Star Rating

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

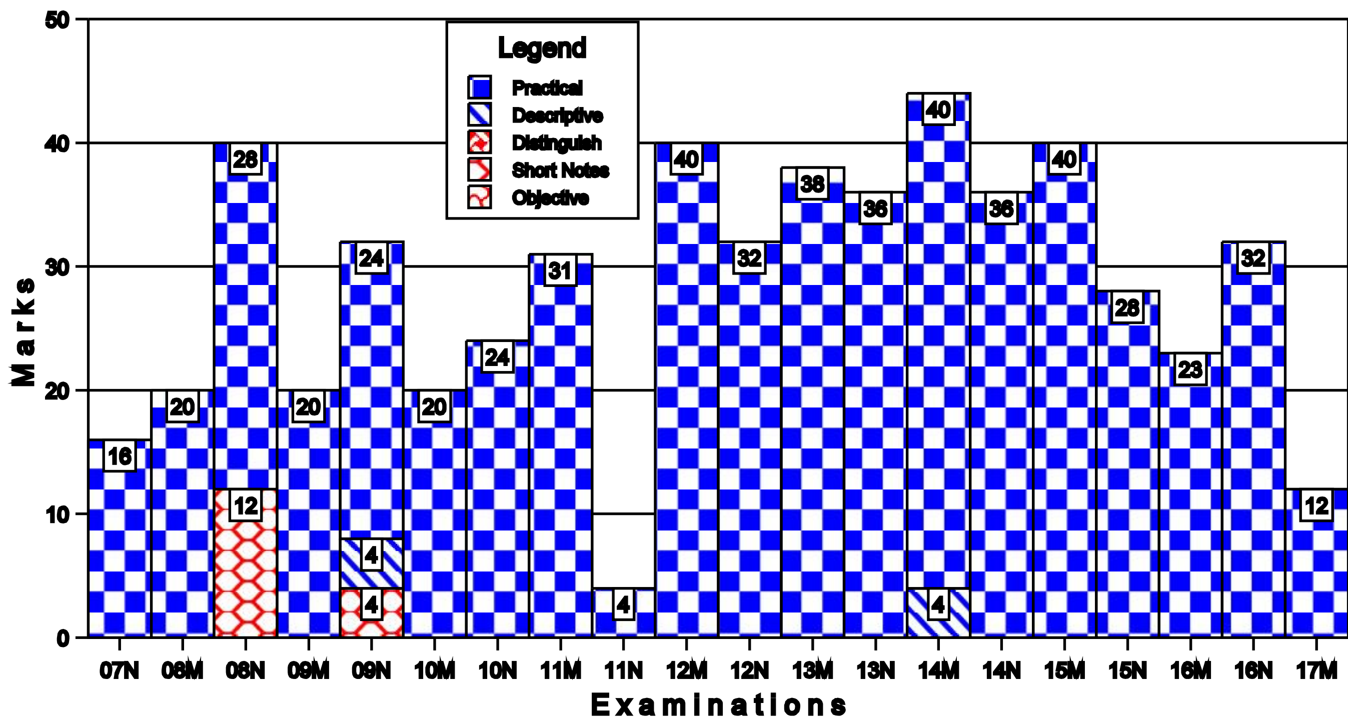
On the basis of Questions included every year from a chapter ☆☆☆☆☆

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

1 Accounting Standards & Guidance Notes

This Chapter Includes : Accounting standards, Guidance Notes

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



CA Final Gr. I

PRACTICAL QUESTIONS

Question Based on AS - 3

2007 - Nov [5] (a) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3 :

	₹ (in lacs)	₹ (in lacs)
Net Profit		60,000
Add: Sale of Investments		70,000
Depreciation on Assets		11,000
Issue of Preference Shares		9,000
Loan raised		4,500
Decrease in Stock		12,000
		1,66,500
Less: Purchase of Fixed Assets	65,000	
Decrease in Creditors	6,000	
Increase in Debtors	8,000	
Exchange gain	8,000	
Profit on sale of investments	12,000	
Redemption of Debenture	5,700	
Dividend paid	1,400	
Interest paid	945	1,07,045
		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(6 marks)

Answer: **Cash Flow Statement**

Particulars		**(₹ in Lakhs)**
Cash flows from operating activities		
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000

Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
Less : Increase in debtors	(8,000)	
Add : Decrease in stock	12,000	
Less : Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		49,000
Cash flow from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

KZ - 1 **Knowledge Zone**

AS - 3 and Ind AS - 7

(a) **Both AS 3 and Ind AS 7** focus on the user-need for information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. Both the Standards permit usage of either Direct Method or Indirect Method for presenting cash flows from operating activities.

(b) **Cash and Cash Equivalents:** Ind AS 7 takes note of the fact that in some countries, bank overdraft which are repayable on demand form an integral part of an entity's cash management. A characteristic of such

banking arrangements is that the bank balance often fluctuates from being positive to overdrawn. Thus, to the extent that, in substance, such an arrangement forms a part of an entity's cash management, the overdraft can be treated as cash and cash equivalents.

(c) **Extraordinary Items:** The disclosure of cash flows associated with extraordinary items has been dispensed with under the revised version of Ind AS 7, as adopted by IASB (a corresponding amendment to AS 3 is on the anvil).

(d) **Interest and Dividends:** In addition, dividends paid may be classified either as financing cash flows or as operating cash flows.
Ind AS 7 concedes that there is no consensus on the classification of these cash flows for other entities. Item relating to (i) interest paid and (ii) interest and dividends received, may be classified as operating cash flows because they enter into the determination of profit or loss. Ind AS 7 also permits an alternative approach of interest paid, and interest (and dividends) received, being classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Question Based on AS - 18

2007 - Nov [5] (b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P. Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the viewpoint of AS-18 on Related Party Disclosures? (4 marks)

Answer :

Para 10 of AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/ or operating decisions.

Here, Control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

Present Case:

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

Thus it is clear that control of P Ltd. in R Ltd. directly and through Q Ltd., does not go beyond 26%. However, as per para 12 of AS 18, significant influence may be exercised as an investing party (P Ltd.) holds, directly or indirectly through intermediaries 20% or more of the voting power of the R Ltd. As R Ltd. is a listed company and regularly supplies goods to P Ltd. Therefore, related party disclosure, as per AS 18 is required.

KZ - 2	**Knowledge Zone**
Under AS - 15, Closing PV of obligation and FV of plan assets is to be calculated by Actuary and therefore students are not allowed to analyse the valuation work on 31st March. In practice it is also applicable.	

Question Based on AS - 19

2007 - Nov [5] (c) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000. The economic life of the machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. Guaranteed Residual Value (GRV) is ₹ 22,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machine to be considered by Lessee Ltd. and the interest (Finance charges) in each year. (6 marks)

Answer :

1. **Computation of value of machine:-** Machine is valued at Fair Value or Present Value of Minimum Lease Payment (MLP) whichever is less.

   (i) Present value of Minimum Lease Payment (MLP)

Year	MLP	PV at 15%	PV Amount
		₹	₹
1.	3,00,000	0.869	2,60,700
2.	3,00,000	0.756	2,26,800
3.	3,22,000 (considering residual value)	0.657	2,11,554
	PV of MLP		6,99,054

(ii) Fair value of the machine is ₹ 7,00,000. Value of the machine will be taken as ₹ 6,99,054.

2. Computation of Interest (i.e. finance charges)

Year		*Liability*	*Interest at 15%*	*Principal*	*Lease rental*
		₹	₹	₹	₹
1st		6,99,054	1,04,858	1,95,142	3,00,000
	Less: Principal	1,95,142		(Rental-interest)	
		5,03,912	75,587	2,24,413 (Rental-interest)	3,00,000
2nd	*Less:* Principal	2,24,413		2,58,075	3,00,000
		2,79,499	41,925	(Rental-interest)	
3rd	*Less:* Principal	2,58,075			
	Residual value	21,424			

Note:- Difference between guaranteed residual value ₹ 22,000 and the Residual Value as calculated above i.e. ₹ 21,424 is arises due to approximation in computing the interest rate implicit in the lease.

Question Based on AS - 16

2008 - May [4] (a) X Ltd. began construction of a new building on 1st January, 2007. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1st January, 2007 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 expenditure that were made on the building project were as follows:

Jan 2007	₹ 2,00,000
April 2007	₹ 2,50,000
July 2007	₹ 4,50,000
Dec 2007	₹ 1,20,000

Building was completed by 31st December, 2007. Following the principles prescribed in AS-16 ' borrowing cost' calculate the amount of interest to be capitalised and pass one Journal Entry for capitalising the cost and borrowing cost in respect of the building. (10 marks)

Answer :

(a) (i) Computation of average accumulated expenses

	₹
₹ 2,00,000 ×12/12	2,00,000
₹ 2,50,000 × 9/12	1,87,500
₹ 4,50,000 × 6/12	2,25,000
₹ 1,20,000 × 1/12	10,000
	6,22,500

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

Account of loan (in ₹)	**Rate of interest**	**Amount of interest (in ₹)**
5,00,000	11%	55,000
9,00,000	13%	1,17,000
14,00,000		1,72,000
Weighted average rate of interest $\left(\frac{1,72,000}{14,00,000} \times 100\right)$		12.285% (approx)

(iii) Interest on average accumulated expenses

	₹
Specific borrowings (₹ 1,00,000 × 10%)	10,000
Non-specific borrowings	
[₹ 6,22,500 – ₹ 1,00,000] × 12.285%	64,189
Amount of interest to be capitalized	74,189

(iv) Total expenses to be capitalized for building

	₹
Cost of building ₹ (2,00,000 + 2,50,000 + 4, 50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalised	74,189
	10,94,189

Journal Entry

Date	Particulars	Dr. (₹)	Cr. (₹)
31.12.2007	Building A/c Dr.	10,94,189	
	To Bank A/c		10,94,189
	(Being amount of cost of building and borrowing cost thereon capitalized)		

Question Based on AS - 29

2008 - May [5] (c) Mini Ltd. took a factory premises on lease on 1.4.07 for ₹ 2,00,000 per month. The lease is operating lease. During March, 2008, Mini Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2010. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Ltd. seeks your advice. (5 marks)

Answer :

As per AS 29 Provisions, Contingent Liabilities and Contingent Assets, when an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. In the given case, the operating lease contract has become onerous (For a contract to

qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it.) as the economic benefit of lease contract for next 33 months up to 31.12.2010 will be nil. However, the lessee, Mini Ltd., has to pay lease rent of ₹ 66,00,000 (i.e. 2,00,000 p.m. for next 33 months)

Hence, provision on account of ₹ 66,00,000 is to be provided in the accounts for the year ending 31.03.08 Therefore auditor is right.

Question Based on AS - 24

2008 - May [5] (d) A Cosmetic articles producing company provides the following information:

	Cold Cream	Vanishing Cream
January, 2006- September, 2006 per month	2,00,000	2,00,000
October, 2006- December, 2006 per month	1,00,000	3,00,000
January, 2007- March, 2007 per month	0	4,00,000

The company has enforced a gradual change in product-line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March, 2006 to this effect. The company follows calendar year as its accounting year. Should this be treated as a discontinuing operation? Give reasons in support of your answer. (5 marks)

Answer :

In response to the market forces, business enterprises often abandon products or even product lines and reduce the size of their workforce. These actions are not in themselves discontinuing operations unless they satisfy the definition criteria.

In the instant case the company has been gradually reducing operation in the product - line of cold creams, simultaneously increasing operation in the product line of Vanishing Creams The Company was not disposing of any of its components. Phasing out a product line as undertaken by the company

does not meet definition criteria in Para-3 of AS-24, namely, disposing of substantially in its entirety a component of the enterprise. Therefore this changeover is not a discontinuing operation.

CA Final Gr. I (New Course)

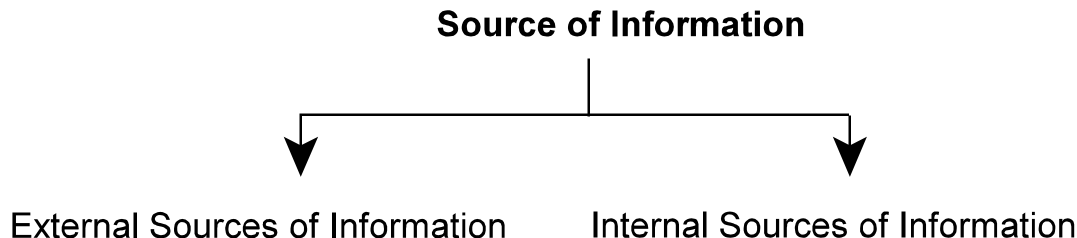
SHORT NOTES

Question Based on AS - 28

2008 - Nov [7] Write short note on the following:
(b) Reversal of an Impairment Loss. (4 marks)

Answer :

As per AS 28 on "Impairment of Assets", an enterprise should assess at each Balance Sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset.



In assessing that whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider, as a minimum, the following indications.

External Sources:

1. Assets Market Value has increased significantly during the period.
2. Significant changes with a favourable effect on the enterprise have taken place during the period, or will take place in the near future, in the technological market, economic or legal environment in which the enterprise operates or in the market to which the asset is dedicated.

3. Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the assets value in use and increase the asset's recoverable amount materially.

Internal Sources :

1. Significant changes with a favourable effect on the enterprise have taken place during the period or are expected to take place in the near future to the extent to which, or manner in which the asset is used or is expected to be used.
2. Evidence is available from internal reporting that indicates that the economic performance of the asset is or will be. better than expected.

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 falls 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 AS-15 on Employees benefits are:-

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.

Question Based on AS - 22

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

(e) What are Timing differences and Permanent differences? (4 marks)

Answer :

1. **Timing difference** is the difference between the accounting income and taxable income that originated in the same period and are capable of reversal in one or more subsequent periods. Examples of timing differences are as follows:-
   (i) Expenditure of nature mentioned in Section 43(B), like taxes, duty, cess, fees etc. if are accrued in the P/L A/c on accrual basis; but are allowed only on actual payment for tax purpose.
   (ii) Provision made in P/L A/c, but the relevant liability is allowed in the year in which it actualize.
2. **Permanent difference** is the difference between the accounting income and taxable income that originated in the same period; but are not capable of reversal. Examples of permanent differences are as follows:-
   (i) Personal expenditure
   (ii) Contribution to National Laboratory.
   (iii) Donations, etc.

Question Based on AS - 12

2009 - Nov [6] Write short note on the following:

(b) Treatment of refund of Government grants. (4 marks)

Answer :

AS-12' Accounting for Government Grants. A Government Grant that is refundable is treated as an extra ordinary items in the following ways.

1. Amount refundable as government grant related to any specific fixed asset, is to be recorded in books, by increasing the book value of such asset or by reducing the capital reserve of deferred income balance, with same amount.
2. Refundable amount, which is related with revenue, is applied first against any unamortized deferred credit remaining in respect of such grant. If there is no unamortized deferred credit, then the amount is directly charged to from P/L A/c.
3. If there is any amount refundable, in respect of promoters' contribution, then the same is to be reduced from capital reserve.

KZ - 3	Knowledge Zone
Difference between AS 12 and IAS 20	
AS 12	**IAS 20**
It includes only Government Grants.	It includes Government Grants as well as Government assistance.
It provides three approaches for grant for fixed assets i.e. (i) Deducted from cost of assets (ii) Deferred approach for income recognition (iii) Transfer to capital reserve.	It provides only deferred income approach.

Non-monetary assets given at concessional rate, should be accounted for on their acquisition cost hence those given free of cost should be **recorded at nominal value.**	Non-monetary assets given at concessional rate, should be accounted for on their fair value hence those given free of cost should be **recorded at fair value.**
Refund of grant is treated as extraordinary item.	Refund of grant is treated as change in estimate.

