introduced a formal gratuity scheme in place of ad hoc ex-gratia payments to employees on retirement.
- (iii) Till previous year furniture was depreciated on straight line basis over a period of 5 years. From current year, useful life of furniture has been changed to 3 years.
- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in organization. Such employees will get pension of ₹20,000 per month. Earlier there was no such scheme of pension in organization.
- (v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

Solution

- (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus, change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
- (ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees

on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

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

Question 6

State whether following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

- (i) Actual bad debts turning out to be more than provisions.
- (ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.
- (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
- (iv) Treating operating lease as finance lease.
- (v) Capitalisation of borrowing cost on working capital.
- (vi) Legislative changes having long term retrospective application.
- (vii) Change in the method of depreciation from straight line to WDV. (viii)
- (viii) Government grant becoming refundable.
- (ix) Applying 10% depreciation instead of 15% on furniture.
- (x) Change in useful life of fixed assets.

Solution

Classification of given items is as follows:

Sr. No.	Particulars	Remarks
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates
(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy
(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items

(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of fixed assets	Change in Accounting Estimates

AS – 25

INTERIM FINANCIAL REPORTING

Question 1

Intelligent Corporation (I–Corp.) is dealing in seasonal products. The quarterly sales pattern of the product is given below:

Quarter I	II	III	IV
Ending 30th June	30th September	31st December	31st March
15%	15%	50%	25%

For First quarter ending 30th June, 20X1, I–Corp. gives you the following information:

Particulars	₹ Crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter, 'I–Corp.' wants to defer ₹21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, third quarter should be debited by higher expenditure, considering the seasonal nature of business and that the expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company's view.

Question 2

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

Calculate the tax expense to be recognized in each quarter.

Question 3

The accounting year of X Ltd. ends on 30th September, 20X1 and it makes its reports quarterly. However, for the purpose of tax, year ends on 31st March every year. For the Accounting year from 1-10-20X0 to 30-9-20X1, the quarterly income is as under:

Particulars	Amount
1st quarter ending on 31st December, 20X0	₹200 crores
2nd quarter ending on 31st March, 20X1	₹200 crores
3rd quarter ending on 30th June, 20X1	₹200 crores

4th quarter ending on 30th September, 20X1	₹200 crores
Total	₹800 crores

Average actual tax rate for the financial year ending on 31st March, 20X1 is 20% and for financial year ending 31st March, 20X2 is 30%. Calculate tax expense for each quarter.

Question 4

ABC Ltd. presents interim financial report quarterly. On 1.4.20X1, ABC Ltd. has carried forward loss of ₹600 lakhs for income-tax purpose for which deferred tax asset has not been recognized. ABC Ltd. earns ₹900 lakhs in each quarter ending on 30.6.20X1, 30.9.20X1, 31.12.20X1 and 31.3.20X2 excluding the carried forward loss. Income-tax rate is expected to be 40%. Calculate amount of tax expense to be reported in each quarter.

Question 5

Company A has reported ₹60,000 as pre-tax profit in first quarter and expects a loss of ₹15,000 each in the subsequent quarters. It has a corporate tax slab of 20 percent on the first ₹20,000 of annual earnings and 40 per cent on all additional earnings. Calculate the amount of tax to be shown in each quarter.

Question 6

Lal Ltd. provides you the following information for financial year 2019-2020:

Estimated Income for the year ended 31 March 2020:

Gross Annual Income (inclusive of Estimated Capital Gains of ₹4,00,000)	₹16,50,000
Quarter I	₹3,50,000
Quarter II	₹4,00,000
Quarter III (including Estimated Capital Gains of ₹4,00,000)	₹6,00,000
Quarter IV	₹3,00,000

Tax Rates	On Other Income	First ₹2,50,000	20%
		Balance Income	30%
	On Capital Gains		12%

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income.

Question 7

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹4 lakhs for the third quarter ending 30-09-20X1. On enquiry you observe the following. Give the treatment required under AS 25:

- (i) Dividend income of ₹4 lakhs received during the quarter has been recognized to the extent of ₹1 lakh only.
- (ii) 80% of sales promotion expenses ₹15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
- (iii) In the third quarter, company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹3 lakhs.
- (iv) ₹2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- (v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹3 lakhs. Out of this loss ₹1 lakh relates to previous quarters.
- (vi) Sale of investment in the first quarter resulted in a gain of ₹20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

SPACE FOR SELF NOTES

AS – 24

DISCONTINUING OPERATIONS

Question 1

A Company belonging to the process industry carries out three consecutive processes. The output of the 1st process is taken as the input of the 2nd process and output of the 2nd process is taken as the input of the 3rd process. The final product emerges out of the 3rd process. It is also possible to outsource the intermediate products. It has been found that over a period of time cost of production of the 1st process is 10% higher than the market price of the intermediate product available freely in the market. The company has decided to close down the 1st process as a measure of cost saving. Should this event be treated as Discontinuing operation?

Solution

The change made by the company is focused on outsourcing of services, in respect of one single process – in a sequence of process. The net effect of this change is closure of facility relating to process.

This has been done by the company with a view to achieving productivity improvement and savings in costs.

Such a change does not meet definition criteria in paragraph 3(a) of AS 24- namely, disposing of substantially in its entirety, such as by selling a component of the enterprise in a single transaction. The change is merely a cost saving endeavour. Hence, this change over is not a discontinuing operation.

Question 2

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

- You are required to comment if mere gradual phasing out in itself can be considered as a "Discontinuing operation" as per AS-24?
- If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets to the factory, does it trigger application of AS -24?
- Would your answer differ if the company resolves to sell the assets of passenger car division in a phased but time bound manner?

Solution

No, the Co's strategic plan was no final approval from the board through a resolution and no specific time bound activities like shifting of asset and employee's and above all the new segment commercial vehicle production line and factors has started.

No, the resolution is silent about stoppage of the car segment is definite time period. Though same assets sales and transfer proposal was passed through a resolution to the new factory. Closure road map and new segment starting road map is missing. AS-24 is not applicable. Yes, phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. This action will attract AS-24.

