Star Rating

On the basis of Maximum marks from a chapter ☆☆☆☆☆

On the basis of Questions included every year from a chapter ☆☆☆☆☆

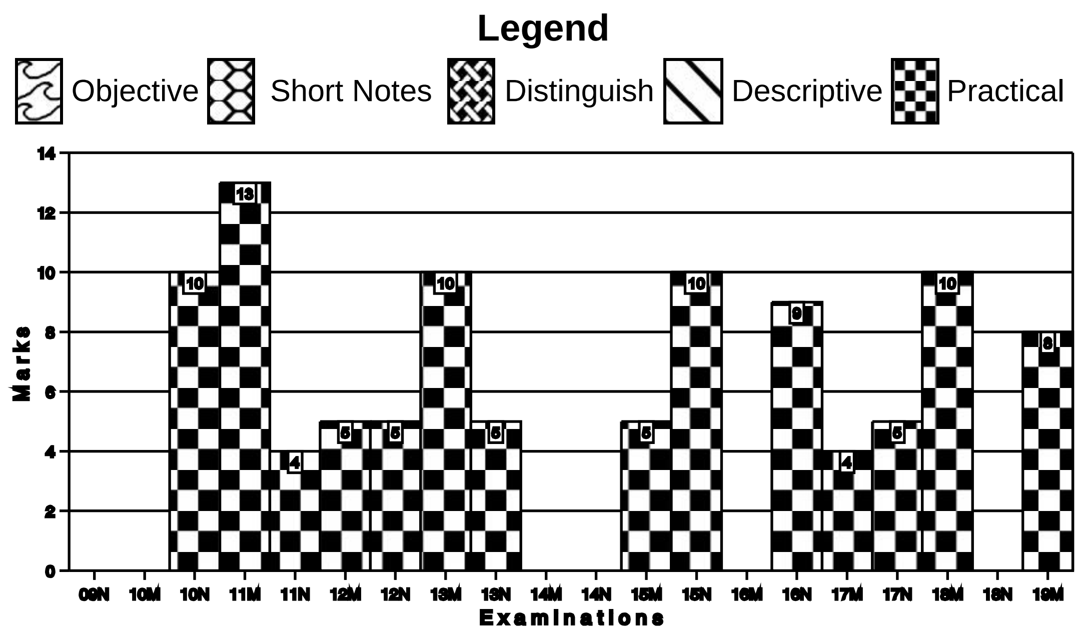
On the basis of Compulsory questions from a chapter ☆☆☆☆☆

CHAPTER	
1	**Accounting Standards**

THIS CHAPTER COMPRISES OF

☞ AS 15 ☞ AS 25 ☞ AS 28 ☞AS 21 ☞AS 23 ☞ AS 27

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



For detailed analysis Login at *www.scannerclasses.com*
for registration and password see first page of this book.

SHORT NOTES

Question Based on AS - 15

2008 - Nov [7] Write short note on the following:

(d) What are the types of Employees benefit and what is the objective of Introduction of this Standard i.e. AS-15? (4 marks)

Answer:

As per AS-15 (revised), the following are the various types of employees benefits:-

1. **Short term Employees Benefits:**
   These are those benefits, which fall due wholly within 12 months after the end of period, in which such service is rendered by the employees. These benefits are like - wages and salaries, profit sharing bonus, ESI contributions and various non monetary benefits like medical, subsidies, rent free house etc.
2. **Long term Employees' Benefits:-**
   It includes long term service leave etc. Such benefits are not payable wholly within 12 month, after the end of period, in which such service is rendered by the employees.
3. **Post- Employment Benefits:-**
   It includes,
   (a) retirement benefits, like gratuity and pension etc.
   (b) other benefits, like, post- employment medical, post employment life insurance cover and so on.
4. **Termination Benefits:-**
   These are those benefits given to employees for terminating them from their service. It normally includes-
   (i) Voluntary Retirement Compensation
   (ii) Retirement Compensation, etc.

Termination Benefits are differed, and shown in the Balance Sheet, as miscellaneous expenditure of the Employer Company.

The various objective of Introduction of AS-15:

1. **To recognize such benefits as an expense,** when enterprise consume the economic benefit, arising from service provided by employees.
2. **To recognize such benefits as a liability,** at the time of providing services in exchange of employee's benefits payable in future.