DESCRIPTIVE QUESTIONS

Question Based on AS - 24

2009 - Nov [6] (c) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS-24, but that might do so in combination with other circumstances. (4 marks)

Answer :

Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operation. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

1. Closing of a facility to achieve productivity improvement or any other cost saving.
2. Gradual/Evolutionary phasing out any product line or service or class.
3. Discontinuing several products, within an ongoing line of business.
4. Changing of location of production or marketing activities for a particular business line.

Question Based on AS - 22

2014 - May [7] Answer the following :

(c) What are Timing Differences and Permanent Differences as per Accounting Standard - 22? Explain with example. (4 marks)

Answer:

Please refer 2008 - Nov [7] (e) on page no. 24

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 per para 10 of AS 25 "Interim Financial Reporting", if an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. As on 30.9.2007. Asmitha Ltd., would report the entire ₹ 2,00,000 loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to Interim periods on accrual basis. Since ₹ 60,000 Property Tax payment relates to entire calendar year 2007, ₹ 30,000 would be reported as an expense for six months ended on 30.09.07 while remaining ₹ 30,000 would be reported as prepaid expenses.

Question Based on AS - 17

2008 - Nov [1] {C} (b) M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹ 10.00 crs. segment X has ₹ 2.00 crs., segment Y has ₹ 3.00 crs. and segment Z has ₹ 5.00 crs. deferred tax Assets included in the Assets of each segments are X-₹ 0.50 crs., Y-₹ 0.40 crs. and Z-₹ 0.30 crs. The accountant contends that all the three segments are reportable segments. Comment. (5 marks)

Answer :

As per AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are 8.8 crores (10 crores - (0.5+0. 4+0.3). Segment X holds total assets of 1.5 crores (2 crores - 0.5 crores); Segment Y holds 2.6 crores (3 crores - 0.4 crores); and Segment Z holds 4.7 crores (5 crores - 0.3 crores). Thus, all segments are reportable segments. As all the three segments hold more than 10% of the total assets.

KZ - 4	**Knowledge Zone**
Difference between IFRS 8 and AS 17	
IFRS 8	**AS 17**
Classification of Segment is based on management's approach.	Classification of Segment is based on product and services.
Provides aggregation criteria for segments.	It does not provide any such criteria.
Interest expenses are disclosed separately.	Interest expenses on bank overdraft are not forming part of segment expense.
Requires some disclosure even if the entity has only one segment.	Entity is exempted from segment reporting if it has only one segment.

Question Based on AS - 5

2008 - Nov [1] {C} (c) M/s Dinesh & Company signed an agreement with workers for increase in wages with retrospective effect. The out-flow on Account of arrears was for 2005-06—₹ 10.00 lakhs, for 2006-07—₹ 12.00 lakhs and for 2007-08 ₹ 12.00 lakhs. This amount is payable in September, 2008. The accountant wants to charge ₹ 22.00 lakhs as prior period charges in Financial statement for 2008-09. Discuss. (5 marks)

Answer :

As per AS 5 (Revised) "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the term prior period item refers only to income or expenses which arise in the current period as a result of errors or omission in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments, necessitated by circumstances, which though related to prior periods are determined in the current period. The full amount of wage arrears paid to workers will be treated as an expense of current year and it will be charged to profit and loss account as current expenses and not as prior period expenses.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per Para 12 of AS 5 (Revised), 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.

KZ - 5	**Knowledge Zone**
Difference between AS 5 and IAS 8	
AS 5	**IAS 8**
Accounting Policies refers to specific accounting principles and method of applying those principles in preparation and presentation of financial statement.	Accounting Policies means convention rules and practices (in addition to principles) applied by the entities in preparation and presentation of financial statement.
Rectification of prior period error with prospective effect.	Rectification of prior period error with retrospective effect.
Less disclosure is required.	More disclosure is required.
Extraordinary item has been included in the Standard.	Extraordinary item has been omitted from the Standard.

Question Based on AS - 9

2008 - Nov [1] {C} (d) M/s Prima Co. Ltd. sold goods worth ₹ 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of ₹ 8,000 which was agreed by M/s Prima Co. Ltd. the sale was effected and Goods were despatched. After receiving, Goods worth ₹ 7,000 was found defective, which they returned immediately. They made the payment of ₹ 35,000. to M/s Prima Co. Ltd. Accountant booked the sales for ₹ 35,000. Please discuss. (5 marks)

Answer :

As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, M/s Prima Co. Ltd. should record the sales at gross value of ₹ 50,000. Discount of ₹ 8,000 in price and goods returned worth ₹ 7,000 are to be adjusted by suitable provisions. M/s Prime Co. Ltd. might have sent the credit note of ₹ 15,000 to M/s Y & Co. to account for these adjustments. The contention of the accountant to book the sales for ₹ 35,000 is not correct.

KZ - 6	Knowledge Zone
When consultancy services like project manager services not related to construction contracts then they are covered by AS-9, but completely devoted to the projects are covered by AS-7.	

2008 - Nov [6] (a) P Ltd. started its business on 01.04.2007. It issued one lac Equity shares of ₹ 10 each at par and 30,000, 9% Debentures of ₹ 50 each, both were fully subscribed. It purchased Plant and Machinery for worth ₹ 15 lac and goods for trading worth ₹ 12 lac @ ₹ 100 per unit. Estimated life of plant and machinery was 10 years with no scrap value. Goods were sold at Profit of 40% on selling price. Collection from Debtors outstanding as on 31.3.2008 amounted to ₹ 5 lac. Goods sold were replaced at a cost of ₹ 120 per unit, the number of units being the same. Trade Creditors outstanding as on 31.3.2008 were ₹ 3 lac. The replaced Goods were entirely in stock on 31.3.2008,

replacement cost of Goods was considered to be ₹ 140 per unit. Replacement cost of Machine was ₹ 20 lac as on 31.3.2008. Draft Profit and Loss Account and Replacement reserve on replacement cost basis. (8 marks)

Answer :

M/s P Ltd.
Profit & Loss A/c for the year ended 31st March, 2008.

Particulars		₹
Sales		20,00,000
Less:	Cost of Sales (W.N.1)	14,40,000
	Gross Profit	5,60,000
Less:	Depreciation (W.N.2)	1,75,000
	Profit Before Interest	3,85,000
Less:	Debentures Interest (W.N.3)	1,35,000
	Profit After Depreciation and Interest	2,50,000

Replacement Reserve

	Realised Gain (₹)	Unrealised Gain (₹)
Stock:		
Sold (₹ 14,40,000 – ₹ 12,00,000)	2,40,000	
Unsold goods [12,000 × (₹ 140 – ₹ 120)]		2,40,000
Plant & Machinery – Depreciation (₹ 1,75,000 – ₹ 1,50,000)	25,000	
Book Value of Asset [(₹ 20,00,000 – ₹ 2,00,000) – (₹ 15,00,000 – ₹ 1,50,000)]		4,50,000
	2,65,000	6,90,000

Replacement Reserve = ₹ 2,65,000 + ₹ 6,90,000 = ₹ 9,55,000

Working Notes :

1. **Sales & Cost of Sales**

   Sale Price @ 40% Profit on Selling Price

   $= ₹\ 12,00,000 \times \frac{100}{60} = ₹\ 20,00,000$

   Cost of Sales = 12,000 × ₹ 120 = ₹ 14,40,000

2. **Depreciation under Replacement Cost Basis**
Under Replacement cost Basis, depreciation is calculated on average basis which can be shown as follows = $\frac{₹15,00,000 + ₹20,00,000}{2}$

= ₹ 17,50,000
= 10% of ₹ 17,50,000 = ₹ 1,75,000

3. **Debentures Interest**
₹ 30,000 × ₹ 50 × 9%
= ₹ 1,35,000

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

	(₹ 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.

Question Based on AS - 16

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

(b) Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4. 2008 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalised ₹ 19.50 crores for the accounting period ending on 31.3.2009. Due to surplus fund out of ₹ 150 crores, an income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard. (4 marks)

Answer :

As per AS 16 Borrowing costs', "to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The

capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period., other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Rainbow Ltd. is incorrect.

The amount of borrowing costs capitalized for the financial year 2008-2009 should be calculated as follows:

Actual interest for 2008-2009 (11% of ₹ 150 crores)	₹ 16.50 crores
Less : Income on temporary investment from specific borrowings	₹ 3.50 crores
Borrowing costs to be capitalized during year 2008-2009	₹ 13.00 crores

Question Based on AS - 19

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

(c) Suraj Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd. for a lease rental for ₹ 3 lakhs p.a. payable in arrears and that implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise.

(4 marks)

Answer :

As per AS 19 Leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of Interest is given at 15%.

The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as follows:

Annuity Factor (Year 1 to year 5)	3.36 (approx.)
Present value of minimum lease payments (for ₹ 3 lakhs each year)	₹ 10.08 lakhs (approx.)

Thus, present value of minimum lease payments is ₹ 10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even. If title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Note : For the computation of present value of minimum lease payments, the discounting rate is the interest rate implicit in the lease, which is calculated by using this formula.

$$D.F. = \frac{1}{(1+r)^n}$$

Question Based on AS - 22

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

(d) Omega Limited is working on different projects those are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statement during 2006, 2007 and 2008 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2006, 2007 and 2008 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2006, 2007 and 2008.

(4 marks)

Answer:

Omega Limited

Calculation of deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2006	11,00,000	7,00,000	4,00,000	1,40,000
2007	16,00,000	18,00,00	2,00,000	70,000
2008	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

Question Based on AS - 4

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

(e) While preparing its final accounts for the year ended 31st March, 2009, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2009, a debtor for 2 lakhs had suffered heavy loss due to a earthquake. The loss was not covered by any insurance policy. In April,2009, the debtor became bankrupt. Can the company provide for full loss arising out of insolvency of debtor in the final accounts for year ended 31st March, 2009? (4 marks)

Answer:

According to AS 4 Contingencies and Events occurring after the Balance Sheet Date', assets and liabilities should be adjusted for events occurring after the date of balance sheet, that provide additional evidence to assist estimation of amounts relating to conditions existing at the Balance Sheet Date. Therefore, in the given case, full provision for bad debt amounting ₹ 2 lakhs should be made to cover the loss arising due to insolvency in the final accounts for the year ended 31st March, 2009 as earthquake took place before the balance sheet date.

2009 - Nov [1] (a) The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.09, calculate the actual return on Plan assets:

—	Benefits Paid	2,00,000
—	Employer contribution	2,80,000
—	Fair market value of plan assets on 31.03.09	11,40,000
—	Fair market value of plan asset as on 31.03.08	8,00,000

(5 marks)

Answer :

		₹ in lacs
Fair value of plan assets on 31.03.08		8.00
Add: Employer contribution		2.80
Less: Benefits paid		2.00
	(A)	8.80
Fair market value of plan assets at	(B)	11.40
Actual return on plan assets	(B-A)	2.60

Question Based on AS - 2

2009 - Nov [1] (b) U.S.A. Ltd. purchased raw material @ ₹ 400 per kg. company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year company is having 10000 kg. of raw material in stock. As the company never sells the raw material, it does not know the selling price of raw material and hence can not calculate the realisable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is ₹ 300 per kg. How will you value the inventory of raw material? (5 marks)

Answer :

As per AS 2 (Revised) "Valuation of inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such a situation the replacement cost of the material may be the best available measure of their net realizable value.

There, in the case, USA Ltd. will value the stock of raw material at ₹ 30,00,000 (10,000 kg. @ ₹ 300 per kg.)

Question Based on AS - 9

2009 - Nov [1] (c) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of ₹ 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2009. On the same day Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at ₹ 10.80 lakhs on 1st August, 2009. State the treatment of this transaction in the financial statements of Moon Ltd. as on 31.03.09. The pre-determined re-selling price covers the holding cost of Sun Ltd. Give the Journal Entries as on 31.03.09 in the books of Moon Ltd. (5 marks)

Answer :
In the given case, Moon Ltd. concurrently agreed to repurchase the same good from Sun Ltd. on 1st Feb., 2009. Also the re-selling price is pre-determined and covers purchasing and holding costs of Sun Ltd. Hence, the transaction between Moon Ltd. and Sun Ltd. on 1st Feb., 2009 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakhs received by Moon Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

Journal Entries in the books of Moon Ltd.

Date	Particulars		***₹ in lakhs***	
10.02.09	Bank Account	Dr.	9.60	
	To Advance from Sun Ltd.			9.60
	(Being advance received from Sun Ltd. amounting (₹ 8 lakhs + 20% of ₹ 8 lakhs = 9.60 lakhs) under sale and re-purchase agreement)			
31.03.09	Financing Charges Account	Dr.	0.40	
	To Sun Ltd.			0.40
	(Financing charges for 2 months at ₹ 1.20 lakhs. (10.80 - 9.60) i.e. 1.2 lakhs x 2/6)			
31.03.09	Profit and Loss Account	Dr.	0.40	
	To Financing Charges Account			0.40
	(Being amount of finance charges transferred to P& L Account)			

The balance of Sun Ltd. account will be disclosed as an advance under the head liabilities in the balance sheet of Moon Ltd. as on 31st March, 2009.

Question Based on AS - 5

2009 - Nov [1] (d) XY Ltd. was making provisions for non-moving stocks based on no issues for the last 12 months upto 31.03.08. Based on technical evaluation the company wants to make provisions during the year 31.03.09.

Total value of stock - ₹ 150 lakhs.

Provisions required based on 12 months issue ₹ 4.0 lakhs.

Provisions required based on technical evaluation ₹ 3.20 lakhs.
Does this amount to change in accounting policy? Can the company change the method of provision? (5 marks)

Answer :
The decision of making provision for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy as per **AS 5 "Net Profit or loss for the Period, Prior items and Changes in Accounting Policies."** The method of estimating the amount of provision may be changed, in case, a more prudent estimate can be made by adopting the changed method.

In the given case, considering the total value of stock, the change in the amount of required provision of non-moving stock from ₹ 4.0 lakhs is also not material. The disclosure can be made for such change by way of notes to the accounts in the financial statements of XY Ltd. for the year ending on 31.03.09, in the following manner.

"The company has provided for non-moving stock on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous years, the profit for the year and the corresponding effect on the year end, net assets would have been higher by ₹ 0.80 lakhs".

Question Based on AS - 20

2009 - Nov [6] (d) From the following information compute diluted earnings per share.

Net profit for the year 2008	₹ 12,00,000
Weighted average number of equity shares outstanding during the year 2008	5,00,000 shares
Average fair value of one equity share during the year 2008	₹ 20
Weighted average number of shares under option during the year 2008	1,00,000 shares
Exercise price per share under option during the year 2008	₹ 15

(4 marks)

Answer :

Journal Entries in the books of H Ltd.
computation of diluted earnings per share

Earnings		Shares ₹	Earning per share ₹
Net profit for the year 2008	12,00,000	5,00,000	2.40
Weighted average number of equity shares outstanding during the year 2008			
Basic earnings per share			
(1,20,00,000/5,00,000)		1,00,000	
Weighted average number of shares under option			
Number of shares that would have been issued			
at fair value (1,00,000 × 15.00)/20.00)		(75,000)	
Diluted earnings per share			
(12,00,000/5,25,000)	12,00,000	5,25,000	2.29

The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of computation to have been issued for no consideration as per (para 37 (b) of AS 20)

Question Based on AS - 11

2010 - May [1] (a) 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. (5 marks)

Answer :

It is apparent from the facts given in the question that Mr. A entered into forward exchange contract for speculation purpose according to paragraphs 38 and 39 of AS 11(Revised). The Effects of Changes in Foreign Exchange

Rates', gain or loss on forward exchange contracts intended for trading or speculation purpose should be computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period).The gain or loss so computed should be recognised in the statement of profit and loss for the period and the premium or discount on the forward exchange contact is ignored and not recognised separately. In recording such contract, at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.
Thus, the premium on contract i.e., the difference between the contract rate and the spot rate amounting ₹ 8,000 [US$ 1,00,000 x (₹ 47.10- ₹ 47.02)] will be ignored and not be recorded in the books. However ,the profit on contract i.e the difference between the sale rate and contract rate amounting ₹ 8,000 (US$ 1,00,000 x 0.08* (₹ 47.18- ₹ 47.10)] will be recognized in the books of Mr. A on 31st January.