Gradual phasing out of the product on class of service shifting of same production on marketing activities for a particular line of business flow one location to another. Closing of a factory to achieve productivity improvement on other cost savings.

AS – 20

EARNING PER SHARE

Question 1

On 1st April, 20X1 a company had 6,00,000 equity shares of ₹10 each (₹5 paid up by all shareholders). On 1st September, 20X1 the remaining ₹5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 20X2 was ₹ 21,96,000 after considering dividend on preference shares of ₹3,40,000. You are required to compute Basic EPS for the year ended 31st March, 20X2 as per Accounting Standard 20 "Earnings Per Share".

Question 2

NAT, a listed entity, as on 1st April, 20X1 had the following capital structure:

10,00,000 Equity Shares having face value of ₹1 each	10,00,000	₹10,00,000
8% Preference Shares having face value of ₹10 each		₹1,00,00,000

During the year 20X1-20X2, the company had profit after tax of ₹90,00,000. On 1st January, 20X2, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 20X1. On 1st January, 20X2, NAT issued 2,00,000 equity shares of ₹1 each at their full market price of ₹7.60 per share. NAT's shares were trading at ₹8.05 per share on 31st March, 20X2. Further it has been provided that the basic earnings per share for the year ended 31st March, 20X1 was previously reported at ₹62.30.

Question 3

Compute adjusted earnings per share and basic earnings per share based on the following information:

Net profit 2010-11	₹11,40,000
Net profit 2011-12	₹22,50,000
No. of equity shares outstanding until 31st December, 2011	₹5,00,000

Bonus issue on 1st January, 2012 1 equity share for each equity share outstanding as at 31st December, 2011.

Question 4

The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

Net profit for:

Year 2009-10 ₹ 25,00,000

Year 2010-11 ₹ 40,00,000

No. of shares outstanding prior to right issue - 12,00,000 shares.

Right issue: One new share for each three outstanding i.e., 4,00,000 shares

Right issue price ₹22

Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹28.

You are required to compute the basic earnings per share for the years 2009-10 and 2010-11.

Question 5

X Limited, during the year ended March 31, 20X1, has income from continuing ordinary operations of ₹2,40,000, a loss from discontinuing operations of ₹3,60,000 and accordingly a net loss of ₹1,20,000. The Company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 20X1.

You are required to compute Basic and Diluted EPS?

Question 6

From the following information relating to X Ltd., calculate Diluted Earnings Per Share as per AS 20:

Net Profit for the current year ₹2,00,00,000

Number of equity shares outstanding 40,00,000

Basic earnings per share ₹5.00

Number of 11% convertible debentures of ₹100 each 50,000

Each debenture is convertible into 8 equity shares.

Interest expense for the current year ₹5,50,000

Tax saving relating to interest expense (30%) ₹1,65,000

Question 7

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

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

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

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

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

Compute Basic and diluted earnings per share.

Question 8

AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB Limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct as per provisions of AS 20?

Solution

The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. AS 20 states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period". With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

SPACE FOR SELF NOTES

AS – 17

SEGMENT REPORTING

Question 1

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

(₹ in lakhs)

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

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

Question 2

M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹10.00 crores. Segment X has ₹2.00 crores, segment Y has ₹3.00 crores and segment Z has ₹5.00 crores. Deferred tax assets included in the assets of each segments are X— ₹0.50 crores, Y— ₹0.40 crores and Z— ₹0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

Question 3

Heavy Goods Ltd. has 6 segments namely L-Q (below). The total revenues (internal and external), profits or losses and assets are set out below:

(In ₹)

Segment	Inter Segment Sales	External Sales	Profit/Loss	Total Assets
L	4,200	12,300	3,000	37,500
M	3,500	7,750	1,500	23,250
N	1,000	3,500	(1,500)	15,750
O	0	5,250	(750)	10,500
P	500	5,500	900	10,500
Q	1,200	1,050	600	5,250
	10,400	35,350	3,750	1,02,750

Heavy Goods Ltd. needs to determine how many reportable segments it has.

You are required to advice Heavy Goods Ltd. as per the criteria defined in AS 17.

Question 4

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

Particulars				₹ (in '000)
Forging Shop Division:				
Sales to Bright Bar Division				4,575
Other Domestic Sales				90
Export Sales				6,135
Bright Bar Division:				
Sales to Fitting Division				45
Export Sales to Rwanda				300
Fitting Division:				
Export Sales to Maldives				270
Particulars	Head Office	Forging Shop Division	Bright Bar Division	Fitting Division
Pre-tax operating result	-	240	30	(12)
Head Office Cost reallocated	-	72	36	36
Interest Cost		6	8	2
Fixed Assets	75	300	60	180
Net Current Assets	72	180	60	135
Long-term liabilities	57	30	15	180

Solution
Diversifiers Ltd.
Segmental Report
₹(in '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging Shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-	-	90
Export	6,135	300	270	-	6,705
External Sales	6,225	300	270	-	6,795

Inter-Segment Sales	4,575	<u>45</u>	-	<u>4,620</u>	-
Total Revenue	<u>10,800</u>	345	270	<u>4,620</u>	<u>6,795</u>
Segment Result (Given)-	<u>240</u>	<u>30</u>	<u>(12)</u>		<u>258</u>
Head Office Expenses					<u>(144)</u>
Operating Profit					<u>114</u>
Interest Expense					<u>(16)</u>
Profit Before Tax					<u>98</u>
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	-	540
Net Current Assets	<u>180</u>	<u>60</u>	<u>135</u>	-	<u>375</u>
Segment Assets	<u>480</u>	<u>120</u>	<u>315</u>	-	915
Unallocated Corporate Assets					<u>147</u>
(75+72)					
Total Assets					<u>1,062</u>
Segment Liabilities	<u>30</u>	<u>15</u>	<u>180</u>	-	<u>225</u>
Unallocated Corporate Liabilities					<u>57</u>
Total Liabilities					<u>282</u>