Space to write important points for revision

PRACTICAL QUESTIONS

Question Based on AS - 25

2008 - Nov [1] {C} (a) On 30.6.2007, Asmitha Ltd. incurred ₹ 2,00,000. Net Loss from disposal of a business segment. Also, on 30.7.2007, the company paid ₹ 60,000 for Property taxes Assessed for the calendar year 2007. How the above transactions should be included in determination of Net Income of Asmitha Ltd. for the six months interim period ended on 30.9.2007.

(5 marks)

Answer :

AS 25 "Interim Financial Reporting" states that revenues and gains should be recognised in interim reports on the same basis as used in annual reports.

Present Case:

- As at September 30,2007, Asmitha Ltd. would report the entire ₹ 2,00,000 loss on the disposal of its business segment since the loss was incurred during the interim period.

- A cost charged as an expense in an annual period should be allocated among the interim periods, which are clearly benefitted from the expense. through the use of accruals and/or deferrals.

- Since ₹ 60,000 property tax payment relates to the entire 2007 calender year, only ₹ 30,000 of the payment would be reported as an expense at September 30, 2007, while out of the remaining ₹ 30,000, ₹ 15,000 for Jan. 2007 to March, 2007 would be shown as payment of the outstanding amount of previous year and another ₹ 15,000 related to quarter October, 2007 to December, 2007 would be reported as a prepaid expense.

Question Based on AS - 28

2009 - May [1] {C} Answer the following :

(a) From the following details of an asset

(i) Find out impairment loss

(ii) Treatment of impairment loss

(iii) Current year depreciation

Particulars of asset :

Cost of asset	₹ 56 lakhs
Life period useful	10 years
Salvage value	Nil
Current carrying value	₹ 27.30 lakhs
Life remaining useful	3 years
Recoverable amount	₹ 12 lakhs
Upward revaluation done in last year	₹ 14 lakhs

(4 marks)

Answer :

As per AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset.

Impairment Loss and its treatment

Particulars	(₹ in lakhs)
Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27.30
Less: Current recoverable amount	12.00
Impairment Loss	15.30
Impairment loss charged to revaluation reserve	14.00
Impairment loss charged to profit and loss account	1.30

As per para 61 of AS 28, "after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life."

In the given case, the carrying amount of the asset will be reduced to ₹ 12 lacs after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). therefore, the depreciation for the current year will be ₹ 4 lacs.

—— Space to write important points for revision ——

Question Based on AS - 23

2010 - Nov [1] {C} (c) Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-09. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-09 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-2009. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-10 and declared dividends of ₹ 60,000 on 12-06-2010.

Calculate the carrying amount of investment in :

(i) Separate financial statement of Bright Ltd. as on 31-03-10;

(ii) Consolidated financial statement of Bright Ltd., as on 31-03-10;

(iii) What will be the carrying amount as on 30-6-2010 in consolidated financial statement ? (5 marks)

Answer :

(i) **Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.10**

Particulars	Amt. (₹)
Amount paid for investment in Associate (on 1.06.2009)	2,00,000
Less: Pre-acquisition dividend (₹ 50,000 x 30%)	15,000
Carrying amount as on 31.3.2010 as per AS 13	1,85,000

(ii) **Carrying amount of investment in Consolidated Financial Statements * of Bright Ltd. as on 31.3.2010 as per AS-23**

Particulars	Amt. (₹)
Carrying amount as per separate financial statements	1,85,000
Add: Proportionate share of profit of investee as per equity method (30% of ₹ 3,00,000)	90,000
Carrying amount as on 31.3.2010	2,75,000

* It is assumed that Bright Ltd. has a subsidiary company and it is preparing Consolidated Financial Statements.

(iii) **Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.2010 as per AS-23**

Particulars	Amt.(₹)
Carrying amount as on 31.3.2010	2,75,000
Less: Dividend received (₹ 60,000 × 30%)	18,000
Carrying amount as on 30.6.2010	2,57,000

Space to write important points for revision

Question Based on AS - 28

2010 - Nov [1] {C} (d) An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 70,000. How is the asset to be accounted for ? (5 marks)

Answer :

As per AS 28 "Impairment of Assets", impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount, where, recoverable amount is the higher of an asset's net selling price and its value in use.

Present Case:

In the given case, recoverable amount will be nil [higher of value in use (nil) and net selling price (₹ 70,000)]. Thus impairment loss will be determined as ₹ 6,00,000 [carrying amount (₹ 6,00,000) – recoverable amount (nil)]. Therefore, asset is to be fully impaired and impairment loss of ₹ 6,00,000 has to be recognized as an expense immediately in the statement of Profit and Loss as per para 58 of AS 28.