Question Based on AS - 29

2010 - May [1] (b) Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2009-10 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2010-11 financial year. In case of failure of Sun Ltd. to deliver within the schedule a compensation of ₹ 1.5 crore is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of the 2009-10 financial year. As on Balance Sheet date (31.3.2010), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS-29?
(ii) Should provision is measured as the excess of compensation to be paid over the profit ? (5 marks)

Answer :

(i) **AS 29 (Revised) "Provisions, Contingent Liabilities and Contingent Assets"** provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is possible that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.

(ii) Provisions should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31 st March,2010 and no profit had accrued for the financial year 2009-2010. Therefore, provision should be made for the full amount of compensation amounting ₹ 1.50 crores.

Question Based on AS - 16

2010 - May [1] (c) Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2009 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant of Rainbow Ltd., capitalised interest of ₹ 19.50 crores for the accounting period ending on 31.3.2010. Due to surplus fund out of ₹ 150 crores, an income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard. (5 marks)

Answer :

Para 10 of the AS 16 'Borrowing Cost' states, "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowing". The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. In the given case, the amount of ₹ 150 crores was specifically borrowed for construction of boiler plant.

Therefore, treatment of accountant of Rainbow Ltd. is not correct and the amount of borrowing costs to be capitalised for the financial year 2009-10 **should be calculated as follows :**

	₹ (in crores)
Interest paid for 2009-10 (11% on ₹ 150 crores)	16.50
Less: Income on temporary investment from specific borrowings	3.50
Borrowing costs to be capitalised during 2009-10	13.00

KZ - 7	**Knowledge Zone**
Difference between IAS 23 and AS 16	
IAS 23	**AS 16**
Meaning of substantial period of time and treatment of exchange difference has been excluded.	Meaning of substantial period of time and treatment of exchange difference has been included.
When IAS 29 on hyper inflation is applied then part of the borrowing cost that compensate for inflation should be transferred to P&L A/c.	There is no such clarification.
Require disclosure of capitalisation rate.	There are no such requirements.

Question Based on AS - 22

2010 - May [1] (d) 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. (5 marks)

Answer :

As per Accounting Standard Interpretation (ASI) 5 "Accounting for Taxes on Income in the situations of Tax Holiday under sections 10A and 10B of the Income-Tax Act,1961, Accounting standard (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 ₹ 200 lakhs depreciation timing difference, amount of ₹ 80 lakhs (₹ 10 lakhs × 8 years) will reverse in the tax holiday period and therefore, should not be recognised. However, for ₹ 120 lakhs (₹ 200 lakhs - ₹ 80 lakhs), deferred tax liability will be recognised for ₹ 48 lakhs (40% of ₹ 120 lakhs) in first year. In the second year, the entire amount of timing difference of ₹ 400 lakhs will reverse only after tax holiday period and hence, will be recognised in full. Deferred tax liability amounting ₹ 160 lakhs (40% of ₹ 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 ₹ 208 lakhs (48 lakhs + 160 lakhs).

KZ - 8	**Knowledge Zone**
Difference between IAS 12 and AS 22	
IAS 12	**AS 22**
It is based on balance sheet approach.	It is based on income statement approach.
It shows more disclosure.	It gives less disclosure.
Concept of virtual certainty and convincing evidence included.	Concept of virtual certainty and convincing evidence excluded.
It provide guidance as to how and entity should account for the tax consequences of a change in its tax status or that of its shareholder.	Such points are not considered.
Disclosure of DTA/DTL is not required	Disclosure of DTA/ DTL is required.

because it is as per Ind AS 1.	
If any tax consequences of item outside the profit/loss are dealt in statement of comprehensive income.	Such point is not considered.

Question Based on AS - 2

2010 - Nov [1] {C} (a) Night Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Night Limited. While leaving the bars, the consumers leave the empty bottles in the bars 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 :

(i) Decide whether the stock of empty bottles is an asset of the company;

(ii) If so, whether the stock 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'? (5 marks)

Answer :

(i) Tangible objects or intangible rights having probable future benefits, owned by an enterprise are called assets. In this case Night 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.

(ii) **According to AS 2 "Valuation of Inventories",** inventories are assets held for sale in the ordinary course of business. Stock of empty bottles existing on the Balance Sheet date is the inventory and Night Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality. Therefore stock of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Question Based on AS - 4

2010 - Nov [1] {C} (b) AS-4 prescribes that adjustments to assets and liabilities are required for events occurring after the Balance Sheet date that provide additional information materially affecting the determination of the amount relating to conditions existing at the Balance Sheet date-generally called adjusting events. "Proposed Dividend" is shown and adjusted in the Balance Sheet even if it is not an adjusting event as per AS-4 because it is proposed by the Board of Directors of the company after the Balance Sheet date.

Keeping this in view, is it not violation of AS-4 to show proposed dividends as current liabilities and provisions ? Comment. (5 marks)

Answer :

According to AS 4 "Contingencies and Events occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. On the basis of such provisions, proposed dividend is not an adjusting event.

However Schedule III of the Companies Act, 2013 prescribes that proposed dividend should be shown under the heading 'Current Liabilities and Provisions', but, Para 8.5 of the AS-4 (Revised) states that there are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Thus if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.

Hence, it is violation of AS-4 to show proposed dividend as current liabilities and provisions.

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

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 :

According to 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 is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In the given case, Net selling Price = selling price - Cost of disposal = Nil - 70,000 = (70,000) and its value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In the given case, value in use is nil. In the given problem, recoverable amount will be nil [higher of value in use (nil) and net selling price (₹ 70,000)]. Therefore impairment loss will be determined as ₹ 6,00,000 [carrying amount (₹ 6,00,000) – recoverable amount (nil)]. Hence, 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 According to AS 28.

Question Based on AS - 19

2010 - Nov [7] Answer the following :

(e) 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. (4 marks)

Answer :

- As per AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease.
- Whereas, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.
- In computing the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment	Internal rate of return (Discount rate @ 5%)	Present value
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000	0.5718	4,28,850
	Net Total 26,25,000		18,55,850

Note :

1. Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the lease liability should be recognized at ₹ 18,55,850 according to AS19.
2. Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹ 1,25,000.

KZ - 9	Knowledge Zone
Difference between AS - 19 and IAS - 17	
AS 19	**IAS 17**
Surplus in case of sale lease back classified as finance lease shall be deferred but amortisation principle is given i.e. in the ratio of depreciation.	Surplus in case of sale lease back classified as finance lease shall be deferred but amortisation principle is not given.
It does not include lease land.	Includes provision in respect of lease land.
Meaning of residual value included.	Meaning of residual value excluded.
Initial direct cost is not defined.	Initial direct cost is defined.
Does not distinguish inception of lease and commencement of lease.	Distinguish inception of lease and commencement of lease.

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

Question Based on Guidance Note - 12

2011 - May [1] {C} (c) HSL Ltd., is manufacturing goods for local sale and exports. As on 31st March, 2010, it has the following finished stock in the factory warehouse:

(i) Goods meant for local sales ₹ 100 lakhs (cost ₹ 75 lakhs)

(ii) Goods meant for exports ₹ 50 lakhs (cost ₹ 20 lakhs)

Excise duty is payable at the rate of 12%. The company's Managing Director says that excise duty is payable only on clearance of goods and hence not a cost. Please advice HSL using guidance note, if any issued on this, including valuation of stock. (5 marks)

Answer :

As per Central Excise Rules, 2002, excise duty is levied upon the manufacture or production of goods. However, it is collected only at the time of removal of goods from factory premises of factory warehouse.

Guidance Note on 'Accounting Treatment for Excise Duty' says that excise duty is a duty on manufacture or production of excisable goods in India.

As explained in the Guidance Note, the liability for excise duty arises at the point of time at which the manufacture is completed. The excise duty paid or provided on finished goods should, therefore, be included in inventory valuation.

Further, the Guidance Note states that excise duty should be considered as a manufacturing expense and like other manufacturing expenses are considered as an element of cost for the purpose of inventory valuation, excise duty should also be considered as an element of cost while valuing the inventory.

In the given case of HSL Ltd., the Managing Director's contention that "excise duty is payable only of clearance of goods and hence is not a cost" is incorrect. Excise duty on the goods meant for local sales should be provided for at the rate of 12% on the selling price, that is on ₹ 100 lakhs for valuation of stock.

Excise duty on goods meant for exports, should also be provided for, since the liability for excise duty arises when the manufacture of the goods is completed. However, if it is assumed that all the conditions specified in Rule 19 of the Central Excise Rules, 2002 regarding export of excisable goods without payment of duty are fulfilled by HSL Ltd. excise duty may not be provided for.

Question Based on AS - 22

2011 - May [1] {C} (d) Rama Ltd. has provided the following information:

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 recognized as transition adjustment? Tax rate 50%. (5 marks)

Answer :

Table showing calculation of Deferred tax asset/liability.

Particulars	Amount ₹	Timing diffe-rences	Deferred tax	Amount @50% ₹
Excess depreciation as per tax records (5,00,000 - 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

Question Based on AS - 2

2011 - May [7] Answer the following :

(a) Anil Pharma Ltd. ordered 16,000 kg of certain material at ₹ 160 per unit. The purchase price includes excise duty ₹ 10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS-2 and amount of abnormal loss. (4 marks)

Answer: **Calculation of total cost of material**

Particulars	₹
Purchase price (16,000 kg. x ₹ 160)	25,60,000
Less: CENVAT credit (16,000 kg. x ₹ 10)	(1,60,000)
	24,00,000
Add: Freight	1,40,160
Total material cost	25,40,160
Number of units after normal loss = 16,000 kg. x (100 - 2)% = 15,680 kg.	
Revised cost per kg. = $\frac{25,40,160}{15,680 \text{ kg}}$ = ₹ 162	
Closing inventory = Material actually received - Material consumed = 15,500 kg.- 13,600 kg = 1,900 kg	

Value of closing stock = 1,900 kg x ₹ 162 = ₹ 3,07,800 Abnormal loss in kg. = 15,680 kg. - 15,500 kg = 180 kg. Abnormal loss in value = 180 kg x ₹ 162 = ₹ 29,160	

Question Based on AS - 7

2011 - May [7] Answer the following:

(b) Jain Construction Co. Ltd. undertook a contract on 1st January, 2010 to construct a building for ₹ 80 lakhs. The company found on 31st March, 2010 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000.

What amount should be charged to revenue and what amount of contract value to be recognized as turnover in the final accounts for the year ended 31st March, 2010 as per provisions of AS-7 (revised)?

(4 marks)

Answer :

Particulars	₹
Cost incurred till 31st March, 2010	58,50,000
Prudent estimate of additional cost for completion	31,50,000
Total cost of construction	90,00,000
Less: Contract price	(80,00,000)
Total foreseeable loss	10,00,000

As per para 35 of AS 7 (Revised) Construction Contracts when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Accordingly, the loss of ₹ 10,00,000 is required to be recognized as an expense in the year 2009-10.

Also as per para 21 of the said standard when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

Accordingly,

$$\text{Contract work in progress} = \frac{58,50,00,000 \times 100}{90,00,000} = 65\%$$

Proportion of total contract value to be recognized as turnover
= 65% of ₹ 80,00,000 = ₹ 52,00,000

KZ - 10 **Knowledge Zone**

When the outcome of the contract cannot be reliably measured:
When the outcome of the contract cannot be reliably measured recognition of the revenues and costs is accounted as follows:

- revenue should be recognised only to the extent of costs incurred, and of which, recovery is certain.
- costs should be expensed in the year in which costs are incurred.

Accounting for Expected Loss
When it is probable that the total contract costs exceeds contract revenue the difference of expected loss has to be charged to Profit and Loss Account. 100% expected loss has to be accounted for. Such expected loss has to be expensed irrespective of :

(i) Progress payments received.
(ii) Percentage (%) of work completed.
(iii) Profits on other contract

Expected Loss to be expensed = [Cost incurred to date + Estimated cost to complete] - Total Revenue

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. Therefore, 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.

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 $= \dfrac{\textbf{Estimated Annual Tax}}{\textbf{Estimated Annual Income}}$

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

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

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 :

		(₹ 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 [$\frac{7 \text{ crores}}{7 \text{ years}} \times 4$ 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 [$\frac{5.10 \text{ crores}}{3 \text{ years}} \times 2$ 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)	(0.70)
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"		
Impairment Loss to be debited to profit and loss account		0.21

KZ - 11 **Knowledge Zone**

Difference between AS - 28 and IAS - 36

AS 28	IAS 36
It include biological assets.	It exclude biological assets.
No requirement of annual impairment unless indicator of impairment is available.	Impairment is required for intangible assets within indefinite useful life or not yet available for use and goodwill acquired in business combination.
Less disclosure is required.	More Disclosure is required.
No additional guidance is given.	Additional guidance for value in use estimation.

Question Based on AS - 16 and AS - 11

2012 - May [1] {C} (a) Sun Co-operative Society Ltd. has borrowed a sum of US$ 12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank offered rate of 1%) + 4%. The interest is payable at the end of the respective financial year. The loan was availed at the then rate of ₹ 45 to the US dollar while the rate as on 31st March 2012 is ₹ 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute 'Borrowing Cost' also showing the amount of exchange difference as per prevailing Accounting Standards. (5 marks)

Answer :

Computation of Borrowing Cost as per AS 16" Borrowing Costs" and Amount of Exchange Difference as per AS 11. "The Effects of Changes in Foreign Exchange Rates":

(a)	Interest for the period 2011-12	=	US$ 12.5 million × 5% × ₹ 48 per US$ = ₹ 30 million
(b)	Increase in the liability towards the principal amount	=	US$ 12.5 million × ₹ (48 - 45) = ₹ 37.5 million
(c)	Interest that would have resulted if the loan was taken in Indian currency	=	US$ 12.5 million × ₹ 45 × 11% = ₹ 61.875 million
(d)	Difference between interest on local currency borrowing and foreign currency borrowing	=	₹ 61.875 million - ₹ 30 million = ₹ 31.875 million.

- Therefore, out of ₹ 37.5 million increase in the liability towards principal amount, only ₹ 31.875 million will be considered as the borrowing cost.
- Thus, total borrowing cost would be ₹ 61.875 million being the aggregate of interest of ₹ 30 million on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 31.875 million.
- Therefore, ₹ 61.875 million would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 5.625 million (37.5 - 31.875) would be considered as the exchange difference to be accounted for as per AS 11.

Question Based on AS - 22

2012 - May [1] {C} (b) Acute Ltd. is the owner of a CGU (Cash Generating Unit) block of assets whose current carrying cost is ₹ 999 lakhs. The company, after a detailed study by its technical team, has assessed the present recoverable amount of this CGU block of assets is ₹ 555 lakhs. The value of the block of assets as per the Income tax Records is ₹ 777 lakhs. The Board of Directors of the company have issued a signed statement confirming that the impairment in the value of the CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of

taxable incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the tax rate of 30% plus 10% surcharge thereon. The depreciation rate for tax purposes is 15% and that per books is 13.91%. (5 marks)

Answer :

Assumption:

(i) It is assumed that current carrying cost of the CGU block of asset as per Accounting and Tax Records are after charging depreciation of the current year.