Sales Revenue by Geographical Market

	Home Sales	Export Sales (By Forging Shop Division)	Export to Rwanda	Export to Maldives	(₹ '000) Consolidated Total
External Sales	90	6,135	300	270	6,795

Question 5

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

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (Allocated in 5:4:2 basis)	-	-	-	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000	-	50,000	1,50,000
Transaction from C	10,000	50,000	-	60,000

Transaction from A	–	25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (Allocated in 5:4:2 basis)	–	–	–	77,000
Expenses on transactions with other segments				
Transaction from B	75,000	–	30,000	–
Transaction from C	6,000	40,000	–	–
Transaction from A		18,000	82,000	–

Solution

Calculation of segment result

Segments	A (₹)	B (₹)	C (₹)	Total (₹)
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (Allocated in 5:4: 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	<u>10,000</u>	50,000		60,000
Transaction from A		<u>25,000</u>	<u>1,00,000</u>	<u>1,25,000</u>
Total segment revenue as per AS 17 (A)	<u>6,60,000</u>	<u>4,15,000</u>	<u>2,70,000</u>	<u>13,45,000</u>
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (Allocated in 5:4: 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	<u>6,000</u>	40,000		46,000
Transaction from A		<u>18,000</u>	<u>82,000</u>	<u>1,00,000</u>
Total segment expenses as per AS 17 (B)	<u>4,16,000</u>	<u>2,36,000</u>	<u>2,01,000</u>	<u>8,53,000</u>
Segment result (A-B)	<u>2,44,000</u>	<u>1,79,000</u>	<u>69,000</u>	<u>4,92,000</u>

AS – 18

RELATED PARTY DISCLOSURES

Question 1

Identify the related parties in the following cases as per AS-18:

- (i) Maya Ltd. holds 61 % shares of Sheetal Ltd.
Sheetal Ltd. holds 51 % shares of Fair Ltd.
Care Ltd. holds 49% shares of Fair Ltd.
(Give your answer – Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. & Fair Ltd.)
- (ii) Mr. Subhash Kumar is Managing Director of A Ltd. and also holds 72% capital of B Ltd.

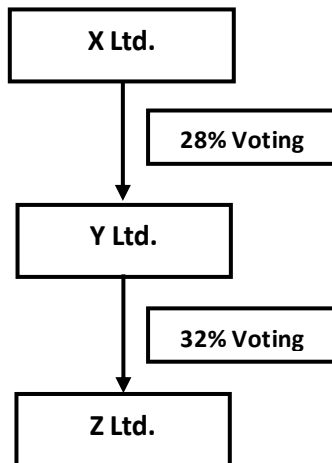
Solution

- (i)
- (a) Reporting entity- Maya Ltd.
- Sheetal Ltd. (subsidiary) is a related party
 - Fair Ltd.(subsidiary) is a related party
- (b) Reporting entity- Sheetal Ltd.
- Maya Ltd. (holding company) is a related party
 - Fair Ltd. (subsidiary) is a related party
- (c) Reporting entity- Fair Ltd.
- Maya Ltd. (holding company) is a related party
 - Sheetal Ltd. (holding company) is a related party
 - Care Ltd. (investor/ investing party) is a related party
- (d) Reporting entity- Care Ltd.
- Fair Ltd. (associate) is a related party
- (ii) Mr. Subhash Kumar is Key management personnel as he has the authority for planning, directing and controlling the activities of A Ltd. He also holds substantial interest in B Ltd. as he holds 72% capital of B Ltd. Thus, Mr. Subhash is related party for both A Ltd. and B Ltd. Moreover, as per the definition of related party relationship described in para 3 of AS 18, enterprises over which Subhash is able to exercise significant influence are also related parties. Thus, A Ltd. and B Ltd. will also be construed as related to each other.

Question 2

Consider a scenario wherein:

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



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

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

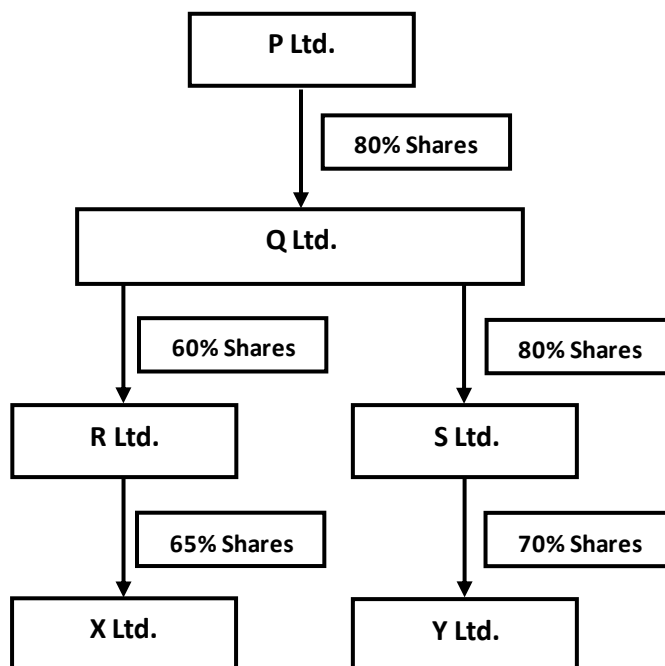
Solution

No, in relation to X Ltd. (the reporting enterprise), Z Ltd. is a not a related party.

This is because as per the requirements of AS-18, 'associate of an associate' is not a related party.

Question 3

Consider the following organization structure related to P Ltd.