—— Space to write important points for revision ——

Question Based on AS - 15

2011 - May [1] {C} (a) The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September, 2009 the plan paid out benefits of ₹ 25,000 and received inward contributions of ₹ 55,000. On 31st March, 2010 the fair value of plan assets was ₹ 3,00,000. On 1st April, 2009 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.25
Realised gains on plan assets (after tax)	3.00

Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS-15. (5 marks)

Answer :

Calculation of Expected Returns on Plan Assets as on 31st March, 2010, as per AS 15.

Particulars	Amounts (₹)
Return on opening value of plan assets of ₹ 2,00,000@ 10.25% (held for the year)	20,500
Add: Return on net gain of ₹ 30,000 (i.e. ₹ 55,000 - ₹ 25,000) during the year i.e. held for six months @5% (equivalent to 10.25% annually, compounded every six months)	1,500
Expected return on plan assets as on 31st March, 2010	22,000

Calculation of Actual Returns on Plan Assets as on 31st March, 2010, as per AS 15.

Particulars	Amounts ₹	Amounts ₹
Fair value of Plan Assets as on 31st March, 2010		3,00,000
Less: Fair value of Plan Assets as on 1st April, 2009	2,00,000	
Add: Contribution received as on 30th September, 2009	55,000	(2,55,000)
		45,000
Add: Benefits paid as on 30th September, 2009		25,000
Actual returns on Plan Assets as on 31st March, 2010		70,000

Space to write important points for revision

Question Based on AS - 15

2011 - May [7] Answer the following :

(c) Kumar Ltd. is an engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years. You are required to advise the company. (4 marks)

Answer :

According to Para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense.

Present Case:

Surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Kumar Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute 5 lakhs annually for its pension schemes.

Space to write important points for revision

Question Based on AS - 25

2011 - May [7] Answer the following :

(d) 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. (4 marks)

Answer :

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Estimated Annual Income	₹ 10,00,000
Tax expense:	
30% on ₹ 5,00,000	₹ 1,50,000
40% on remaining ₹ 5,00,000	₹ 2,00,000
	₹ 3,50,000

Weighted average annual income tax rate $= \frac{\text{Estimated Annual Tax}}{\text{Estimated Annual Income}}$

$= \frac{3,50,000}{10,00,000} = 35\%$

Tax expense to be recognised in each of the quarterly reports	
Quarter I - ₹ 75,000 x 35%	₹ 26,250
Quarter II - ₹ 2,50,000 x 35%	₹ 87,500
Quarter III - ₹ 3,75,000 x 35%	₹ 1,31,250
Quarter IV - ₹ 3,00,000 x 35%	₹ 1,05,000
₹ 10,00,000	₹ 3,50,000

Space to write important points for revision

Question Based on AS - 28

2011 - Nov [7] Answer this question:

(b) G Ltd. acquired a machine on 1st April, 2005 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, 2009, 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 YE March, 2011 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 the increased charge of depreciation resulting from the revaluation.

(4 marks)

Answer :

Calculation of Loss on Impairment of Machine

Particulars		₹ (in crores)
Carrying amount of the machine as on 1st April 2005		7.00
Depreciation for 4 years i.e. 2005-06 to 2008-09 [$\frac{7 crores}{7 years}$ × 4 years]		(4.00)
Carrying amount as on 31.03.2009		3.00
Add: Upward Revaluation (credited to Revaluation Reserve account)		2.10
Carrying amount of the machine as on 1st April 2009 (revalued)		5.10
Less: Depreciation for 2 years i.e. 2009-10 & 2010-11 [$\frac{5.10 crores}{3 years}$ × 2 years]		(3.40)
Carrying amount as on 31.03.2011		1.70
Less: Recoverable amount		(0.79)
Impairment loss		0.91
Less: Balance in revaluation reserve as on 31.03.2011:		
Balance in revaluation reserve as on 31.03.2009	2.10	
Less: Enhanced depreciation met from revaluation reserve 2009-10 & 2010-11 = [(1.70 - 1.00) × 2 years]	(1.40)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"		(0.70)
Impairment Loss to be debited to profit and loss account		**0.21**

Space to write important points for revision

Question Based on AS - 25

2012 - May [1] {C} (d) On 30-6-2011, X Limited incurred ₹ 3,00,000 net loss from disposal of a business segment. Also on 31-7-2011, the company paid ₹ 80,000 for Property taxes assessed for the calendar year 2011. How should the above transactions be included in determination of net income of X Limited for the six months interim period ended on 30-9-2011? (5 marks)

Answer :

AS 25 "Interim Financial Reporting" states that revenues and gains should be recognised in interim reports on the same basis as used in annual reports.