(ii) The assumption has been taken on the basis that impairment loss is calculated on carrying value after charging depreciation of the year.

(iii) In the absence of specific instructions. deferred tax workings of current year have been shown as below:

Statement showing Deferred Tax workings for the current year

Particulars	₹ in lakhs
Depreciation as per Accounting books for the current year $\frac{999}{(1-.1391)}$ X .1391	161.41
Depreciation as per Income Tax Records for the current year $\frac{777}{(1-.15)}$ X .15	137.12
Timing difference	24.29
Tax effect of the above timing difference at 33%* (deferred tax asset) (A)	8.02
Impairment Loss recognised in the profit and loss account (999 - 555)	444
Impairment Loss allowed for tax purposes	Nil
Timing difference	444
Tax effect of the above timing difference at 33% (deferred tax asset) (B)	146.52
Total deferred tax asset (A + B)	154.54

Note

- Deferred tax asset should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred text asset can be realised.
- The Board of Directors of Acute Ltd. have issued signed statement confirming virtual certainty of taxable incomes in the foreseeable future.

- Therefore, the company can recognize deferred tax asset during the current year.
- The deferred tax asset calculated on account of difference of depreciation as per accounting and tax records is actually a reversal of deferred tax liability created in the previous years.

  * **Tax rate :** 30% x 110% = 33%.

Question Based on AS - 7

2012 - May [1] {C} (c) PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2012. Using this data and applying the relevant Accounting Standard you are required to:

(i) Compute the amount of profit/loss for year ended 31st March, 2012.
(ii) Arrive at the contract work in progress as at the end of financial year 2011-12.
(iii) Determine the amount of revenue to be recognized out of the total contract value.
(iv) Work out the amount due from/to customers as at year end.
(v) List down relevant disclosures with figures as per relevant Accounting Standard.

	(₹ Crore)
Total Contact Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

(5 marks)

Answer :

(i) Calculation of profit/loss for the year ended 31st March, 2012	*(₹ in crores)*
Total estimated cost of construction (1,250 + 250 +1,750)	3,250
Less: Total contract price	(2,400)
Total foreseeable loss to be recognized as expense	850

According to AS 7 (Revised 2002) "Construction Contracts" when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(ii) Contract work-in-progress i.e. cost incurred to date	**(₹ in crores)**
Work certified	1,250
Work not certified	250
	1,500

(iii) Proportion of total contract value recognised as revenue

Percentage of completion of contract to total estimated cost of construction = (1,500/3,250) × 100 = 46.15%

Revenue to be recognized till date = 46.15% of ₹ 2,400 crores = ₹ 1,107.60 crores.

(iv) Amount due from / to customers = Contract costs + Recognised profits - Recognised losses - (Progress payments received + Progress payments to be received)

= ₹ [1,500 + Nil - 850 - (1,100 + 300)] crores

= ₹ [1,500 - 850 -1,400] crores

Amount due to customers (shown as liability) = ₹ 750 crores.

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

	(₹ in crores)
Contract revenue till 31st March, 2012	1,107.60
Contract expenses till 31st March, 2012	1,500.00
Recognized losses for the year 31st March, 2012	(850)
Progress billings ₹ (1,100 + 300)	1,400
Retentions (billed but not received from contractee)	300
Gross amount due to customers	750

KZ - 12 **Knowledge Zone**

AS - 7

Stage of completion method (%) is calculated without taking into effect the inflation. In other words Stage of completion method (%) is calculated based on original estimates.

Some important points:

- Estimated costs to complete require a proper adjustment to be made for expected increase/decrease in prices or changes in foreign exchange rates. Adjustment should also be made for any delay that may arise out of labour problems. Estimated costs have to be updated quarterly in case of listed companies.
- Revenue is not based on progress payments or advances received.
- Any contract costs which are not utilized at the balance sheet date (closing stock of materials) should not be expensed but shown as an asset. It is also known as contract costs for future activity (WIP.)

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 per 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.
- 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.

Question Based on AS - 3

2012 - May [7] Answer the following:

(a) Bellhop LLC submits the following information pertaining to year 2011. Using the data, you are required to find the ending cash and Bank balances given an opening figure thereof was ₹ 1.55 million.

	(₹ millions)
Additional shares issued	6.50
CAPEX (Capital expenditure)	9.90
Proceeds from Assets sold	1.60
Dividends declared	0.50
Gains from disposal of Assets	(1.20)
Net Income	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation & Amortization	0.75

(4 marks)

Answer :

Bellhop LLC

Cash Flow Statement for the year ended 31st March, 2011

	₹ in millions	**₹ in millions**
Cash flows from operating activities		
Net income	3.30	
Add: Depreciation & amortization	0.75	
Loss from disposal of assets	1.20	
Less: Increase in accounts receivables	(1.50)	
Net cash generated from operating activities		3.75
Cash flows from investing activities		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	1.60	
Net cash used in investing activities		(8.30)
Cash flows from financing activities		
Proceeds from issuance of additional shares		
Dividend declared	6.50	

Redemption of 4.5% debentures	(0.50)	
Net cash generated from financing activities	(2.50)	
Net decrease in cash		3.50
Cash at beginning of the period		(1.05)
Cash at end of the period (Balancing figure)		1.55
		0.50

Note: Since, in this question it is not specifying to use Cash Flow Statement for finding the closing cash balance, therefore, one can prepare cash and bank account for calculation of closing cash and bank balance.

Question Based on AS - 20

2012 - May [7] Answer the following:

(b) From the information furnished you are required to compute the Basic and Diluted EPS (earnings per share) for accounting year 01-04-2011 to 31-03-2012 and adjusted EPS for the year 01-04-2010 to 31-03-2011.

Net profit for year ended 31-03-2011	₹ 75,50,000
Net profit for year ended 31-03-2012	₹ 1,00,25,000
No. of Equity shares as on 01-04-2011	50,00,250
Bonus issue on 01-01-2012	1 share for every 2 held
No. of 12% Convertible Debentures of ₹ 100 each issued on 01-01-2012	1,00,000
Conversion Ratio of Debentures	10 shares per debentures
Tax Rate	30 percent

(4 marks)

Answer :

No. of Bonus shares issued as on 1.1.2012

On existing shares (50,00,250 × ½) 25,00,125 shares

On convertible debentures as per SEBI Guidelines on Bonus Issue
(1,00,000 debentures × 10 shares × ½) 5,00,000 shares

Basic Earnings per share for the year 2011-12

$$= \frac{\textbf{Net profit for the year ended 31.3.2012}}{\textbf{Weighted average number ofequity share as on 31.3.2012}}$$

$$\frac{₹\ 1,00,25,000}{(50,00,250 + 25,00,125 + 5,00,000)} = ₹\ 1.25$$

Adjusted earnings per share for the year 2010-11

$$= \frac{\text{₹ } 75,50,000}{(50,00,250 + 25,00,125 + 5,00,000)} = \text{₹ } 0.94$$

For Diluted EPS

Interest expense for the current year = ₹ 12,00,000
Tax relating to interest expense (30%) = ₹ 3,60,000
Adjusted net profit for the current year = ₹ 1,00,25,000 + (12,00,000 - 3,60,000) × 3/12
= ₹ 1,02,35,000

No. of equity shares resulting from conversion of debentures
= 1,00,000 × 10 shares = 10,00,000

No. of equity shares used to compute diluted earnings per share
= 50,00,250 +25,00,125 + 5,00,000 + (10,00,000 × 3/12)
= 50,00,250 +25,00,125 + 5,00,000 + 2,50,000
= 82,50,375 shares

Diluted earnings per share =1,02,35,000/82,50,375 = ₹ 1.24

Note: According to AS 20, bonus shares issued to existing shareholders and to convertible debenture holders (on conversion of debentures into shares) are an issue without consideration. Hence, it is treated as if it had occurred prior to the beginning of the year 2010-11, the earliest period reported.

Question Based on AS - 5

2012 - May [7] Answer the following:

(c) X Limited was making provisions upto 31-3-2011 for non-moving stocks based on no issues for the last 12 months. Based on a technical evaluation the company wants to make provisions during the year 31-3-2012 in the following manner :

Total value of stock ₹ 3 crores.
Provision required based on 12 months ₹ 8 lakhs
Provision required based on technical evaluation ₹ 7.50 lakhs.
Does this amount to change in accounting policy?
Can the company change the method of provision? (4 marks)

Answer :

- Basis of provisioning whether on no issues or on technical evaluation is the basis of making estimates and cannot be considered as Accounting Policy.
- According to AS 5, due to uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated.
- The estimation process involves judgments based on the latest information available.
- An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.
- The basis of change in provisioning is a guideline and the better way of estimating the provision for non-moving stock on account of change. Therefore, it is not a change in accounting policy. Accounting policy is the valuation of inventory on cost or on net realizable value or on lower of cost or net realizable value. Any interchange of this valuation base would have constituted change in accounting policy.
- After word, the company should be able to demonstrate satisfactorily that having regard to circumstances provision made on the basis of technical evaluation provides more satisfactory results than provision based on 12 months issue. If that is the case, then the company can change the method of provision.

Question Based on AS - 16

2012 - May [7] Answer the following:

(d) X Limited began construction of a new plant on 1st April 2011 and obtained a special Loan of ₹ 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 percent per annum.

The expenditure that was made on the project of plant construction was as follows:

1-4-2011	-	10,00,000
1-8-2011	-	24,00,000
1-1-2012	-	4,00,000

The Company's other outstanding non specific loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2012. You are required to calculate the amount of interest to be capitalized as per the provision of AS-16 of the borrowing cost (including cost) (4 marks)

Answer :

(i) Calculation of average accumulated expenses

	₹
₹ 10,00,000 × 12/12 =	10,00,000
₹ 24,00,000 × 8/12 =	16,00,000
₹ 4,00,000 × 3/12 =	1,00,000
	27,00,000

(ii) Non-specific Borrowings

Non-specific Borrowings = Average accumulated capital expenses- Specific borrowings

= ₹ 27,00,000 - ₹ 8,00,000 = ₹ 19,00,000

(iii) Interest on average accumulated expenses

	₹
Specific borrowings(₹ 8,00,000 × 10%)	80,000
Non-specific borrowings (₹ 19,00,000 × 12%)	2,28,000
Amount of interest to be capitalized	3,08,000

(iv) Total expenses to be capitalized for Plant

	₹
Cost of plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalised	3,08,000
Total cost of plant	41,08,000

Question Based on AS - 13

2012 - May [7] Answer the following:

(e) X Limited on 1-1-2012 had made an investment of ₹ 600 lakhs in the equity shares of Y limited of which 50% is made in the long term category and the rest as temporary investment. The realisable value of all such

investment on 31-3-2012 become ₹ 200 lakhs as X limited lost a case of copy right. How will you recognize the reduction in financial statements for the year ended on 31-3-2012. (4 marks)

Answer :

- X limited invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of which, the company intends to hold 50% shares for long term i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Limited only for 3 months (from 1.1.2012 to 31.3.2012).
- AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.
- In the given problem, the realizable value of all such investments on 31.3.2012 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.
- According to AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.
- On the aforesaid basis, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be included in the profit and loss account.
- Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.
- In this case, Y Limited lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and shown the investments at ₹100 lakhs, considering the downfall in the value of shares as decline other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will be included in the profit and loss account.

Alternative approach for treatment of long term investment

If we assumes that the decline in the value of long term investment is temporary and Y Limited will overcome this downfall in short period by filing a case against this decision of government ,with strong arguments. In this case, long term investment will be shown at cost.

Question Based on AS - 19

2012 - Nov [1] {C} (a) Prakash Limited leased a machine to Badal Limited on the following terms:

		(₹ in lakhs)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

Ascertain Unearned Financial Income. (5 marks)

Answer:

According to AS 19 on Leases, **unearned finance income** is the difference between (a) the **gross investment** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(a) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(₹ 8,00,000 × 5 years) + ₹ 1,60,000] + ₹ 1,40,000 = ₹ 43,00,000 (a)

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV ₹		Internal rate of return (Discount factor @ 15%)	Present Value ₹
1	8,00,000		0.8696	6,95,680
2	8,00,000		0.7561	6,04,880
3	8,00,000		0.6575	5,26,000
4	8,00,000		0.5718	4,57,440
5	8,00,000		0.4972	3,97,760
	1,60,000	(GRV)	0.4972	79,552
	41,60,000			27,61,312 (i)
	1,40,000	(URV)	0.4972	69,608 (ii)
	43,00,000		(i) + (ii)	28,30,920 (b)

Unearned Finance Income (a) - (b) = ₹ 43,00,000 - ₹ 28,30,920 = ₹ 14,69,080.

Question Based on AS - 22

2012 - Nov [1] {C} (b) Goodwill Limited is a full tax free enterprise for the 1st 12 years of its existence and is in third year of operations. Depreciation timing difference resulting in a deferred tax liability in 1st, 2nd and 3rd year is ₹ 200 lakhs, ₹ 300 lakhs and ₹ 400 lakhs respectively. From the 4th year onwards, it is expected that the timing difference would reverse each year by ₹ 10 lakhs. Assuming tax rate @ 35%, find out the deferred tax liability at the end of 3rd year and any charge to the Profit and Loss Account. (5 marks)

Answer :

- **According to an explanation to AS 22, "Accounting for Taxes on Income",** in the case of tax free enterprises, no deferred tax liability is recognized, in respect of timing differences that originate and reverse in the tax holiday period. Deferred tax liability or asset is created in respect of timing differences that originate in a tax holiday period but are expected to reverse after the tax holiday period. For this purpose, adjustments are done in accordance with the FIFO method.

- Accordingly, depreciation timing difference of ₹ 90 lakhs (₹ 10 lakhs x 9 years) will reverse in the tax holiday period i.e. from 4th year to 12th year. Therefore, no deferred liability on ₹ 90 lakhs out of ₹ 200 lakhs, will be created. In the 1st year, deferred tax liability of ₹ 38.5 lakhs will be created @ 35% on ₹ 110 lakhs (₹ 200 lakhs - ₹ 90 lakhs) only.
- However, the entire depreciation timing difference of 2nd and 3rd year i.e. ₹ 300 lakhs and ₹ 400 lakhs will reverse only after the tax holiday period. So, deferred tax liability will be created in the 2nd year for ₹ 105 lakhs (₹ 300 x 35%) and in the 3rd year for ₹ 140 lakhs (₹ 400 x 35%).
- Therefore, total deferred tax liability in the Balance Sheet at the end of 3rd year will be ₹ (38.5 + 105 + 140) lakhs = ₹ 283.5 lakhs and charge to Profit and Loss account in the 3rd year will be ₹ 140 lakhs (₹ 400 x 35%).

Question Based on AS - 2

2012 - Nov [1] {C} (c) In a manufacturing process of Vijoy Limited, 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	Unit	Amount (₹)	Output (Unit)	Closing stock as on 31-03-2012
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 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 25 per 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 was realised from sale of scrap.
Calculate the value of Closing Stock of MP1 and MP2 as on 31-03-2012.