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

Solution

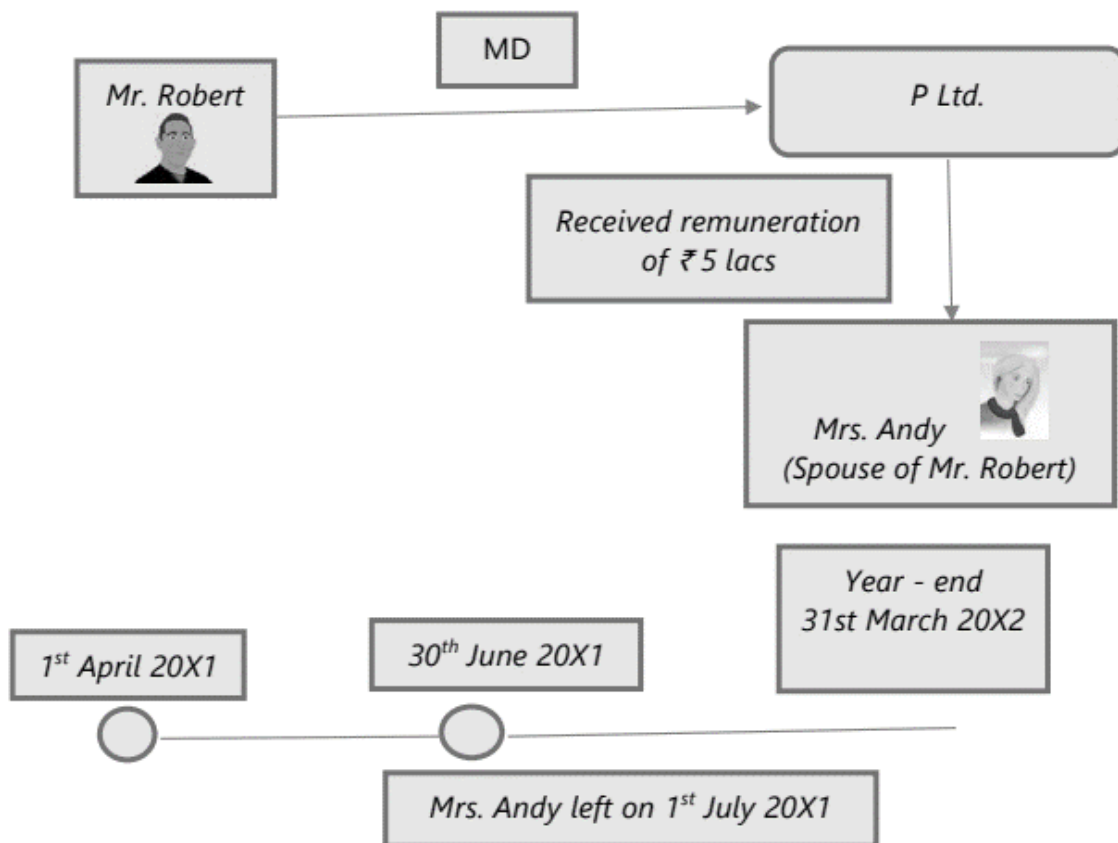
The following table identifies the related party relationships for R Ltd. (being the reporting enterprise):

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

Question 4

Consider a scenario wherein:

- ◆ Mr. Robert is a Managing Director of P Ltd.
- ◆ Andy (spouse of Robert) received a remuneration of Rs 5 lacs from P Ltd. – for the services she rendered to P Ltd. for the period 1st April 20X1 through 30th June 20X1
- ◆ Andy left the services of P Ltd. on 1st July 20X1
- ◆ Consider 31st March 20X2 as the year-end date for P Ltd.



Whether Andy is to be identified as related party at the year-end date (31st March 20X2) for the purposes of AS-18?

Solution

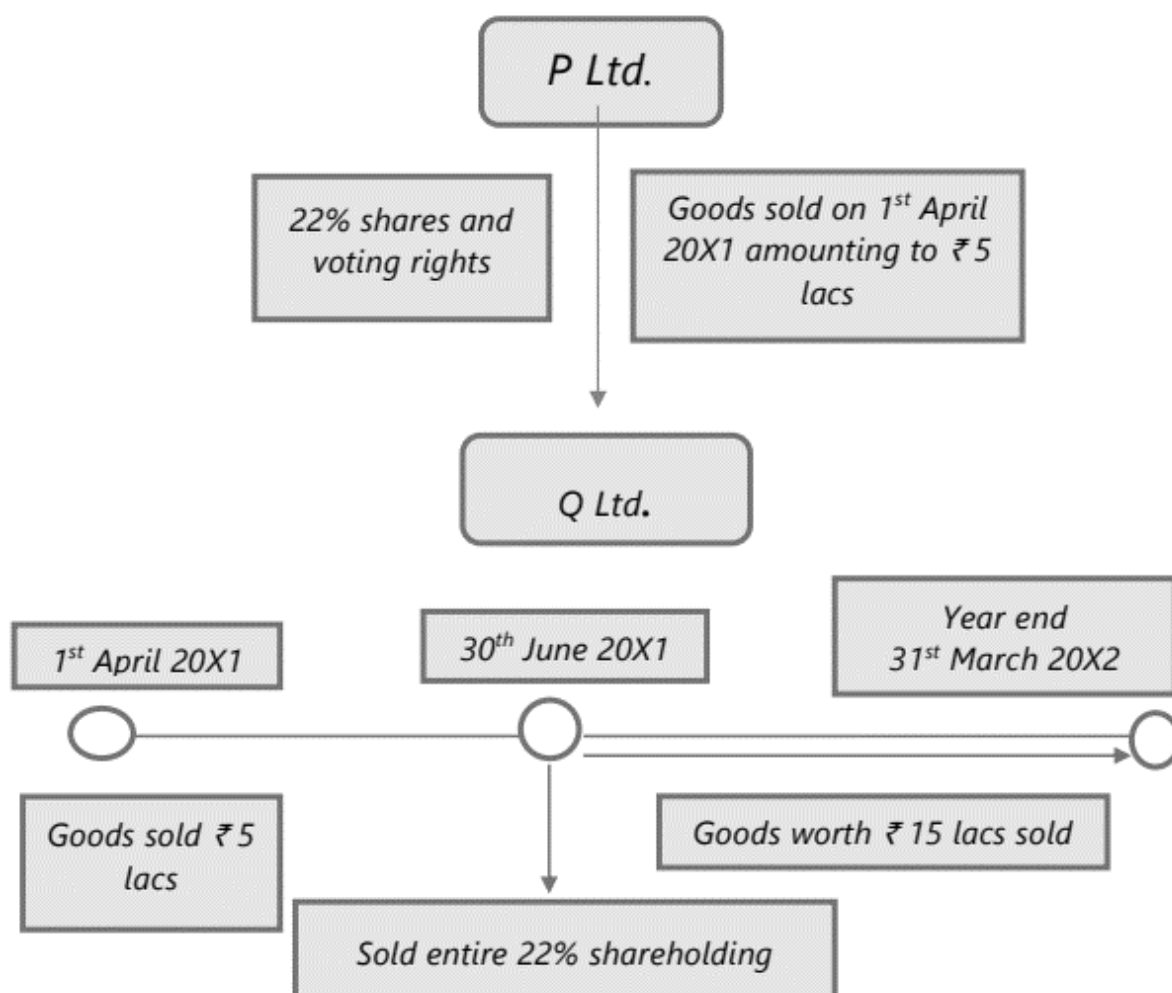
Yes – This is because as per AS-18, parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence Andy (being the spouse and relative of the KMP of P Ltd.) needs to be reported as related party at the year-end date (i.e., 31st March 20X2). This is because the remuneration Andy received from P Ltd. (for the period April 20X1 to 30 June 20X1) falls within the reporting year April 20X1 to March 20X2.