Present Case:

- As at September 30,2011, X Ltd. would report the entire ₹ 3,00,000 loss on the disposal of its business segment since the loss was incurred during the interim period.
- A cost charged as an expense in an annual period should be allocated among the interim periods, which are clearly benefitted from the expense. through the use of accruals and/or deferrals.
- Since ₹ 80,000 property tax payment relates to the entire 2011 calender year, only ₹ 40,000 of the payment would be reported as an expense at September 30, 2011, while out of the remaining ₹ 40,000 ₹ 20,000 for Jan. 2011 to March, 2011 would be shown as payment of the outstanding amount of previous year and another ₹ 20,000 related to quarter October, 2011 to December, 2011 would be reported as a prepaid expense.

Space to write important points for revision

Question Based on AS - 25

2012 - Nov [1] {C} (d) Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2011. 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, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.

(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. (5 marks)

Answer :

As per Para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year. Therefore dividend income, extra-ordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only. Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year. The change in the method of depreciation or inventory valuation is a change in the accounting policy. Therefore, the prior interim periods' financial statements should be restated by applying the change in the method of valuation retrospectively.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the third quarter

		(₹ in lakhs)
Profit before tax (as reported)		4
Add: Dividend income ₹ (4 - 1) lakhs		3
Excess depreciation charged in the 3rd quarter, due to change in the method, should be applied retrospectively	₹ (12 - 3) lakhs	9
Extra ordinary gain	₹ (2 - 1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively	₹ (3 - 2) lakhs	1
		18
Less: Sales promotion expenses (80% of ₹ 15 lakhs)		(12)
Gain on sale of investment (occasional gain should not be deferred)		
Adjusted Profit before tax for the third quarter		(5)
		1

Do you know

Recognition and measurement principles as per AS-25 are applicable to SEBI quarterly reported by the listed companies, but presentation and disclosure should be maintained as the format prescribed by SEBI.

Space to write important points for revision

Question Based on AS - 21

2013 - May [1] {C} (b) A Ltd. had acquired 80% shares in the B Ltd. for ₹ 15 lakhs. The net assets of B Ltd. on the day are ₹ 22 lakhs. During the year A Ltd. sold the investment for ₹ 30 lakhs and net assets of B Ltd. on the date of disposal was ₹ 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in Consolidated Financial Statement. (5 marks)

Answer :

Computation of Profit/Loss on disposal of investment in subsidiary:–

Particulars	**Amount (₹)**
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd. (W.N.1)	(28,00,000)
	2,00,000
Add: Capital Reserve at the time of acquisition of shares in B Ltd. (W.N.2)	2,60,000
Profit on sale of investment	4,60,000

Working Notes:

1. A Ltd.'s share in net assets of B Ltd.:–

Particulars	₹
Net Assets of B Ltd. on the date of disposal	35,00,000
Less: Minority Interest (20% of ₹ 35 lakhs)	(7,00,000)
A Ltd.'s share in the net assets of B Ltd.	28,00,000

2. Capital Reserve (At the time of acquisition of shares in B Ltd.)

Particulars	₹
A Ltd.'s share in the net assets of B Ltd. on the date of acquisition (80% of ₹ 22 lakhs)	17,60,000
Less: Cost of investment	(15,00,000)
Capital Reserve at time of acquisition of shares in B Ltd.	2,60,000

—— Space to write important points for revision ——

Question Based on AS - 28

2013 - May [1] {C} (d) X Ltd. purchased a fixed asset (PPE) four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs? (5 marks)

Answer :

Treatment of Impairment Loss

- **According to AS 28 "Impairment of Assets",** if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount.
- In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs.
- Thus, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].
- Therefore, impairment loss of 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of Carrying Amount of the Fixed Asset (PPE) at the end of the fourth year on revaluation

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

Space to write important points for revision

Question Based on AS - 25

2013 - Nov [1] {C} (b) To comply with listing requirements and other statutory obligations Quaker Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of ₹ 700 lakhs under Income Tax Law, of which 90% is eligible for set off as per the recent verdict of the Court, that has attained finality. No Deferred Tax Asset has been recognized on such losses in view of the uncertainty over its eligibility for set off. The company has reported quarterly earnings of ₹ 700 lakhs and ₹ 300 lakhs respectively for the first two quarters of Financial year 2013-14 and anticipates a net earning of ₹ 800 lakhs in the coming half year ended March 2014 of which ₹ 100 lakhs will be the loss in the quarter ended Dec. 2013. The tax rate for the company is 30% with a 10% surcharge. You are required to calculate the amount of Tax Expense to be reported for each quarter of financial year 2013-14. (5 marks)