(5 marks)

Answer :

As per para 10 of AS 2 (Revised) 'Valuation of Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

1. Calculation of net realizable value of by-product, BP

		₹
Selling price of by-product BP	(1,600 units x ₹ 25 per unit)	40,000
Less: Separate processing charges of by-product BP		(4,000)
Packing charges		(6,000)
Net realizable value of by-product BP		30,000

2. Calculation of cost of conversion for allocation between joint products MP1 and MP2

	₹	₹
Raw material		1,60,000
Wages		82,000
Fixed overhead		58,000
Variable overhead		40,000
		3,40,000
Less: NRV of by-product BP (See calculation1)	(30,000)	
Sale value of scrap	(6,000)	(36,000)
Joint cost to be allocated between MP1 and MP2		3,04,000

3. Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	MP1	**MP2**
Output in units (a)	6,250 units	5,000 units
Sales price per unit (b)	₹ 80	₹ 50
Sales value (a x b)	₹ 5,00,000	₹ 2,50,000
Ratio of allocation	2	1
Joint cost of ₹ 3,04,000 allocated in the ratio of 2:1 (c)	₹ 2,02,667	₹ 1,01,333
Cost per unit [c/a]	₹ 32.43	₹ 20.27

4. Determination of value of closing stock of MP1 and MP2

	MP1	MP2
Closing stock in units	800 units	200 units
Cost per unit	₹ 32.43	₹ 20.27
Value of closing stock	₹ 25,944	₹ 4,054

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)	(5)
Adjusted Profit before tax for the third quarter	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.

Question Based on AS - 18

2012 - Nov [7] Answer the following :

(b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS-18 on related party disclosures ? (4 marks)

Answer:

- P Ltd. has direct economic interest in R Ltd. to the extent of 14%, and through Q Ltd. (in which it is the majority shareholders) it has further control of 12% in R Ltd. (60% of Q Ltd.'s 20%). These two taken together (14% + 12%) make the total control of 26%.
- AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.
- Since, P Ltd. has total control of 26% (directly and indirectly by Q Ltd.) in R Ltd. which is less than half of the voting power of R Ltd., P Ltd. is said to have significant influence over R Ltd. Also it is given in the question that R Ltd. is a listed company and regularly supplies goods to P Ltd.
- Hence, related party disclosure, as per AS 18, is required by R Ltd. in its financial statements, in respect of goods supplied to P Ltd.

KZ - 13 **Knowledge Zone**

Difference between AS 18 and IAS 24

AS 18	IAS 24
State controlled entity means only Central and State.	State control enterprise means Government related entity whether local, national and International.
Word used relative of an individual.	Word used close member.
It does not require disclosures of Government related entity.	It requires disclosures of Government related entity.

It provides 20% threshold limit for associate and joint venture.	It does not clarify the extent of control for associate and Joint venture.
Does not cover under related party.	Post employment benefit of the employee of an entity is covered under related party.
KMP includes only individual.	Includes KMP of individual and parent.

Question Based on AS - 29

2012 - Nov [7] Answer the following :

(c) 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 2012, 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? (4 marks)

Answer :

- **According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets',** a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event.
- However, when environmental damage is caused there may be no obligation to remedy the consequences.
- The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted.
- In the given situation it is virtually certain that law will be enacted requiring clean-up of a land already contaminated.
- Therefore, an oil company has to provide for such clean up cost in the year in which the law is virtually certain to be enacted.

Question Based on AS - 2 and AS - 5

2012 - Nov [7] Answer the following :

(d) Vijaya Ltd. had to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the supplier's godown. Upto 2010-11, the company has regularly included such charges in the valuation of closing stock. This charge, being in the nature of interest, the company has decided to exclude it from closing stock valuation. This would result in decrease of profit by ₹ 8.60 lakhs.

What is the treatment in the Final Statement of accounts for the year ended 31.03.2012 ? Also draft a suitable note for disclosure. (4 marks)

Answer :

- **AS 5 (Revised) "Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies"** states that a change in an accounting policy should be made only if
  - (a) it is required by statute, or
  - (b) for compliance with an accounting standard, or
  - (c) if it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise.
- The change in the method of stock valuation is justified in view of the fact that the change is in line with the recommendations of AS 2 (Revised) 'Valuation of Inventories' and would result in more appropriate preparation of the financial statements.
- Accordingly, cost formula used for inventory valuation will exclude the delayed cotton clearing charges being in the nature of interest. Due to change in the cost formula, the value of inventory and resulting profit will decrease by ₹ 8.60 lakhs.

Disclosure :

- **As per AS 2,** the accounting policy adopted for valuation of inventories including the cost formula used should be disclosed in the financial statements by way of a note.

  Also, appropriate disclosure of the change and the amount by which any item in the financial statements is affected by such change, is necessary as per AS-1, AS 2 and AS 5.

- Therefore, the under mentioned note should be given in the annual accounts.
- "In compliance with the Accounting Standards issued by the ICAI, delayed cotton clearing charges which are in the nature of interest have been excluded from the valuation of closing stock unlike preceding years. Had the company continued the accounting practice followed earlier, the value of closing stock as well as profit before tax for the year would have been higher by ₹ 8.60 lakhs."

Question Based on AS - 10

2013 - May [1] {C} (a) J Ltd. purchased a machinery from K Ltd. on 31-08-2012. Quoted price was ₹ 275 lakhs. The vendor offers 2% trade discount. Sales tax on quoted price is 6%. J Ltd. spent ₹ 60,000 for transportation and ₹ 45,000 for architect's fees. They borrowed money from HDFC Bank of ₹ 250 lakhs for acquisition of asset @ 15% p.a. They also spent ₹ 15,000 for material, ₹ 10,000 for labour and ₹ 4,000 as overheads during trial run of the machine. The machine was ready for use on 15-01-2013 but it was put to use on 15-3-2013. Find out the original cost of the machine. Also suggest the accounting treatment for between the date, the machine was ready for use and the date at which it was actually put to use. (5 marks)

Answer:

(i) Original cost of the machinery:

Particulars	**Amount (₹)**
Quoted price	2,75,00,000
Less: Trade discount @ 2%	(5,50,000)
	2,69,50,000
Add: Sales Tax @ 6% on quoted price*	16,50,000
Transportation charges	60,000
Architect's Fees	45,000
Trial run expenses	
(Material ₹ 15,000 + Labour ₹ 10,000 + Overheads ₹ 4,000)	29,000

Note: *In general, sales tax is calculated on amount arrived at after deduction of trade discount. But, sales tax has been computed on the basis of the requirement of the question i.e. sales tax is calculated on quoted price.

Finance cost (15% on ₹ 250 lakhs for the 4.5 months i.e. for the period 01.9.12 to 15.1.13)	14,06,250
Total amount to be capitalised for machine	3,01,40,250

(ii) Cost incurred during the period between the date the machinery was ready for use and the actual date the machine was put to use:–
Finance cost amounting ₹ 6,25,000 i.e. 15% of ₹ 250 lakhs for 2 months i.e. for the period 15.01.2013 to 15.03.2013 shall be charged to statement of profit and loss as per AS 16 "Borrowing Costs".

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

Question Based on AS - 19

2013 - May [1] {C} (c) On 1st January, 2011 Santa Ltd. sold equipment for ₹ 6,14,460. The carrying amount of the equipment on that date was ₹ 1,00,000. The sale was a part of the package under which Banta Ltd. leased the asset to Santa Ltd. for Ten Year term. The economic life of the asset is estimated at 10 years. The minimum lease rents payable by the leaser has been fixed at ₹ 1,00,000 payable annually beginning 31st December, 2011. The incremental borrowing interest rate of Santa Ltd. is estimated at 10% p.a. Calculate the net effect on the profit and loss account. (5 marks)

Answer :

Net effect on the Statement of Profit and Loss of Santa Ltd. In the year of sale in the books of Lessee.

- For the computation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.
- The lease term is for 10 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the MLP (i.e. minimum lease payments) is ₹ 6,14,400 [₹ 1,00,000 × 6.144 (Annuity factor of ₹ 1 @ 10% for 10 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 6,14,460) of the leased equipment. ***Hence the lease is a finance lease.***
- According to AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 5,14,460 (Sale value ₹ 6,14,460 less carrying amount ₹ 1,00,000) will not be recognized as income in the year of sale in the books of lessee i.e. Santa Ltd.

- It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
- Thus, assuming that depreciation is charged on straight line basis, Santa Ltd. will recognize depreciation of ₹ 61,446 per annum for 10 years (₹ 6,14,460/10) and amortise profit of ₹ 5,14,460 over the lease term of 10 years, i.e. ₹ 51,446 p.a. The net effect is a debit of (₹ 61,446 – ₹ 51,446) ₹ 10,000 p.a. to the Statement of profit and loss, for 10 years as covered under the lease term.

Note: There is no sale and lease back transaction, the Statement of profit and loss for each year (covered in the lease term) would have been charged by (₹ 1,00,000/10) ₹ 10,000, towards depreciation. Therefore, the sale and lease back transaction will have no impact on profit or loss account to be reported by the lessee (vendor in the sales transaction) over the lease period.

Question Based on AS - 28

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

Particulars	(₹ in lakhs)
Purchase price of a fixed asset	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

Question Based on AS - 12

2013 - May [5] (b) On 1st April, 2011, the fair value of plan assets were ₹ 2,50,000 in respect of a pension plan of Q Ltd.

On 30th September, the plan paid out benefits of ₹ 47,500 and received further contribution of ₹ 1,22,500.

On 31st March, 2012, the fair value of plan asset was ₹ 3,75,000 and the present value of the benefit obligation was ₹ 3,69,800. Actuarial losses on the obligation for 2011-12 were ₹ 1,500.

On 1st April, 2011, the company had made the following estimates:

	Particulars	%
(i)	Interest and dividend income after tax payable by the fund	9.25
(ii)	Realised and un-realised gain on plan asset (after tax)	2.00
(iii)	Fund expenses.	(1.00)
	Expected rate of return	10.25

Find out the expected and unexpected return on plan assets. (6 marks)

Answer:

Computation of Expected and Unexpected Returns on Plan Assets

Particulars		Amount (₹)
Return on ₹ 2,50,000 held for 12 months at 10.25%		25,625
Return on ₹ 75,000 (1,22,500 - 47,500) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		3,750
Expected return on plan assets for 2011-12		29,375
Fair value of plan assets as on 31st March, 2012		3,75,000
Less: Fair value of plan assets as on 1st April, 2011	2,50,000	
Contributions received	1,22,500	(3,72,500)
		2,500
Add: Benefits paid		47,500
Actual return on plan assets		50,000

Unexpected Return on Plan Asset = Actual return – Expected return
= 50,000 – 29,375 = ₹ 20,625.

Question Based on AS - 20

2013 - May [7] Answer the following:

(b) From the following information relating to W Ltd., calculate diluted earnings per share as per AS-20.

(i)	Net profit for the current year	₹ 5,00,00,000
(ii)	Number of equity shares outstanding	1,00,00,000
(iii)	11% convertible debentures of ₹ 100 each (Nos.)	1,25,000
(iv)	Interest expenses for current year	₹ 13,75,000
(v)	Tax saving relating to interest expense	30%
(vi)	Each debentures is convertible into eight equity shares.	(4 marks)

Answer:

Adjusted net profit for the current year

Particulars	Amount (₹)
Net profit for the current year (assumed to be after tax)	5,00,00,000
Add: Interest expense for the current year	13,75,000
Less: Tax relating to interest expenses (30% of ₹ 13,75,000)	(4,12,500)
Adjusted net profit for the current year	5,09,62,500

Weighted Average Number of Equity Shares

Number of equity shares resulting from conversion of debentures:

1,25,000 debentures × 8 = 10,00,000 shares

Number of equity shares for computation of diluted EPS:

1,00,00,000 + 10,00,000 = 1,10,00,000 shares

Calculation of diluted earnings per share

$$\text{Diluted earnings per share} = \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

= (5,09,62,500/1,10,00,000 = ₹ 4.63 (approx.)

KZ - 14	**Knowledge Zone**
Difference between IAS-33 and AS-20	
IAS 33	**AS 20**
Deals with purchased option, written put option.	Does not deal.
Presentation of the EPS with continuing and discontinuing operation.	Such requirement is not required.
Concept of EOI has been withdrawn.	EPS shall be shown separately for EOI and without EOI separately.

Question Based on Guidance Note - 12

2013 - May [7] Answer the following:

(c) W Ltd. purchased machinery for ₹ 80 lakhs from X Ltd. during 2010-11 and installed the same immediately. Price includes excise duty of ₹ 8 lakhs. During the year 2010-11, the company produced excisable goods on which excise duty of ₹ 7.20 lakhs was charged.

Give necessary entries explaining the treatment of Cenvat Credit.

(4 marks)

Answer : **Journal Entries**

	Particulars		**₹ in lakhs**	
(a)	Machinery A/c	Dr.	72	
	Cenvat credit receivable on capital goods A/c	Dr.	8	
	To Bank A/c or Creditors A/c			80
	(Being capitalization of machinery)			

(b)	Excise duty A/c Dr.	7.2	
	To Cenvat credit receivable on capital goods A/c		4.0
	To Bank A/c		3.2
	(Being excise duty set off to the extent of 50% of excise duty paid in the first year of acquisition of capital asset)		

Question Based on AS - 29

2013 - May [7] Answer the following:

(e) Vishnu Company has at its financial year ended 31st March, 2013, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the possible outcomes as below:

Result	Probability	Amount of loss
For first ten cases:		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. (4 marks)

Answer :

In the given question:

- The probability of winning first 10 cases is 60% and for remaining five cases is 50%.
- In other words, probability of losing 10 cases and 5 cases is 40% and 50% respectively.

- According to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where it is not probable that a present obligation exists, an enterprise discloses a contingent liability.
- Since in the given case, chances of winning the case is more and losing the case is less, no provision will be recognized. In fact, it is a contingent loss/liability.
- The amount of contingent loss may be calculated as under:
- Expected contingent loss in first ten cases
  = [₹ 90,000 × 0.3 + ₹ 1,60,000 × 0.1] × 10 cases
  = [₹ 27,000 + ₹ 16,000] × 10 cases
  = ₹ 43,000 × 10 cases = ₹ 4,30,000
- Expected contingent loss in remaining five cases
  = [₹ 60,000 × 0.3 + ₹ 95,000 × 0.2] × 5 cases
  = [₹ 18,000 + ₹ 19,000] × 5 cases
  = ₹ 37,000 × 5 cases = ₹ 1,85,000
- Total contingent liability = ₹ 4,30,000 + ₹ 1,85,000
  = ₹ 6,15,000
- As enterprise should not recognise a contingent liability. For each class of contingent loss/liability at the balance sheet date, an enterprise should disclose, by way of a note, a brief description of the nature of the contingent liability.

Question Based on AS - 17

2013 - Nov [1] {C} (a) P Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and P Ltd. after several discussions with Labour unions have finally decided on closure of this segment. Under the agreement with the Labour Union the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:

(i) The value of gross obligations before the curtailment calculated on actuarial basis was ₹ 4,000 lakhs.
(ii) The value of Unamortized past service costs is ₹ 100 lakhs.
(iii) The Curtailment will bring down gross obligations by ₹ 500 lakhs and P Ltd. anticipates a proportional decline in the value of unamortized past service costs also.
(iv) The Fair Value of plan assets on date is estimated at ₹ 3,250 lakhs.

You are required to calculate the gain from curtailment and also show the liability lo be recognized in the Balance Sheet of P Ltd. after the curtailment.

(5 marks)

Answer:

Gain from curtailment

	₹ in lakhs
Reduction in gross obligation (12.5% of 4,000)	500.00
Less: Proportion of unamortised past service cost (12.5% of ₹ 100)	(12.50)
Gain from curtailment	487.50

The liability to be recognised after curtailment in the balance sheet of P Ltd. is estimated as under:

	₹
Reduced gross obligation (₹ 4,000 less ₹ 500)	3,500.00
Less: Fair value of plan assets	(3,250.00)
	250.00
Less: Unamortised past service cost (87.5% of ₹ 100)	(87.50)
Liability to be recognised in the balance sheet	162.50

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

Question Based on AS - 9

2013 - Nov [1] {C} (c) B Ltd. entered into an agreement on 1st March, 2013 to buy computer spares from S Ltd. at prevailing market price for ₹ 1200 lakhs on which S Ltd. made a profit of 20% and received full advance payment. The transaction was concluded on 15th March, 2013. On the same day S Ltd. agrees to buy on 15th Sept., 2013 the same goods from B Ltd. at 20% over cost. The 20% mark up compensates B Ltd. for its inventory holding costs till sale date. You are required to show how both the buyer & seller account for the above transaction in the year 2012-13 explaining in brief the justification for your treatment and also draft the Notes on Account on disclosure if any required in the annual accounts of year ended 31st March, 2013.