Question 5

Consider a scenario wherein:

- ◆ P Ltd. hold 22% shares and voting rights in Q Ltd. (and hence Q Ltd. is an associate of P Ltd.)
- ◆ On 1st April 20X1, P Ltd. sold certain goods to Q Ltd. amounting to Rs. 5 lacs
- ◆ On 30th June 20X1, P Ltd. sold its entire 22% stake in Q Ltd. (and hence the related party relationship ceased to exist after 30th June 20X1)
- ◆ However, P Ltd. continued supply goods to Q Ltd. subsequent to 30th June 20X1 (just like any other customer) and sold goods worth Rs. 15 lacs during 9-month period ended 31st March 20X2
- ◆ Consider 31st March 20X2 as the year-end date for P Ltd.



Determine whether the transaction for the entire year (ending on 31st March 20X2) is required to be disclosed under AS-18 as related party transaction.

Solution

No – This is because as per AS-18, the disclosure requirements under the Standard relate only to the period during related party relationship existed.

Accordingly, only transactions between P Ltd and Q Ltd till 30th June 20X1 (being sale of goods worth Rs. 5 lacs) are required to be reported / disclosed under AS 18.

Transactions entered into after 30th June 20X1 are NOT required to be disclosed under AS-18.

Question 6

A Limited has two Associates, B Limited and C Limited, and owns 25 per cent of the voting power of B Limited and 30 per cent of the voting power of C Limited. Would B Limited be considered a related party for the purpose of financial statements of C Limited?

Solution

Both B Limited and C Limited are 'associates' of A Limited. Follow-associates cannot be regarded as a related parties only by virtue of the relationship. AS 18 states that "enterprise that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise" are related parties. Further, it is given that "associates and joint ventures of the reporting.

Revenue Based Accounting Standards

AS – 7

CONSTRUCTION CONTRACTS

Question 1

RT Enterprises has entered into a fixed price contract for construction of a tower with its customer. Initial tender price agreed is ₹220 crore. At the start of the contract, it is estimated that total costs to be incurred will be ₹200 crore. At the end of year 1, this estimate stands revised to ₹202 crore. Assume that the construction is expected to be completed in 3 years.

During year 2, the customer has requested for a variation in the contract. As a result of that, the total contract value will increase by ₹5 crore and the costs will increase by ₹3 crore.

RT has decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is:

Year 1: ₹52.52 crore

Year 2: ₹154.20 crore (including unused material of 2.5 crore)

Year 3: ₹205 crore.

You are required to calculate:

- (a) Stage of completion for each year.
- (b) Profit to be recognised for each year.

Question 2

AB contractors enters into a contract on 1st January 20X1 with XY to construct a 5- storied building. Under the contract, AB is required to complete the construction in 3 years (i.e., by 31st December 20X3). The following information is relevant:

Fixed price (agreed) ₹5 crore

Material cost escalation (to the extent of 20% increase in material cost)

Labour cost escalation (up to 30% of increase in minimum wages)

In case AB is able to complete the construction in less than 2 years and 10 months, it will be entitled for an additional incentive of ₹50 lakh. However, in case the construction is delayed beyond 3 years and 2 months, XY will charge a penalty of ₹20 lakh. At the start of the contract, AB has a reason to believe that construction will be completed in 2 years and 8 months. Assume that the construction was actually completed in 2 years 9 months.

Labour cost was originally estimated to be ₹1.20 crore (based on initial minimum wages). However, the costs have increased by 25% during the construction period.

Material costs have increased by 40% due to short-supply. The total increase in material cost due to the 40% escalation is ₹80 lakh.

You are required to suggest what should be the contract revenue in above case?

Assume that in year 20X2, XY has requested AB to increase the scope of the contract. An additional floor is required to be constructed and there is an increase in contract fee by ₹1 crore.

AB has incurred a cost of ₹20 lakh for getting the local authority approvals which it will be entitled to claim from XY in addition to the increase in the fixed fee.

Also measure the total contract revenue in this case.

Question 3

Mehta Ltd. has undertaken bridge construction contract wherein, bridge will be constructed in 3 years. The details of the contracts are as follows:

(i) Initial contract revenue ₹900 crore

(ii) Initial contract cost ₹800 crore

Years	I ₹ in crore	II ₹ in crore	III ₹ in crore
Estimated contract cost	805		
Increase in contract revenue	-	20	
Estimated additional increase cost	-	15	
Contract cost incurred upto	161	584	820

At the end of year II, cost incurred includes ₹10 crore, for material stored at the sites to be used in year III to complete the project.

State the amount of revenue, expenses and profit to be recognized in the Statement of Profit and Loss in these three years.

Question 4

M/s Excellent Construction Company Limited undertook a contract to construct a building for ₹3 crore on 1st September, 2014. On 31st March, 2015 the company found that it had already spent ₹1 crore 80 lakhs on the construction. Prudent estimate of additional cost for completion was ₹1 crore 40 lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2015, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)"?