Answer :

Estimated tax liability on annual income

= [Income ₹ 1,800 lakhs less b/f losses ₹ 630 lakhs (90% of 700)] × 33%

= 33% of ₹ 1,170 lakhs

= ₹ 386.10 lakhs

According to Para 29(c) of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Thus, estimated weighted average annual income tax rate = ₹ 386.10 lakhs divided by ₹ 1,800 lakhs = 21.45%

Tax expense to be recognised in each quarter	**₹ in lakhs**
Quarter I - ₹ 700 lakhs × 21.45%	150.15
Quarter II - ₹ 300 lakhs × 21.45%	64.35
Quarter III - ₹ 100 lakhs × 21.45%	(21.45)
Quarter IV - ₹ 900 lakhs × 21.45%	193.05
	386.10

—— Space to write important points for revision ——

Question Based on AS - 25

2015 - May [1] {C} (d) Saurav Limited reported a profit before tax of ₹ 8.00 lacs for the 2^{nd} quarter ending on 30^{th} September 2014. On enquiry, following issues were noticed:

(i) The property tax of ₹ 60,000 paid during the quarter for the full year has been recognised in full.

(ii) $1/5^{th}$ of ₹ 15 lacs being marketing promotional expenses incurred on 23^{rd} September, 2014 has been recognised based on past experience of higher sales in the last quarter of the year.

(iii) 50% of the loss of ₹ 2 lacs incurred on disposal of a business segment has been allocated to this quarter.

(iv) Cumulative loss of ₹ 3 lacs resulting from the change in the method of valuation of inventory was recognised in 2^{nd} quarter, which included ₹ 2 lacs related to earlier quarters.

(v) Gain of ₹ 15 lacs from sale of Investments sold in 1^{st} quarter was apportioned equally over the full year.

You are required to give proper treatment as required by AS-25 on Interim Financial Reporting and to recast the adjusted profit before tax for the 2^{nd} quarter. (5 marks)

Answer:

According to para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date untill it is appropriate to defer at the end of the enterprise's financial year. Thus, loss on disposal of a business segment and gain on sale of investment incurred in 1st quarter should be recognised in the 1st quarter only. Also, marketing promotional expenses incurred in the 2nd quarter should be charged in the 2nd quarter only as it is a one-time expense and done occasionally.

Again, as per AS - 25, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year. Accordingly, the change in the method of inventory valuation is a change in the accounting policy. Therefore, the prior interim periods' financial statements should be restated by applying the change in the method of valuation retrospectively. An expense i.e. property tax related to the entire year is apportioned on time basis.

Accordingly, the adjusted profit before tax for the 2nd quarter will be as follows:

Statement showing Adjusted Profit/Loss Before Tax for the second quarter

	(₹ **in lacs**)
Profit before tax (as reported)	8.00
Add: Property tax being an annual charge should be allocated to all quarters	0.45
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively & not by charging to one quarter only [₹ (3-1) lacs]	2.00
	10.45
Less: Sales promotion expenses (4/5 of ₹ 15 lacs)	(12)
Loss on disposal of a business segment (2-1)	(1)

Gain on sale of investment (occasional gain should not be apportioned over the full year $\left(\frac{15}{4} \times 1\right)$	(3.75)
Adjusted loss for the 2nd quarter	(6.30)

Assumption: It is assumed that the loss on disposal of a business segment is incurred in the 2nd quarter and only 50% of it is allocated to the quarter. Therefore, full loss should be reported in the 2nd quarter.

However, in case it is assumed that the loss on disposal of a business segment was incurred in the 1st quarter and 50% of the same has been allocated to the 2nd quarter, the allocation of loss on disposal of business segment will be added back and the adjusted loss for the 2nd quarter would be ₹ 4.30 lacs instead of ₹ 6.30 lacs.

—— Space to write important points for revision ——

Question Based on AS - 10 & AS - 28

2015 - Nov [1] {C} (b) Fine Ltd., acquired a machine on 1st April, 2009 for ₹ 14 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,2013, the carrying value of the machine was reassessed at ₹ 10.20 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended 31st March, 2015, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 140 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 Fine Ltd.

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

(5 marks)

Answer:

Fine Ltd.