(5 marks)

Answer :

In the present case, S Ltd. concurrently agrees to repurchase the same goods from B Ltd. at a later date. Also, the repurchase price is predetermined and covers B Limited's purchasing and holding costs. Hence, the transaction between S Limited and B Limited on 15th March, 2013 should be accounted for as financing transaction rather than as sale. The resulting cash inflow of ₹ 1,200 lakhs is not revenue as per AS-9 'Revenue Recognition'.

Journal entries in the books of S Limited

Date	Particulars	₹ in lakhs	
15.3.2013	Bank A/c Dr.	1,200	
	To Advance from B Limited A/c		1,200
	(Being amount received from B Ltd. as per sale and repurchasing agreement)		
31.3.2013	Financing Charges A/c Dr.	20	
	To Advance from B Ltd. A/c		20
	(Financing Charges 20% of ₹ 1,200 lakhs for ½ month i.e. 240 × 0.5/6)		
31.3.2013	Profit and Loss A/c Dr.	20	
	To Financing Charges		20
	(Being amount transferred to profit and loss account)		

Disclosure in the Balance Sheet

1. **Balance Sheet of S Limited as on 31.3.2013 (Extract)**

Particulars	₹ in lakhs
Assets (Under the head "Current Assets")	
Short-term loans and advances	
Goods lying with B Limited (under sale and repurchase agreement)	1,000
Liabilities (under the head "Secured Loans")	
Advance from B Limited	1,200
Add: Accrued finance charges	20
	1,220

2. **Notes to accounts:**
   (i) Goods lying with B Limited costing ₹ 1,000 lakhs to be repurchased after 6 months at ₹ 1,440 lakhs.
   (ii) Goods sold to B Limited for ₹ 1,200 lakhs (cost ₹ 1,000 lakhs) on repurchase agreement. The difference between sale price and repurchase price is treated as financing charges and allocated proportionately in the current accounting period.

Journal entries in the Books of B Limited

Date	Particulars	₹ in lakhs	
15.3.2013	Advance from B Limited A/c Dr.	1,200	
	To Bank A/c		1,200
	(Being amount paid to S Ltd. as per sale and repurchase agreement)		
31.3.2013	Accrued Finance Income A/c Dr.	20	
	To Finance Income		20
	(Financing Charges 20% of ₹ 1,200 lakhs for ½ month i.e. 240 × 0.5/6)		
31.3.2013	Financing Income A/c Dr.	20	
	To Profit and Loss A/c		20
	(Being financing charges received transferred to profit and loss account)		

Disclosure in the Balance Sheet

1. **Balance sheet of B Ltd. as on 31.3.2013 (An Extract)**

   Assets (Under the head 'Current Assets')
   Short-term loans and advances
   Advance to S Ltd. (Under sale and repurchase agreement) ₹ 1,200 lakhs
   Accrued Finance Income ₹ 20 lakhs
   (This advance is fully secured by goods of S Ltd. Market value of ₹ 1,200 lakhs lying with company as security)

2. Notes to Account

₹ 1,200 lakhs paid to S Limited against the sale and repurchase agreement against the security of goods of S Limited whose market value is ₹ 1,200 Lakhs.

The transaction being in the nature of a financing arrangement is not recognized as a sale and hence the excess of repurchase price over sale price amounting to ₹ 240 lakhs have been treated as finance charges allocated proportionately between accounting periods 2012-13 and 2013-14. The value of the computer spares lying with B Ltd. on Balance Sheet date is considered as part of the company's inventory held as security for the financing obligation.

Question Based on AS - 17

2013 - Nov [1] {C} (d) Vintage Ltd. has been in the business of sale of Vintage Wines for the last 12 years and is an extremely cash rich company. In FY 2011-12 the Board of the company decided to venture into new areas of business and identified the activity of acquiring Vintage Properties such as old Bungalows, Heritage buildings and the like at prime locations and after carrying out renovation and refurbishment of the same to let out these properties on lease to willing parties. The new business was commenced as a separate division of the company in FY 2012-13 during which the company managed to identify 19 such properties of which 17 were acquired and 9 given on lease. Being the initial year of operations and also since some of the lease arrangements were entered into at the fag end of the year the income from leasing was only a paltry amount. After the acquisition of the properties as aforesaid very attractive offers for sale of 14 of the properties were received. Vintage Ltd. after negotiation accepted 12 of the offers and sold these 12 properties making large profits in the bargain. The accountant of Vintage Ltd. has accounted the acquisition and disposals of properties as 'Purchases' and 'Sales' in the Profit & Loss account of the Property Division and treated the lease incomes as part of the other income of the company. The contention of the accountant of Vintage Ltd. was that since a majority of the properties were disposed off within a short span of time, the properties are to be considered as stock in trade only. Further since the lease income was insignificant it does not

become the main source of income and hence considered as part of other income. You are required to examine the correctness of the contentions of the accountant of Vintage Ltd. considering the relevant Accounting Standards.

(5 marks)

Answer :

According to para 3 of AS 2 "Valuation of Inventories", inventories are assets that are (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

The properties acquired by Vintage Ltd. should not be construed as stock in trade inspite of the fact that they are being sold within a short span of time.

According to AS 10, Property, Plant and Equipment are tangible items that are held for use in production or supply of goods or services, for rental to others, or for administrative purpose and are expected to be used during more than a period of 12 months.

In the given question the acquisition of the heritage properties is done by the company with the intention to provide leasing of such property. Thus the company had an intention of generating income by leasing and not selling. Hence the sale of 12 properties can not be considered as normal business activity. Therefore the treatment of property as stock-in-trade is not fair and correct. As per AS-5, the purchase and sale in short span of time to earn huge profit will require disclosure. Thus income from leasing should be disclosed under the head 'Revenue from Operations'.

Question Based on AS - 19

2013 - Nov [7] (b) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is

10% you are required to compute the amount of the annual lease and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively. (4 marks)

Answer:

(i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.50 - ₹ 1,00,258.50)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 × 3)	19,30,500.00
Add: Unguaranteed residual value	1,33,500.00
Gross Investment in the lease	20,64,000.00
Less: Present value of Investment (lease payments and residual value) (₹ 1,00,258.50 + ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

Question Based on AS - 24

2013 - Nov [7] (c) Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner.

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

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

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner? (4 marks)

Answer :

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

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

(i) Gradual or evolutionary phasing out of a product line or class of service.

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

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

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

In view of the above the answers are:

(i) No. The companies strategic plan has no final approval from the board through a resolution and no specific time bound activities like shifting of Assets and employees and above all the new segment commercial vehicle production line and factory has started.

(ii) No. The resolution is salient about stoppage of the Car segment in definite time period. Though, some 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. Hence, AS-24 will not be applicable.

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

KZ - 15	Knowledge Zone
Difference between AS 24 and IFRS 5	
AS 24	**IFRS 5**
Non-current assets held for sale are treated as per other standards.	Non-current assets held for sale are measured at lower of carrying amount and fair value less cost to sale.
It deals with initial disclosure events in respect of discontinue operation.	Does not deal with the same as it relates to discontinued operations.
There is no guidelines in respect of measurement of changes to plan of sale.	Provides guidance regarding measurement of changes to plan of sale.
It does not deal with non-current assets held for disposal.	It also deals with non-current assets held for disposal.
Requirement related to Cash flow information are applicable when enterprise prepares CFS.	There is no such requirement.

Question Based on AS - 10 and AS - 12

2013 - Nov [7] (d) Grant Medicare Ltd. acquired 5 units of Brain Scan Equipment for US$ 5,00,000 in April 2010 incurring ₹ 20,00,000 on sea freight and US$ 12,000 per unit towards transit Insurance, bank charges etc. The purchase was partly funded out of the company's internal accruals and from Government Grant of ₹ 94 Lakhs. The prevailing exchange rate to the US$ was ₹ 50. The company estimated the useful life of the equipment at 4 years with an estimated salvage value of 13% (approx). The grant was considered as Deferred Income up to 2012-13 and in April 2013 the company had to return the entire grant received due to non fulfillment of certain conditions. You are required to show the depreciation and the grant that is to be recognized in the Profit & Loss accounts for the period commencing 2010-11 onwards and also draw up the entry that is passed in April 2013 for the return of the Grant. The Company follows the written down value method for depreciating its assets.

(4 marks)

Answer:

Statement showing annual depreciation and amount of Grant to be recognized in P&L A/c

(₹ in Lakhs)

Year	Value of asset	Depr. @ 40%	Closing Value	Deferred grant to be recognized 94 X dep. for the year/Total Depreciation
2010-11	300.00	120.00	180.00	43.20
2011-12	180.00	72.00	108.00	25.92
2012-13	108.00	43.20	64.80	15.55
2013-14	64.80	25.92	38.88	9.33
Total		261.12		94.00

The entries for depreciation & recognition of the grant will be as per the above table for the year 2010-11, 2011-12 & 2012-13.

The entry for the return of the Grant of ₹ 94 lakhs in April 2013 will be as under:

Deferred Grant Account Dr.	9.33	
Profit & Loss Account (43.20 + 25.92 + 15.55) Dr.	84.67	
To Bank		94.00

(Being the return of the Grant received in April 2010 due to non-fulfilment of conditions)

Working Note:

1. **Calculation of Revised Book Value of Machine as on 1st April, 2010**

Particulars	**(₹ in lakhs)**
Acquisition of 5 units of brain scan units [US $ 5,00,000 × ₹ 50]	250
Add: Sea Freight on the above units	20
Add: Transit insurance, Bank charges etc. paid ($ 12,000 × ₹ 50 × 5)	30
Total landed cost as on 1st April, 2010	300

2. **Calculation of WDV rate**

WDV rate of depreciation $= 1 - \sqrt[n]{\frac{\text{Residual value}}{\text{Cost of Assets}}} \times 100$

$= 1 - \sqrt[4]{\frac{39}{300}} \times 100 = 40\%$

Question Based on AS - 10

2013 - Nov [7] (e) Blow Glass Limited manufactures Glass Bottles of various sizes and shapes at its 3 manufacturing facilities in UP, Haryana and MP. The company follows the WDV method of depreciation for all assets at these units and at its corporate office. In 2013 May it acquired a new unit making plastic containers in Gujarat. The method of depreciation followed in the newly acquired unit was the SLM method for all its assets, till the unit was acquired by Blow Glass Ltd. The Chief Accountant of Blow Glass is of the view that since the company has adopted the WDV method at all its existing assets it is mandatory to follow the WDV method in respect of the new unit also, especially since the same class of assets exist at the existing units and new unit. You are requested to comment on the stand of the Chief Accountant. (4 marks)

Answer :

As per Para 5 of the Guidance Note on 'Accounting for Depreciation in Companies', company may adopt more than one method of depreciation. It is also permissible to follow different methods for different types of assets provided the same methods are consistently adopted from year to year. It is also permissible for a company to have different methods of depreciation for units at different locations provided consistency is maintained.

Hence, the view of the chief accountant that the company cannot follow SLM method of depreciation at the newly acquired unit is not correct and Blow Glass Ltd., can follow the SLM method of depreciation at the newly acquired unit.

2014 - May [1] {C} (a) An employee Roshan has joined a company XYZ Ltd. in the year 2013. 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 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.

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) (5 marks)

Answer:

Calculation of Defined Benefit Obligation

Expected last drawn salary = ₹14,90,210 x110% x 110% x110% x 110% x 110% = ₹ 24,00,000

Defined Benefit Obligation (DBO) = ₹ 24,00,000 x 25% x 5 = ₹ 30,00,000

Amount of ₹ 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

Calculation of Current Service Cost

Year	Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
a	b	c = b × 8%	d = b× c
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

Year	Opening balance	Interest cost	Current service cost	Closing balance
a	b	c = b × 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141
5	22,22,141	1,77,859	6,00,000	30,00,000

Question Based on AS - 29

2014 - May [1] {C} (b) Quick Ltd., is a company engaged in the trading of spare parts used in the repair of automobiles. The company has been regular in depositing the tax, as such there is no liability of Income Tax etc. for the Financial Year 2012-13.

The figures for the year are as under:

Income Chargeable to Tax	₹ 211.64 Lakhs
Total Income after Adjustments	₹ 228.48 Lakhs
Tax thereon	₹ 74.13 Lakhs
TDS deducted during the year	₹ 30.45 Lakhs
Tax paid for the year	₹ 43.68 Lakhs

The company has prepared its Balance Sheet as per above figures.

However during the assessment proceeding held before the finalization of the Balance Sheet the Income Tax Officer has issued demand of ₹ 7.52 Lakhs, insisting that this amount of TDS has not been uploaded online and thus is not acceptable as deduction.

The company has in reply to the same filed a rectification with the Assessing Officer. The company is trying to collect the TDS certificates, but ₹ 2.39 Lakhs deducted by XY LTD., is not traceable. The rectification is lying pending with the Assessing Officer.

Please suggest the treatment of ₹ 2.39 Lakhs and ₹ 7.52 Lakhs in Balance Sheet. (5 marks)

Answer :

According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a contingent liability is:

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:
   (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
   (ii) a reliable estimate of the amount of the obligation cannot be made.

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.

In the given question, TDS shall be allowed by the IT department on submission of duplicate TDS certificates. Since the company is making efforts and is hopeful for its ultimate collection, contingent liability will be made for ₹ 2.39 lakhs in the books of account. Further as per para 15 of the standard, where it is more likely that no present obligation exists at the balance sheet date and the possibility of an outflow of resources embodying economic benefits is remote, no contingent liability is disclosed.

TDS certificates for ₹ 5.13 lakhs (₹ 7.52 lakhs less ₹ 2.39 lakhs) have been submitted and the company has filed a rectification with the Assessing Officer. Therefore, the possibility of an outflow of resources embodying economic benefits is remote; the company shall not disclose it as contingent liability. This amount should be disclosed by way of a note to the accounts.

Question Based on AS - 10

2014 - May [1] {C} (c) Comptech Ltd. having office at Chennai, acquired a sophisticated three dimensional (3D) computer printer having all inclusive MRP (Maximum Retail Price) of ₹ 50 lakhs from a supplier located at New Delhi. The terms of the purchase were as under:

(i) The supplier would buy back the existing unit with Comptech that has carrying amount of ₹ 10.20 lakhs. Prevailing CST rate is 2%.

(ii) The supplier would give a special discount of 10% on MRP to Comptech considering their long standing relationship.

(iii) A cash payment of ₹ 38.25 lakhs would be made by Comptech Ltd. to the supplier.

(iv) Accessories required to operate the machine costing ₹ 7.60 lakhs (inclusive of all taxes) will be purchased by Comptech.

(v) The supplier will deliver free of cost certain heavy duty cables etc. having MRP of ₹ 5.75 lakhs, that are required to run the machine.

(vi) Transit insurance cost will be borne by Comptech @ 2% of MRP.

(vii) Freight and other incidentals amounting to ₹ 2.30 lakhs is borne by Comptech.

You are required to arrive at the cost of the new asset and show the profit/(loss) incurred by Comptech on the buy back arrangement and also draft the Journal Entries to record the above transaction. (5 marks)

Answer :

As per Para 26 of AS 10 (Revised), 'Property, Plant & Equipment' one or more items of property, plant and equipment may be acquired in exchange for a non - monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

In the given problem the FMV of the new machine is its MRP net of special concession given to the buyer.