Question 5

X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹490 lakhs. The agreement lays down values for each of the four outlets (₹88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

Solution

As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS-7.

Question 6

AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e., ₹50 Lakh ₹60 Lakh and ₹75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS-7, whether AP Ltd., should treat it as a single contract or three separate contracts.

Solution

As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset; each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (b) The costs and revenues of each asset can be identified.

Mr. AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

Question 7

Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2019:

Particulars	Amount (₹ in lakhs)
Total Contract price	12,000
Work certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of AS-7, you are required to compute:

- (i) Profit/loss for the year ended 31st March, 2019;
- (ii) Contract work in progress at the end of financial year 2018-19;
- (iii) Revenue to be recognised out of total contract value;
- (iv) Amount due to/from customers as at the year end.

Question 8

The following data is provided for M/s. Raj Construction Co.

- (i) Contract Price - ₹85 lakhs
- (ii) Materials issued - ₹21 Lakhs out of which Materials costing ₹4 Lakhs is still lying unused at the end of the period.
- (iii) Labour Expenses for workers engaged at site - ₹16 Lakhs (out of which ₹1 Lakh is still unpaid)
- (iv) Specific Contract Costs = ₹5 Lakhs
- (v) Sub-Contract Costs for work executed - ₹7 Lakhs, Advances paid to Sub-Contractors - ₹4 Lakhs
- (vi) Further Cost estimated to be incurred to complete the contract - ₹35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

AS – 9

REVENUE RECOGNITION

Question 1

Zigato runs a food-delivery business. As per the arrangement, Zigato allows customers to order food from local restaurants and is responsible the delivery of the food within stipulated time. During a particular year, it collects the money on orders made online as under:

Total price for the food item	-	₹200 lakhs
Delivery charges	-	₹60 lakhs
GST	-	₹40 lakhs
Total	-	₹300 lakhs

Zigato has received ₹300 lakhs for the above orders from customers and the orders were delivered to the customer in stipulated time.

How much revenue should be recognised by restaurants and how much revenue should be recognised by Zigato for the year?

Question 2

The Board of Directors decided on 31.3.2017 to increase the sale price of certain items retrospectively from 1st January, 2017. In view of this price revision with effect from 1st January 2017, the company has to receive ₹15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017. Accountant cannot make up his mind whether to include ₹15 lakhs in the sales for 2016-2017. Advise?

Solution

As per AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of ₹5 lakhs to be recognized as income for financial year 2016-17, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

Question 3

Given the following information of M/s. Paper Products Ltd.

- Goods of ₹60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

- b. On 15-1-2015 goods of ₹1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.
- c. ₹1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.
- d. Apart from the above, the company has made cash sales of ₹7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

Solution

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In case (i):

The sale is complete but delivery has been postponed at buyer's request. M/s Paper Products Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2015.

In case (ii):

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1, 20,000 (80% of ₹ 1, 50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

In case (iii):

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, in case (iii) revenue should be recognized for the total sales amounting ₹1, 20,000 as the time period for rejecting the goods had expired.

In case (iv):

Trade discounts given should be deducted in determining revenue. Thus ₹39,000 should be deducted from the amount of turnover of ₹ 7, 80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7, 41,000. Thus, total revenue amounting ₹ 10,41,000 (60,000 + 1,20,000 + 1,20,000 + 7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd.

Question 4

Indicate in each case whether revenue can be recognised and when it will be recognised as per AS-9:

- a) Trade discount and volume rebate received.
- b) Where goods are sold to distributors and others for resale.
- c) Where seller concurrently agrees to repurchase the same goods at a later date.
- d) On 11-03-2019 cloths worth ₹50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request cloths were delivered on 12-04-2019.

Solution

- a) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
- b) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.
- c) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.
- d) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

Question 5

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in magazine to advertisers on terms of 80% sale value payable in advance & balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹2,40,000 on 10.3.2014 and ₹60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

Solution

1. Principle: As per AS-9 "Revenue Recognition"
 - (a) Revenue should be recognized by an Advertising Agency, only when the service is completed.
 - (b) For advertising agencies, Media Commission will normally be recognized, when the related advertisement or commercial appears before the public and the necessary intimation is received by the Agency.
2. Analysis and Conclusion:
 - (a) The advance of ₹2,40,000 received and the amount balance to be received on 10.04.2014 of ₹60,000 shall be recognized in the financial year ending on 31.03.2014 as the publication appears before public on 10.03.2014 (within the Financial Year).
 - (b) If the publication is delayed and the advertisement appears only on 02.04.2014, the Income of ₹2,40,000 should be recognized as Revenue only in Financial Year 2014-2015. The amount received on 10.03.2014 should be disclosed as an Advance Received on 31.03.2014.

Question 6

AB sells goods to CD on 1st January 20X1 for ₹2 lakhs. After the sale was made, CD is having significant cash flows issues. It is trying to raise funding through bank loan to be able to run its operations in future. However, it is unable to do so and has gone under liquidation on 15th of March 20X1.

At the time of sale, there was no reason for AB to believe that it will not be able to collect the amount from CD in future.

Explain how the recognition of revenue be done by AB for the year ended 31st March 20X1?

Solution

In the above case, AB should not recognise any revenue on 1st of March and until that uncertainty of recovery is clear. Hence, the revenue can only be recognised by AB on 5th of May 20X1. The inventory transferred to CD until that date is required to be shown as its own inventory [inventory lying with customers].

Question 7

For the year ended 31st March 20X1, KY Enterprises has entered into the following transactions.

On 31 March 20X1, KY supplied two machines to its customer ST. Both machines were accepted by ST on 31 March 20X1. Machine 1 was a machine that was routinely supplied by KY to many customers and the installation process was very simple.

Machine 1 was installed on 2 April 20X1 by ST's employees.

Machine 2 being more specialised in nature requires an installation process which is more complicated, requiring significant assistance from KY. Machine 2 was installed between 2 and 5 April 20X1. Details of costs and sales prices are as follows:

	Machine 1	Machine 2
Sale Price	3,20,000	3,00,000
Cost of production	1,60,000	1,50,000
Installation fee	NIL	10,000

How should above transactions be recognized by KY Enterprises for the year ended 31st March 20X1?