Working Note:

Calculation of Depreciation

April- 2009 $= \dfrac{\text{Cost of machine} - \text{Residual value}}{\text{useful life}}$

$= \dfrac{14\,\text{crore} - 0}{7}$

= 2 crore

Depreciation charged upto April-13 used upto 4 years

Depreciation = 2 crore x 4

= 8 crore

Value of machine on April-13	14 crore
Less:	8 crore
	6 crore
Value of machine Re assessed to 10.20 crore	
Revaluation surplus =	10.20 crore
T/F Revaluation reserve	(-) 6.00 crore
	4.20 crore

Statement showing Impairment Loss

	(₹ in crores)
Cost of the machine as on 1st April, 2009	14.00
Depreciation for 4 years i.e. 2009-10 to 2012-13 = $\dfrac{₹14\,\text{crores}}{7\ \text{years}} \times 4$ years	(8.00)
Carrying amount as on 31.03.2013	6.00
Add: Upward Revaluation (credited to Revaluation Reserve Account)	4.20
Carrying amount of the machine as on 1st April, 2013 (revalued)	10.20
Less: Depreciation for 2 years i.e. 2013-14 & 2014-15 $\left[\dfrac{10.20\,\text{crores}}{3\text{years}} \times 2\ \text{years}\right]$	(6.80)

Carrying amount as on 31.03.2015		3.40
Less: Recoverable amount		(1.40)
Impairment loss		2.00
Less: Balance in revaluation reserve as on 31.03.2015:		
Balance in revaluation reserve as on 31.03.2013	4.20	
Less: Enhanced depreciation met from revaluation reserve 2013-14 & 2014-15 = [(3.40 - 2.00) × 2 years]	(2.80)	
Impairment loss set off against revaluation reserve balance as per AS 28 "Impairment of Assets"		(1.40)
Impairment Loss to be debited to Profit and Loss Account		**0.60**

Space to write important points for revision

2015 - Nov [1] {C} (d) As on 1st April, 2014, the fair value of planned assets was ₹ 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2014, the plan paid out benefits of ₹ 19,000 and received inward contribution of ₹ 49,000. On 31st March, 2015, 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 2014-15 were ₹ 600.

On 1st April, 2014, the company made the following estimates, based on its market studies, understanding and prevailing prices:

	%
Interest and 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.

(5 marks)

Answer:

Lets Compute Expected Return on Plan Assets

Return on opening Balance : 1,00,000 × 10.25 % = 10,250

Return on Net Cash Contributions:

(49,000 - 19,000) x 10.25% × ½ = 1537.50

Total Expected Return = 11,787.50

Calculation of actual return on plan assets:

(Amount in ₹)

Fair value of plan assets at 31st March, 2015	1,50,000
Less: Fair value of plan assets at 1st April, 2014	(1,00,000)
Less: Contributions received	(49,000)
Add: Benefits paid	19,000
Actual return on plan assets	20,000

Space to write important points for revision

2016 - Nov [1] {C} (a) An employee, Darshan, has joined a company PQR Ltd. in the year 2014. The annual emoluments of Darshan as decided is ₹ 15,52,303. The company also has a policy of giving a *lump sum* payment of 25% of the last drawn 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 Darshan is expected to grow @ 10% per annum.

The company has inducted Darshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring.

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 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) (5 marks)

Answer:

Assumption:

(i) Retirement of Darshan from service will be in 6th year.

(ii) Last drawn salary is the annual emoluments.

Calculation of amount charged to P&L:

- 6^{th} year salary
  = 15,52,303 × $(110\%)^5$ = ₹ 25,00,000
- Defined Benefit Obligation
  = 25,00,000 × 25% × 5 years = ₹ 31,25,000
- Amount Charged to P&L every year
  = $\frac{31,25,000}{5}$ = ₹ 6,25,000

Calculation of Service Cost & Interest Cost Charged Per Year:

Year	Opening Balance	Amount Charge to P & L	PVF	Service Cost	Interest @ 8%	Closing Balance
[A]	[B]	[C]	[D]	[E = C × D]	[F = B × 8%]	G = B+E+F
2014	–	6,25,000	0.735	4,59,375	Nil	4,59,375
2015	4,59,375	6,25,000	0.794	4,96,250	36,750	9,92,375
2016	9,92,375	6,25,000	0.857	5,35,625	79,390	16,07,390
2017	16,07,390	6,25,000	0.926	5,78,750	1,28,591	23,14,731
2018	23,14,731	6,25,000	1.000	6,25,000	1,85,178	31,24,909

Alternate Solution:

Assumption : Last drawn salary is monthly salary.