Calculation of Cost of New Asset

Particulars	₹ in lakhs
MRP of Printer	50
Less: Special Discount 10% of MRP	5
	45
Add: Accessories	7.6
Add: Transit Insurance Cost (2% of 50 lakh)	1
Add: Freight and other incidental amount	2.30
	55.9

Calculation of P&L incurred on buy-back arrangement

Particulars	₹ in lakhs
Discounted price of new machine	45.00
Less: Cash portion thereof	38.25
FMV of old machine	6.75*
Less: Book value thereof	10.20
Loss on Buy back	3.45
* This includes CST of 2%. Thus the CST will be 6.75 × 2/102 = 0.13 lakh	

Journal Entries

Date	Particulars	Dr.(₹)	Cr.(₹)
	3D Computer Printer A/c Dr.	49.15	
	To Cash A/c		49.15
	(Being the expenses incurred for purchase of 3D computer- cash payment 38.25 + accessory 7.6 + insurance 1 and freight 2.3)		
	3D Computer Printer A/c Dr.	6.75	
	Loss on buy back of old machine A/c Dr.	3.45	
	To Old Machine A/c		10.20
	(Being the transfer of FMV of ₹ 6.75 lakhs of old machine to new printer under buy-back scheme and recognition of loss on buy-back)		

Note: It is assumed that the cash payment of ₹ 38.25 lakhs is the full and final payment.

2014 - May [1] {C} (d) Compute Basic and Adjusted Earnings per share from the following information:

Net Profit for 2012-13	₹ 22 lakhs
Net Profit for 2013-14	₹ 33 lakhs
No. of Shares before Rights Issue	1,10,000
Rights Issue Ratio	One for Every Four Held
Rights Issue Price	₹ 180
Date of Exercising Rights option	31-7-2013 (fully subscribed on this date)
Fair Value of Share before Rights Issue	₹ 270

All workings may be rounded off to two decimals. (5 marks)

Answer :

Basic EPS: $\frac{\text{Profit available to equity shareholder's}}{\text{No. of shares}}$

	2012-13	2013-14
Basic EPS	$\frac{22,00,000}{1,10,000}$ = ₹ 20 per share	$\frac{33,00,000}{1,10,000}$ = ₹ 30 per share

Adjusted earnings per share	$\frac{22,00,000}{1,10,000 \times 1.07}$ = 1,17,700 = ₹ 18.69	$= \left(1,10,000 \times 1.07 \times \frac{4}{12}\right) + \left(1,37,500 \times \frac{8}{12}\right)$ = 1,30,900 $= \frac{33,00,000}{1,30,900}$ = 25.21 = ₹ 25.21 per share

Right factor = $\frac{\text{Fair value per share price to right issue}}{\text{Theoretical ex-right fair value per share}}$	270/252 = 1.071

Theoretical Ex-right

$$\textbf{Fair value} = \frac{\text{Aggregate Fair value of share prior to right issue + proceeds from right issue}}{\text{No. of shares outstanding after right issue}}$$

$$= \frac{(₹270 \times 1,10,000) + (₹180 \times 27,500)}{1,37,500} = \frac{3,46,50,000}{1,37,500}$$

= ₹ 252

2014 - May [6] (a) The following information is supplied to you about M/s. Lookdown Ltd. :

Capital & Reserves	
Equity Shares of ₹ 100 each of which ₹ 75 has been called up	5,00,000
Equity Shares in respect of which calls are in arrear @ 25 per share	₹ 1,00,000
General Reserve	₹ 10,00,000
Profit & Loss account (balance at beginning of the year)	₹ (25,00,000)
Profit/(loss) for the year	₹ (1,80,000)
Industry Average profitability	12.50%
8% Debentures of ₹ 10 each	8,00,000
M/s. Lookdown Ltd. is proposing to hire the services of Mr. X to turn the company around.	
Minimum take home salary per month demanded by Mr. X	₹ 4,00,000
Average Income tax rate on salaries above ₹ 3 lakhs per annum	25%
Provident Fund contribution by Employer per month	₹ 50,000
Profits over and above target expected by hiring Mr. X	10%

You are required to analyze the proposal and see whether it is worthwhile to employ Mr. X and also suggest the maximum emoluments that could be paid to him.

Note :

(i) PF contributions are tax exempt.

(ii) Take home salary is that remaining after employee's contribution to PF @ ₹ 50,000 per month and after deduction of Income-Tax on Salary.

(8 marks)

Answer: **Cost to the Company in employing to Mr. X**

Particulars	₹
Salary before tax ₹ 4,00,000 × 12 = $\frac{48,00,000}{0.75}$	64,00,000
Add: Employee's PF contribution (50,000 × 12)	6,00,000
	70,00,000
Add: Employer's PF contribution (50,000 × 12)	6,00,000
	76,00,000

Capital base

Particulars	₹
Equity Share Capital up (5,00,000 shares of ₹ 75 each)	3,75,00,000
Less: Calls in arrears	(1,00,000)
	3,74,00,000
General Reserve	10,00,000
Profit & Loss A/c (balance) at the beginning of the year	(25,00,000)
Loss of the year	(1,80,000)
8% Debentures	80,00,000
Capital base	4,37,20,000
Target Profit 12.5% of capital base (4,37,20,000)	54,65,000
Profits achieved due to Mr. X 54,65,000 + 10% (54,65,000)	60,11,500

Maximum remuneration that can be paid to Mr. X = 60,11,500

Therefore, the company is advised not to hire him as his CTC ₹ 76,00,000 is more than ₹ 60,11,500.

Assumption: It is assumed that the average income tax rate of 25% given in the question is after considering the impact of ₹ 3 lakhs p.a. i.e., the exemption amount.

2014 - May [7] Answer the following :

(a) KAY Ltd. is in the process of finalizing its accounts for year ended 31st March, 2014 and furnishes the following information :

(i) Finished goods normally are held for 30 days before sale.

(ii) Sales realization from Debtors usually takes 60 days from date of credit invoice.

(iii) Raw materials are held in stock to cover one month's production requirements.

(iv) Packing materials, being specifically made for the company and having lead time of 90 days is held in stock for 90 days.

(v) The holding period in respect of unfinished goods is 30 days.

(vi) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the operating cycle of KAY Ltd. as per Schedule III of Companies Act, 2013. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the creditors are settled in 330 days? (4 marks)

Answer:

Operating cycle is the cycle of purchase of raw material, consumption in production of finished goods, sale of goods to customers and collection of money from them.

1	Raw material	30 days	
2	Consumption in production	30 days	(Unfinished goods)
3	Production of finished goods	90 days	(Packing material)
4	Sale of goods to customers	30 days	
5	Collection of money	60 days	
		240 days/30 days	
	Operating cycle =	8 months	

A liability will be classified as a current liability when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle.
- it is held primarily for the purpose of being traded.
- it is due to be settled within twelve months after the reporting date; or
- the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counter party, result in its settlement by the issue of equity instruments and do not affect its classification.

There are two situations:

(i) When credit period given by supplier is 12.5 months: The nature of classification of liability is to be seen with reference to the reporting date. Hence, all liabilities except those that arise in the last fortnight of the accounting period will be "Current" as this will have to be settled within 12 months of the reporting date. Thus, all liabilities that do not arise in the last fortnight of the accounting period will be "Non-Current".

(ii) When credit period given by suppliers is 330 days (i.e. 11 months approx.): If the creditors are settled in 330 days i.e. within 11 months. This satisfies the third condition i.e. it is due to be settled within twelve months after the reporting date and there is no option to defer it. Hence, in the case it will be treated as current liability.

2014 - May [7] Answer the following :

(d) X Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that :

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.

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

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively. (4 marks)

Answer:

(1)	Cost of the assets	7,46,55,100
	Less: P.V. of the unguaranteed residual value (1,00,000 × 0.751)	(75,100)
	P.V. of the lease payments	7,45,80,000

(2) Annual lease rent $= \dfrac{\mathbf{7,45,80,000}}{\mathbf{2.486\ (PV\ Factor)}}$

$=$ **₹ 3,00,00,000**

Unearned finance income:

= Gross investment - P.V. of the Gross investment

= [(3,00,00,000 × 3) +1,00,000] - (7,45,80,000 + 75,000)

= 9,01,00,000 - 7,46,55,100

= ₹ 1,54,44,900

2014 - May [7] Answer the following :

(e) AQ Ltd., an investment company is finalizing its account for the Financial Year ending 2013 in the month of August 2013.

How will the following incomes be accounted for in the books of AQ Ltd.?

(1) X Ltd., has declared interim dividend which has not been received till 31-3-2013 but received on 25-4-2013.

(2) Y Ltd., has declared dividend on 8th May 2013 for the year ending 31-3-2013 which has been approved by the shareholders of the company on 30th June 2013.

(3) Z Ltd., a subsidiary of AQ Ltd., has declared dividend for the year ended 31-3-2013 on 25th May 2013 the AGM for which is to be held on September 2013. (4 marks)

Answer:

As per para 8 of AS 9 "Revenue Recognition", dividends from investment in shares is recognized in the statement of Profit and Loss only when the owner's right to receive the payment is established.

- In this case, it is clear that interim dividend was declared by X Ltd. before 31st March 2013 which implies that the dividend had been vested (accrued) to the shareholders of AQ Ltd. in the year 2012-13.
- Hence, though it is received on 25.4.13 (before finalization of accounts) yet it should be recognized in the financial statements for the year ended 31st March, 2013.

- In the said situation dividend declared by Y Ltd and approved by the shareholders of AQ Ltd. after balance sheet date but before finalization of accounts cannot be accounted for in the financial statements for the year ended 31st March, 2013.
- This will be accounted in 2013-14 as the right to receive dividend will arise when the AGM will approve the dividend i.e. on 30th June 2013.
- Since right to receive the dividend was not established on or before 31st March, 2013, it will not be accounted for in the books for the year ended 31st March, 2013.
- In the said situation, dividend declared by Z Ltd. will be approved in the AGM to be held on 30th September, 2013. Before that right to receive dividend cannot be established.
- Therefore, it will not be accounted for in the financial year ended on 31st March, 2013.

2014 - Nov [1] {C} (a) From the given information, you are required to compute the deferred tax assets and deferred tax liability for Ramanujam Limited as on 31st March 2014. The tax rate applicable is 35%.

(i) The company has charged depreciation of ₹ 7,42,900/- in its books of accounts while as per income-tax computation, the depreciation available to the company is ₹ 8,65,400/-.

(ii) The company has made provision for doubtful debts for ₹ 54,300/- during the year.

(iii) The company has debited share issue expenses of ₹ 6,23,500/- which will be available for deduction under the Income-tax Act from the next year.

(iv) The expense of ₹ 7,84,500/- has been charged to profit and loss account which are disallowed under the Income-tax Act.

(v) The company has made donation of ₹ 2,00,000/- which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law. (5 marks)

Answer:

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

S. No.	Particulars	Amount of difference	Nature of difference	DTA @ 35%	DTL @ 35%
		₹		₹	₹
(i)	Excess allowable depreciation as per income-tax law	1,22,500	Timing	-	42,875
(ii)	Provision for doubtful debts-disallowed as per income-tax law	54,300	Permanent	-	-
(iii)	Share issue expenses charged in the accounting books but allowed as deduction in the income-tax from the next year	6,23,500	Timing	2,18,225	-
(iv)	Disallowed expenses as per income-tax	7,84,500	Permanent	-	-
(v)	Donation debited to Profit & Loss Account				
	Allowed as per income tax	1,00,000	No difference	-	-
	Disallowed as per income tax	1,00,000	Permanent	-	-
				2,18,225	42,875

Question Based on AS - 17

2014 - Nov [1] {C} (b) ABC Limited has three segments viz. A, B and C. The total assets of the company is ₹ 15 Crores. The assets of Segment A is 1.85 Crores, Segment B is 6.15 Crores and Segment C is ₹ 7.00 Crores. Assets of each segment include deferred tax assets of ₹ 0.50 Crores in A, ₹ 0.40 Crores in B and ₹ 0.30 Crores in C. The accountant of ABC Limited contends that all segments are reportable segments. Based on segment assets criteria, determine the veracity of the contention of the accountant.

(5 marks)

Answer:

Statement showing percentage of Segment net assets to Total assets of the company ₹ in crores

Particulars	Segments			Total
	A	B	C	
Segment assets	1.85	6.15	7.00	15.00
Less: Deferred tax assets	(0.50)	(0.40)	(0.30)	(1.20)
Net segment assets	1.35	5.75	6.70	13.80
Percentage to total net segment assets	9.78%	41.67%	48.55%	100%

As per AS 17 'Segment Reporting', one of the basis of segment asset criteria for identification of a business segment or geographical segment as a reportable segment is when its segment assets are 10% or more of the total assets of all segments. Accordingly, the reportable segments will be segments B and C only. Therefore, the contention of the accountant that all the segments are reportable segments is not tenable.

Question Based on AS - 26, 28

2014 - Nov [1] {C} (c) Sunny Limited is developing a new production process. During the financial year ended 31st March 2013, the company has incurred total expenditure of ₹ 40 lacs on the process. On 1st December, 2012, the process has met the norms to be recognized as 'intangible assets' and the expenditure incurred till that date is ₹ 16 lacs. During the financial year ending on 31st March 2014, the company has further incurred ₹ 70 lacs. The recoverable amount as on 31st March 2014 of the process is estimated to be ₹ 62 lacs. You are required to work out:

(i) Expenditure to be charged to profit and loss account for the financial year ending on 31st March 2013 and 31st March 2014. (ignore depreciation)

(ii) Carrying amount of the 'Intangible asset' as at 31st March 2013 and 31st March 2014. (5 marks)

Answer:

⇒ **As per AS - 26 "Intangible Assets",** once the process has met the norms to be recognized as intangible assets all the expenditure incurred after that are capitalized expenditure incurred before that are charged to P&L A/c.

⇒ In the present case the expenditure of ₹ 16 lacs will be charged to P&L A/c for the year ending 31st March, 2013 and the cost of intangible asset as that date would be ₹ 24 lakhs (40-16).

⇒ For the year ending 31st March, 2014, the cost of intangible assets would be ₹ 94 lacs (24 + 70) as further expenditure would be capitalized.

⇒ Now as per AS - 28 impairment of asset would be recorded as the lowest of cost or market value.

⇒ In this case as the recoverable amount being ₹ 62 lacs less than its cost, asset would be impaired by 32 lakhs.

2014 - Nov [1] {C} (d) XYZ Limited is having the following Fixed Deposit Receipts:

	Date of FDR	**Maturity Date**	**Amount ₹**
Axis Bank Limited	01 - Jan - 14	30 - Apr - 15	10,00,000
Punjab National Bank	01 - Jan - 14	30 - Jun - 14	15,00,000
State Bank of India	28 - Feb - 14	30 - May - 14	10,00,000
ICICI Bank	31 - Jan - 13	31 - Jan - 15	10,00,000

Prepare 'Notes' to accounts showing the above deposits in accordance with the requirements of Schedule III. (5 marks)

Answer:

Notes to Accounts

S. No.	**Particulars**		**Amount in ₹**
1.	**Other non-current assets**		
	FDR of Axis Bank Limited		10,00,000
2.	**Current assets**		
	Cash and bank balances (See Note)		
	(a) Cash and cash equivalents		
	FDR of State Bank of India	10,00,000	
	(b) Other bank balances		
	FDR of ICICI Bank	10,00,000	
	FDR of Punjab National Bank	15,00,000	35,00,000

Note: The above 'Notes to Accounts' have been prepared on the basis of the Guidance Note on 'Revised Schedule III to the Companies Act, 2013'. It states that in case of bank deposits having maturity of more than 3 months but upto 12 months, the heading "Cash and cash equivalents" should be changed to "Cash and bank balances" which may have two sub-headings viz "Cash and cash equivalents" and "Other bank balances". Since AS will prevail over Schedule and as per AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Therefore, even if the remaining maturity of FDR from reporting date is 3 months or less but its original maturity is more than 3 months from the date of acquisition it will be shown under the sub-heading "Other Bank Balance". It also states that bank deposits having maturity of more than 12 months should be shown under the heading "Other non-current assets".