Question 8

Given the following information of Rainbow Ltd.

- (i) On 15th November, goods worth ₹5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold up to 31st January and no approval or disapproval received for the remaining goods till 31st March.
- (ii) On 31st March, goods worth ₹2,40,000 were sold to Bright Ltd. But due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.
- (iii) Rainbow Ltd. supplied goods worth ₹6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
- (iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹7.5 lakhs and ₹12 as interest and royalties respectively from Dew Ltd. during the year 2020-21.

- (v) On 25th December, goods of ₹4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

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

Solution

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

Accounting Standards on Liabilities

AS – 15

EMPLOYEE BENEFITS

Question 1

An enterprise has 100 employees, who are each entitled to five working days of leave for each year. Unused leave may be carried forward for one calendar year. The leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31st December, 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of leave in 20X5 and that the remaining eight employees will take an average of six and a half days each.

Calculate employee benefit expense to be recognised?

Question 2

Mr. Niranjana is working for Infotech Ltd. Consider the following particulars:

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual salary	₹30,00,000	₹30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjana will avail the unutilized leaves of 3 days of 20X0-20X1 in 20X1-20X2. Infotech Ltd. contends that it will record ₹30,00,000 as employee benefits expense in each of the years 20X0-20X1 and 20X1-20X2, stating that the leaves will, in any case, be utilized by 20X1-20X2.

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

Question 3

As on 1st April, 20X1 the fair value of plan assets was ₹1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹19,000 and received inward contributions of ₹49,000. On 31st March, 20X2 the fair value of plan assets was ₹1,50,000 and present value of the defined benefit obligation was ₹1,47,920. Actuarial losses on the obligations for the year 20X1-20X2 were ₹600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices.

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

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

Question 4

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is ₹14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five-year term before retiring. Thus, he will get 5 yearly increment.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Question 5

The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.20X2 calculate the actual return on plan assets:

- Benefits paid	2,00,000
- Employer contribution	2,80,000
- Fair market value of plan assets on 31.03.20X2	11,40,000
- Fair market value of plan assets as on 31.03.20X1	8,00,000

Question 6

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

pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

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

- Immediately before the curtailment, gross obligation is estimated at ₹6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at ₹5,100.
- The unamortized past service cost is ₹180.
- Curtailment reduces the obligation by ₹600, which is 10% of the gross obligation.

Question 7

RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of ₹11,000 crores and planning to get listed in the next year. The company has a large employee base.

The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2.

₹ in lacs

Particulars	1st April, 20X1	31st March, 20X2
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For financial year ended 31st March, 20X2, service cost was ₹55 lacs. Company made contribution of an amount of ₹111 lacs to plan. No benefits were paid during year.

Consider a discount rate of 8%.

Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss for the year ended 31st March, 20X2.

SPACE FOR SELF NOTES

AS – 29

PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS

Question 1

With regard to AS-29, how would you deal with the following in the annual accounts of the Company at the Balance Sheet dates:

- a) An organisation operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.
- b) During 2018-19 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd. whose financial condition at that time was sound. During 2019-20, the financial condition of Brew Ltd. deteriorates and on 31st December, 2019, it goes into liquidation (Balance sheet date 31st March, 2019).

Solution

- a) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date.

Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

- b) As per AS 29, for a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

The obligating event is the giving of the guarantee by Ace Ltd. for certain borrowings of Brew Ltd., which gives rise to an obligation. No outflow of benefits is probable at 31st March 2019. Thus, no provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

During 2019-20, the financial condition of Brew Ltd. deteriorates and finally goes into liquidation. The obligating event is the giving of the guarantee, which gives rise to a legal obligation. At 31 March 2020, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Thus, provision is recognized for the best estimate of the obligation.

Question 2

An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19th January, 2018	40,000
29th January, 2019	25,000
15th October, 2019	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2019.

Question 3

EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2017. The company seeks your advice on the following:

- The Company's sales tax assessment for assessment year 2014-15 has been completed on 14th February, 2017 with demand of ₹2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹2.10 crore.
- The Company has entered into a wage agreement in May, 2017 whereby the labour union has accepted a revision in wage from June, 2016. The agreement

provided that the hike till May, 2017 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2017.

Solution

- a) Since the company is not appealing against the addition of Rs. 0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 2017. The amount paid under protest can be kept under the heading 'Loans & Advances' and disclosed along with the contingent liability of Rs. 2.10 crore.
- b) Arrears for the period from June, 2016 to March, 2017 are required to be provided for in the accounts of the company for the year ended on 31st March, 2017.

Question 4

At the end of the financial year ending on 31st December, 2017, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

Question 5

XYZ Ltd. has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Hence the accountant of the Company says that the Company is not having any liability for warranties on a particular date as the amount gets reimbursed. Comment on the accounting treatment made by the Company.

Solution

As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be

reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

Question 6

An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. At 31st March 20X1, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary?

Solution

- Obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.
- Outflow of resources is probable.
- In this case best estimate of the liability can be made.

Hence, provision is recognised for the best estimate of the costs of the cleanup.

Question 7

Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31st March, 2022 and needs your advice on the following issues in line with provisions of AS-29:

- (i) On 1st April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31st March, 2022, the company does not provide any provision for replacement of lining of the furnace.
- (ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalisation of the case. There are 70% chances that the penalty may not be levied.

Solution

- (i) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29. The cost of replacement of lining of furnace is not recognized as a provision because it is a future obligation. Even a legal requirement does not require the company to make a provision for the cost of replacement because there is no present obligation. Even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining.
- (ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 70% chances that the penalty may not be levied. Accordingly, Alloy Fabrication Ltd. should not make the provision for penalty. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

However, a provision should be made for remaining 40% fees of the lawyer amounting ₹2,00,000 in the financial statements of financial year 2021-2022.

Question 8

A Limited sells goods with unlimited right of return from its customers.