Calculation of amount charged to P&L:

- 6^{th} year salary
  = 15,52,303 × $(110\%)^5$ = ₹ 25,00,000
- Defined Benefit Obligation
  = $\frac{25,00,000}{12}$ × 25% × 5 years = ₹ 2,60,417
- Amount Charged to P&L every year

$= \frac{2,60,417}{5}$ = ₹ 52,083.

Calculation of Service Cost and Interest Cost Charged Per Year:

Year	Opening Balance	Amount Charged to P & L	PVF	Service Cost	Interest @ 8%	Closing Balance
[A]	[B]	[C]	[D]	[E = C × D]	[F = B × 8%]	G = B+E+F
2014	–	52,083	0.735	38,281	–	38,281
2015	38,281	52,083	0.794	41,354	3,063	82,698
2016	82,698	52,083	0.857	44,635	6,616	1,33,949
2017	1,33,949	52,083	0.926	48,229	10,716	1,92,894
2018	1,92,894	52,083	1.000	52,083	15,432	2,60,409

Space to write important points for revision

Question Based on AS - 25

2016 - Nov [7] (d) Astro Corporation is dealing in seasonal products. The following is the quarterly sales pattern of the product:

Quarter I	II	III	IV
Ending 31st March 20%	30th June 20%	30th September 50%	31st December 25%

For the First quarter ending 31st March, 2016, Astro Corporation gives you the following information:

	₹ in crores
Sales	100
Salary and other expenses	60
Advertisement expenses (routine)	4

Administrative and selling expenses	8

While preparing interim financial report for the first quarter, Astro Corporation wants to defer ₹ 42 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. The expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the Astro Corporation view. (4 marks)

Answer:

Result of the first quarter

Particulars	**₹ in crores**	
Turnover		100
Add: Other income		Nil
Total		100
Less: Salaries and other cost	60	
Administrative and selling expenses	12	72
Profit		28

Evaluation of Company's view:

(a) Conditions for deferment of cost:

Income and Expense should be recognized when they are earned and incurred respectively. The costs should be anticipated or deferred only when:

- It is appropriate to anticipate that type of cost at the end of the financial year, and
- Costs are incurred unevenly during the financial year of an enterprise.

(b) Analysis and Conclusion:
In the instant case, the expenses were incurred in the first quarter only and should therefore be recognized in the first quarter itself. Therefore, the company's argument relating to deferment of ₹ 42 crores is not tenable, as expenditures are uniform throughout all quarters.

Space to write important points for revision

Question Based on AS - 15

2017 - May [7] Answer the following:

(b) A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for the class they are entitled to as per company rule and to a *lump-sum* payment to cover expenses on food and stay during the travel. Alternatively employees can claim a *lump-sum* amount equal to one month pay last drawn.

The company's contentions in this matter are:

(i) Settlement allowance does not depend upon the length of service of employees. It is restricted to employee's eligibility under the Travel rule of the company or where option for *lump-sum* payment is exercised, equal to the last pay drawn.

(ii) Since it is not related to the length of service of the employees, it should account for liability on an actual "on claim" basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer.
(4 marks)

Answer:

The Present case falls under the category of defined benefit scheme under Para 49 of AS 15 (Revised) "Employee Benefits" The said para encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the company that the settlement allowance will be accounted for 'on claim basis' is not correct even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control.

Thus,

1. Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15 (Revised)
2. A Provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.
3. Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.

—— Space to write important points for revision ——

2017 - Nov [1] {C} (d) Himalaya Ltd., which is in a business of manufacturing and export of its product. Sometimes, back in 2014, 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 2010. 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 2014, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 2016 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:

(i) Calculation and allocation of impairment loss in 2014.

(ii) Reversal of impairment loss and its allocation as per AS-28 in 2016.

(5 marks)

Answer:

(i) **Calculation and Allocation of Impairment Loss in 2014**

(Amount in ₹ lakhs)

	Particulars	Goodwill	Identifiable Asset	Total
1.	Historical Cost Accumulated	2,000	4,000	6,000
2.	Depreciation for 4 years	(1,600)	(1,067)	(2,667)
3.	Carrying Amount (1) - (2)	400	2,933	3,333
4.	Impairment Loss			613
5.	Loss allocated (First to Goodwill then balance to others)	(400)	(213)	(613)
6.	Carrying Amount after Impairment Loss (3) - (5)	Nil	2,720	2,720

(ii) **Reversal of Impairment Loss as on 31st March, 2016**

(Amount in ₹ lakhs)