The following pattern has been observed in the Return of Sales:

Time frame of Return from date of purchase	% Of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of ₹36 Lakhs in the month of January, ₹48 Lakhs in the month of February and of ₹60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹400 Lakhs and the Cost of Sales was ₹320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.

Question 9

A company incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third-party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.
2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

- (i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29.
- (ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

Solution

- (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (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 provision should be recognised.

From the above, it is clear that in the contingencies considered by the company, neither a present obligation exists as a result of past event, nor a reliable estimate

can be made of the amount of the obligation. Accordingly, a provision cannot be recognised for such contingencies under the facts and circumstances of the case.

- (ii) "Provision" is the amount retained by the way of providing for any known liability. Since the contingencies stipulated by the company are not known at the balance sheet date, the provision in this regard cannot be created. Therefore, the provision so created by the company shall be treated as a 'Reserve'.

SPACE FOR SELF NOTES

Other Accounting Standards

AS – 11

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Question 1

- (i) ABC Ltd. an Indian Company obtained long term loan from WWW Private Ltd. a US company amounting to ₹30,00,000. It was recorded at US\$ 1 = ₹60, taking exchange rate prevailing at the date of transaction. The exchange rate on Balance sheet date (on 31.3.2018) was \$1 = ₹62.
- (ii) Trade receivable includes amount receivable from Preksha Ltd. ₹10,00,000 recorded at the prevailing exchange rate on the date of sales at \$1 = ₹59. The exchange rate on Balance sheet date (on 31.3.2018) was \$1 = ₹62.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS-11.

Question 2

A Ltd. has borrowed USD 10,000 in foreign currency on April 1, 20X1 at 5% p.a. annual interest and acquired a depreciable asset. The exchange rates are as under:

01/04/20X1 1 US\$ = ₹48.00

31/03/20X2 1 US\$ = ₹51.00

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

- (i) Option under Para 46A is not availed.
- (ii) Option under Para 46A is availed.
- (iii) The loan was taken to finance the operations of the entity (and not to procure a depreciable asset). In all cases, assume interest accrued on 31 March 20X2 is paid on the same date.

Question 3

Stem Ltd. purchased a Plant for US\$ 30,000 on 30th November, 2013 payable after 6 months. The company entered into a forward contract for 6 months @ ₹62.15 per dollar. On 30th November, 2013, the exchange rate was ₹60.75 per dollar. How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014?

Question 4

Mr. A bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = ₹47.10 when exchange rate was US\$ 1 = ₹47.02. On 31st December when he closed his books exchange rate was US\$ 1 = ₹47.15. On 31st January, he decided to sell the contract at ₹47.18 per dollar. Show how the profits from contract will be recognised in the books.

AS – 22

ACCOUNTING FOR TAXES ON INCOME

Question 1

Classify the following differences as timing or permanent differences as per AS-22:

- 1) Depreciation of fixed assets
- 2) Preliminary Expenses
- 3) Penalty for breach of contract
- 4) Expenses allowed on cash basis (Sec 43B)
- 5) Donation other than u/s 80G
- 6) Unabsorbed Depreciation
- 7) Dividend Income
- 8) Penalties for violation of law
- 9) Provision for repairs

Question 2

ABC Ltd. prepares its accounts annually on 31st March. On 1st April, 2011, it purchases a machine at a cost of ₹1,50,000. The machine has a useful life of three years with nil scrap value. Although it is eligible for 100% depreciation allowance in 1st year as per Income tax law but the straight-line method is considered appropriate for accounting purposes. ABC Ltd. has profit before depreciation and taxes of ₹2,00,000; ₹3,30,000; ₹4,00,000 in each of the 3 years and the tax rate is 40% each year. Compute the amount of deferred tax asset/liability and its accounting treatment over 3 years and show Statement of profit & loss. Also calculate the amount of DTA/DTL if tax rate is assumed to be 40%, 35% and 38% for the three years respectively.

Question 3

Rama Ltd., has provided the following information:

Particulars	Amount
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortised preliminary expenses as per tax record	30,000

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

Question 4

Y Ltd. is a full tax-free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is ₹200 lakhs and ₹400 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by ₹10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

Solution

As per Accounting Standards (AS) 22, "Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognised in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence as laid down in AS 22. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 200 lakhs depreciation timing difference, amount of Rs. 80 lakhs (Rs. 10 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognised. However, for Rs. 120 lakhs (Rs. 200 lakhs - Rs. 80 lakhs), deferred tax liability will be recognised for Rs. 48 lakhs (40% of Rs. 120 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 400 lakhs will reverse only after-tax holiday period and hence, will be recognised in full. Deferred tax liability amounting Rs. 160 lakhs (40% of Rs. 400 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 208 lakhs (48 lakhs + 160 lakhs).

Question 5

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

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

Question 6

The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2018:

Particulars	Amount (₹ in lakhs)
Deferred tax liability (Cr.)	30
Deferred tax assets (Dr.)	15

The following transactions were reported during the year 2018-19:

Particulars	Amount (₹ in lakhs)
Depreciation as per books	80
Depreciation as per Income tax	70
Items disallowed in 2017-18 and allowed for tax purpose in 2018-19	10
Donation to private trusts made in 2018-19	10

There were no additions to fixed assets during the year. Tax rate is 30%.

You are required to show the impact of various items on Deferred tax assets and liability as on 31.03.2019?

Question 7

The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019:

- (i) Depreciation as per books ₹2,80,000
 Depreciation for tax purpose ₹1,90,000

The above depreciation does not include depreciation on new additions.

- (ii) A new machinery purchased on 1.4.18 costing ₹1,20,000 on which 100% depreciation is allowed in the 1st year for tax purpose whereas Straight-line method is considered appropriate for accounting purpose with a life estimation of 4 years.
- (iii) The company has made a profit of ₹6,40,000 before depreciation and taxes.
- (iv) Corporate tax rate of 40%.

Prepare relevant extract of statement of Profit and Loss for the year ending 31-3-2019 and also show the effect of above items on deferred tax liability/asset as per AS 22.

SPACE FOR SELF NOTES