	Particulars	Goodwill	Identifiable Asset	Total
1.	Carrying Amount	Nil	2,720	2,720
	Less: Depreciation $\left(\frac{2,720}{11 \text{ Years}} \times 2 \text{ Years}\right)$	Nil	(495)	(495)
2.	∴ Carrying Amount at the end of 2016	Nil	2,225	2,225
3.	**Now:** Carrying Amount if there had been no impairment cost	Nil	2,400*	2,400
	* $\left(4,000 - \frac{4,000}{15 \text{ Years}} \times 6 \text{ Years}\right)$			
4.	Recoverable Amount at the end of 2016 (Given)			3,420

5.	Total Impairment Loss to be reversed (3,420 - 2,225)			1,195
6.	Loss that can be reversed (3) - (2) or (5) whichever is lower			175
7.	Revised Carrying Amount at the end of 2016 (2) + (6) [It should not exceed (3)]			2,400

Space to write important points for revision

2018 - May [6] (a) XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of ₹ 20,00,000 when TUV Limited had an equity share capital of ₹ 20,00,000 and reserve and surplus of ₹ 1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of ₹ 5,00,000, ₹ 8,00,000, ₹ 10,00,000 and ₹ 2,40,000 respectively. Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of ₹ 1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of ₹ 2,00,000 and ₹ 3,00,000 respectively. Calculate the minority interests and cost of control at the end of each year for the purpose of consolidation, as per AS 21 "Consolidated Financial Statements". (10 marks)

Answer:

- **As per para 26 of As 21 "Consolidated Financial Statements",** the losses applicable to the minority in a Consolidated Subsidiary may exceed the minority interest in the equity of the Subsidiary. The excess, and any further losses applicable to the minority, are adjusted against majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly.

Year	Profit/(loss)	Minority Interest (30%)	Additional Consolidated P&l (Dr.)Cr.	Minority's share of losses borne by XYZ Ltd.		Cost of Control
				(₹)	Balance	
All the time of acquisition in 2010		6,48,000 (W. N. 1)	-			
2010-2011	(5,00,000)	(1,50,000)	(3,50,000)			4,88,000 (W.N.1)
		4,98,000				
2011-2012	(8,00,000)	(2,40,000)	(5,60,000)			4,88,000
		2,58,000				
2012-2013	(10,00,000)	(3,00,000)	(7,00,000)			4,88,000
		(42,000)				
	Loss of minority borne by Holding Co.	42,000	(42,000)	42,000	42,000	
		Nil	(7,42,000)			
2013-2014	(2,40,000)	- (on application of para 26 of As-21) Nil	(2,40,000)	72,000	1,14,000	4,88,000
2014-2015	1,00,000	- (on application of para 26 of As-21) Nil	1,00,000	(30,000)	84,000	4,88,000

2015-2016	2,00,000	- (on application of Para 26 of As 21) Nil	2,00,000	(60,000)	24,000	4,88,000
2016-2017	3,00,000	90,000 (24,000)	2,10,000 24,000	(24,000)	Nil	4,88,000
		(Application of Para 26)				
		66,000	2,34,000			

Working Note :

1. **Calculation of Minority Interest and Cost of Control on 01/01/2010**

	100% (₹)	**Share of Holding Co. 70%** (₹)	**Minority Interest 30%** (₹)
Share Capital	20,00,000	14,00,000	6,00,000
Reserve	1,60,000	1,12,000	48,000
		15,12,000	6,48,000
Less: Cost of investment		(20,00,000)	
Goodwill		4,88,000	

Space to write important points for revision

2019 - May [6] (c) Narayan ltd. provides you the following information and asks you to calculate the tax expense for each quarter with reference to AS 25, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Gross Annual Income ₹ 33,00,000
(inclusive of Estimated Capital Gains of ₹ 8,00,000)

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates:	On Capital Gains		12%	
	On Other Income:	First ₹ 5,00,000	30%	
		Balance Income	40%	(4 marks)

2019 - May [6] (Or) (c) KAPC Ltd. acquired a machine on 1st April, 2010 for 10 crore that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at ₹ 7.10 crore and surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2016 conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 1.09 crore. 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 KAPC Ltd., KAPC Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from revaluation as per AS-28.

(4 marks)

Table Showing Marks of Compulsory Questions

Year	14 N	15 M	15 N	16 M	16 N	17 M	17 N	18 M	18 N	19 M
Practical		5	10		5		5			
Total		5	10		5		5			