Assumption: It is assumed that the FDR having maturity of more than 12 months from the reporting date i.e. 31.3.2014 are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Working Notes:

	Amount in ₹	Date of FDR	Maturity date	Maturity months from the reporting date i.e. 31.3.2014
Axis Bank Limited	10,00,000	1.1.2014	30.4.2015	13
Punjab National Bank	15,00,000	1.1.2014	30.6.2014	3
State bank of India	10,00,000	28.2.2014	30.5.2014	2
ICICI Bank	10,00,000	31.1.2013	31.1.2015	10
	45,00,000			

Question Based on AS - 13, 27

2014 - Nov [7] Answer the following:

(a) JVR Limited has made investments of ₹ 97.84 Crores in equity shares of QSR Limited in pursuance of Joint Venture agreement in 2001-02. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution

in value of investments. However, QSR Limited has a futuristic and profitable business plans and projection for the coming years. Discuss whether the contention of JVR Limited to bring down the carrying amount of investment in QSR Limited is in accordance with Accounting Standard. (4 marks)

Answer:

As per AS 27 "Financial Reporting of Interests in Joint Ventures", in a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment in accordance with AS 13 'Accounting for Investments'.

As per AS 13 "Accounting for Investments", long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. The type and extent of the investor's stake in the investee are also taken into account. However, where there is a decline, other than temporary, in the carrying amounts of long-term investments, the resultant reduction in the carrying amount is charged to the profit and loss statement.

Since the investment was made in the year 2001-02, it implies that the shares are held for more than a year and is a long term investment. In the given case, though the QSR Ltd. is in continuous losses for past 2 years, yet it has a futuristic and profitable business plans and projections for the coming years. Here, one of the indicators i.e. 'losses incurred to the company' may lead to diminution in the value of the shares while the other indicator that 'the company has positive expected cash flows from its business plans' does not lead to decline in the value of shares.

Considering both the facts, the decline in the value of shares of QSR Ltd. will be taken as other than temporary in nature. Therefore, the investment in equity shares should be carried at cost only. Hence, the contention of JVR Ltd. to bring down the carrying amount of investment in QSR Ltd. is not in line with the provisions of AS 13.

Question Based on AS - 5

2014 - Nov [7] Answer the following:

(c) Finished Goods costing ₹ 10 lacs were damaged due to flood in July 2013. These goods were included in Closing Stock as on March 31, 2014 at an estimated realizable value of ₹ 4.00 lacs.
These goods could be ultimately sold for ₹ 3 lacs only in August 2014. The difference of ₹ 1 lac was debited as 'prior period' expenditure in financial year 2014-15. As an auditor, please comment in the light of provisions of accounting standards. (4 marks)

Answer:

Paragraph 4 of AS 5 on "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".

Prior period items should be distinguished from changes in Accounting Estimates. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Accounting Estimates are approximations that may need revision. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

In the instant case, there is no error or omission in prior periods. It is a case of a change in an accounting estimate when the damaged goods are finally sold. Thus, the difference of ₹ 1,00,000 should be treated as a change in accounting estimate and not prior period item. Therefore, the accounting treatment done i.e. difference of ₹ 1,00,000 debited as prior period expenditure in financial year 2014-15 is not correct. It should be debited to profit and loss account as a change in an accounting estimate in the financial year 2014-15.

Question Based on AS - 16

2014 - Nov [7] Answer the following:

(d) XYZ Limited acquired a bank loan of ₹ 40 lacs on interest rate of 20% per annum on 1 July 2013. The said loan was utilized by the company for three transactions as under:

(i) Construction of factory shed ₹ 10,00,000
(ii) Purchase of Plant and Machinery ₹ 25,00,000
(iii) Balance loan was unallocated and used generally for the purpose of business

The accountant of the company has charged the total interest to the Profit and Loss account. Comment in view of provisions of AS-16. (4 marks)

Answer:

Total interest amounting ₹ 6,00,000 (interest for 9 months @ 20% on ₹ 40,00,000) cannot be charged to Profit and Loss Account.

The amount to be charged to Profit and Loss Account will be computed as under:

Treatment of Interest (Borrowing cost) as per AS 16 'Borrowing Costs'

S. No.	Particulars	Nature	Interest to be capitalized	Interest to be charged to P & L A/c
(i)	Construction of Factory Shed (Refer Note 1)	Qualifying Asset	6,00,000 × 10/ 40 = 1,50,000	
(ii)	Purchase of Machinery (Refer Note 2)	Not a Qualifying Asset		6,00,000 × 25/40 = 3,75,000
(iii)	Working Capital (used generally for business) (Refer Note 3)	Not a Qualifying Asset		6,00,000 × 5/40 = 75,000
Total			1,50,000	4,50,000

Notes:

1. Construction of a factory shed necessarily takes a substantial period of time to get ready for its intended use or sale;
2. It is assumed that the machinery purchased in immediately ready for use. Therefore, it is a non-qualifying asset. Hence, the interest cost on it, would not be capitalized. An assumption other than the above may be accepted by the valuer and marketed accordingly.
3. As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset should be capitalized as part of the cost of that asset. Other

borrowing costs are recognized as expense in the period in which they are incurred. Therefore, interest on balance loan used for general purpose of business will not qualify for capitalization and will be charged to profit and loss account.

Question Based on AS - 12

2014 - Nov [7] Answer the following:

(e) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 Crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2014. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard? (4 marks**)**

Answer:

The action of the company is not justified in view of AS-12 "Accounting for Government Grants".

Where the Government Grants are of the nature of promoter contribution i.e. they are given with reference to the total investment in an undertaking or by way of promoters contribution towards its total capital outlay and no repayment is ordinary expected in respect thereof the grants are treated as **capital reserve**, which can be neither distributed as dividend nor considered as deterred income.

Therefore it is inappropriate to recognise Government Grants in the P&L statement, since they are not earned but represent an incentive provided by Government without related cost.

KZ - 16 **Knowledge Zone**

Advantages and disadvantages of setting of Accounting Standards.

Accounting Standards are prescribed by ICAI, which are to be followed in performing accounting transactions. Various accounting principles, techniques and methods are described in these standards, which assist the user in preparation and presentation of financial statements, with a true and fair view.

The various advantages of setting accounting standard are follows :-

Advantages of setting Accounting Standard

1. Accounting standards reduces the possibilities of variation in the accounting treatment used while preparing financial statements.
2. Accounting standards call for certain disclosures which makes the financial statement more true & fair.
3. Accounting standard makes comparison of financial statements possible.

Disadvantages of setting Accounting Standard

1. Accounting problems may have alternative solutions. Accounting Standards makes the choice between different alternative accounting treatments difficult.
2. Accounting standards leads to rigidity and is less flexible.
3. Accounting standards are framed within the limits set by statutes. It cannot overrule the statutes.

Question Based on AS - 2

2015 - May [1] {C} (a) From the following information, value the inventories as on 31st March, 2015:

Raw material has been purchased @ ₹ 125/- per kg. Prices of raw material are on the decline. The finished goods being manufactured with the raw material is also being sold at below cost. The stock of raw material is of 15,000 kg. and the replacement cost of raw material is ₹ 100/- per kg.

Cost of finished goods per kg. is as under:

	₹ per kg.
Material cost	125
Direct labour cost	20
Direct variable production overhead	10

Fixed production overhead for the year for a normal capacity of 1,00,000 kgs. of production is ₹ 10 lacs. At the year end, there were 2,000 kgs. of finished goods in stock. Net realisable value of finished goods is ₹ 140 per kg.

(5 marks)

Answer:

As per AS 2, Valuation of inventories, when selling price of finished goods is less than cost, replacement cost of raw material (R.M) is taken as it's Net Realizable Value (N.R.V). R.M is valued at it's cost or N.R.V, whichever is less.

	(₹ per kg)
Material cost	100
Direct labour cost	20
Direct variable production O.H	10
Fixed production O.H (₹ 10 lacs ÷ 1,00,000 kgs.)	10
Value of F.G	₹ 140/kg.

Value of closing inventory is taken as cost or N.R.V, whichever is less.

∴ Value of 2000 kgs. of F.G
= 2000 × ₹ 140
= ₹ 2,80,000/-

Question Based on AS - 10

2015 - May [1] {C} (b) SMC Limited is having a plant (an asset) whose carrying amount as on 1-10-2012 is ₹ 38,000 lacs and the plant was having a useful life till 31-3-2020. The estimated residual value is ₹ 900 lacs. The selling price on 31st March, 2015 is expected to be ₹ 20,000 lacs and the cost of disposal is expected to be ₹ 100 lacs.

The expected cash flows from the plant are as under:

Financial Year	Cash Flow
2015-16	4,100
2016-17	5,900
2017-18	6,000
2018-19	7,800
2019-20	4,500

The company expects the discount rate of 10%. Discount factor @ 10% for 1,2,3,4 and 5 years are 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. The company provides depreciation on straight line basis.

You are required to determine as at 31st March, 2015:

(i) The value in use of the plant
(ii) The impairment loss, if any, to be recognised for the year.
(iii) The revised carrying amount for the financial year ending 31st March, 2015. (5 marks)

Answer:

(i) Calculation of value in use

Year	Cash Flow	Discount @ 10%	Discounted cash flow
2015-16	4,100	0.909	3,726.90
2016-17	5,900	0.826	4,873.40
2017-18	6,000	0.751	4,506.00
2018-19	7,800	0.683	5,327.40
2019-20	4,500	0.621	2,794.50
	(residual value) 900	0.621	558.90
			21,787.10

(ii) Impairment loss as on 31.3.2015

Calculation of carrying amount:

Original cost = ₹ 38,000 lacs

Depreciation for 2.5 years = $\left[\left(\frac{38,000 - 900}{7.5} \times 2.5\right)\right]$ = ₹ 12,366.67 lacs

Carrying amount on 31st March, 2015

= [38,000-12,366.67] = ₹ 25,633.33 lacs

Net Selling Price = S.P - Cost of disposal

= ₹ 20,000 lacs – ₹ 100 lacs = 19,900 lacs

Recoverable amount = higher of value in use and net selling price i.e. ₹ 21,787.10 lacs

Impairment Loss = ₹ 25,633.33 - ₹ 21,787.10 = ₹ 3,846.23 lacs

(iii) Revised carrying amount = ₹ 21,787.10 lacs

Note: The carrying value of the asset as on 1.10.2012 is considered as the cost of the asset and it is assumed that the asset has been purchased on that date.

Question Based on AS - 9

2015 - May [1] {C} (c) A company sells the goods with right to return. The following pattern has been observed:

Time frame of return from date of purchase	% of cumulative sales
Within 10 days	5%
Between 11 days and 20 days	7%
Between 21 days and 30 days	8%
Between 31 days and 45 days	9%

Company has made sale of ₹ 30 lacs in the month of February 2015 and of ₹ 36 lacs in the month of March, 2015. The total sales for the financial year have been ₹ 450 lacs and the cost of sales was ₹ 360 lacs. Determine the amount of provision to be made and revenue to be recognised in accordance with AS-9. A year may be considered of 360 days. (5 marks)

Answer:

Accounting treatment for recognition of revenue:

According to AS 9, Revenue in respect of sale of goods is recognised fully at the time of sale itself. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate to recognize the sale but to make a suitable provisions for returns based on previous experiences.

Thus, sale of ₹ 30,00,000 and ₹ 36,00,000 made in the month of February and March, 2015 will be recognized at full value.

Amount of provision

The goods are sold with a right to return. As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. The existence of such right gives rise to a present obligation on the company. According to the standard, a provision should be created on the Balance Sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

Note: It is assumed that the sales has been made evenly throughout the month and every month is of 30 days based on the information given in the question i.e. a year is of 360 days.

Sales during	**Sales value (₹ in lacs)**	**Sales value (cumulative) (₹ in lacs)**	**Likely returns (%)**	**Likely returns (₹ in lacs)**	**Provision @20% (₹ in lacs) (ReferW.N.)**
Last 10 days of March	36/3 or 12	12	5%	0.600	0.120
Previous 10 days of March	36/3 or 12	24	7%	1.680	0.336
Previous 10 days of March	36/3 or 12	36	8%	2.880	0.576
Last 15 days of February	30/2 or 15	51	9%	4.590	0.918
Total				9.75	1.950

Working Note:

Calculation of Profit % on sales

	(₹ **in lacs**)
Sales for the year	450
Less: Cost of sales	(360)
Profit	90

Profit mark up on sales (90/450) × 100 = 20%

Question Based on AS - 25

2015 - May [1] {C} (d) Saurav Limited reported a profit before tax of ₹ 8.00 lacs for the 2nd quarter ending on 30th 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) 1/5th of ₹ 15 lacs being marketing promotional expenses incurred on 23rd 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 2nd quarter, which included ₹ 2 lacs related to earlier quarters.

(v) Gain of ₹ 15 lacs from sale of Investments sold in 1st 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 2nd 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.

Question Based on AS - 16

2015 - May [7] Answer the following:

(a) AB Limited acquired at the start of the financial year a fixed assets from USA at a price of US$ 1,25,000 and made a down payment of US$ 25,000. The exchange rate was ₹ 61.50 per dollar at the date of transaction. The balance amount was payable in 4 equal half yearly installments with interest @ 8% per annum. The exchange rate on due dates of installment has been ₹ 61.60; ₹ 61.80; ₹ 61.90 and ₹ 62.10. The asset was under construction during the period of six months from its acquisition. Ascertain the amount to be capitalised and the gain or loss to be recognised in each of the years.

(4 marks)

Answer:

According to AS 16, 'Borrowing Costs', an asset will be considered as a qualifying asset only when it takes substantial period of time to get ready for its intended use. Generally, 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 the present case, since the

asset was under construction for the period of six months from its acquisition, it is considered as a non-qualifying asset in ordinary case.

Accordingly, borrowing cost will not be capitalized at all.

Further, a company may opt to capitalize the exchange difference arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, or to recognised as income or as expenses in the period in which they arise.

Thus, as per provisions of AS-11 (option to capitalize) amount to be capitalized in each of the years will be as follows:

Purpose		Amount to be capitalised (₹)	Interest to be charged to profit and loss account (₹)
Initial cost at the time of acquisition of fixed asset	US $ 1,25,000 x ₹ 61.50	76,87,500	
On payment of 1st instalment	US $ 25,000 × ₹ (61.60 - 61.50)	2,500	
Interest paid with 1st instalment	(1,00,000 × 8% × 6/12) × 61.60		2,46,400
On payment of 2nd instalment	US $ 25,000 × ₹ (61.80 - 61.50)	7,500	
Interest paid with 2nd instalment	(75,000 × 8% × 6/12) × 61.80		1,85,400
Exchange difference on closing balance of long term foreign currency	US $ 50,000 × ₹ (61.80 - 61.50)	15,000	
At the end of the year 1		77,12,500	4,31,800

On payment of 3rd instalment	US $ 25,000 × ₹ (61.90 - 61.80)	2,500	
Interest paid with 3rd instalment	(50,000 × 8% × 6/12) × 61.90		1,23,800
On payment of 4th instalment	US $ 25,000 × ₹ (62.10 - 61.80)	7,500	
Interest paid with 4th instalment	(25,000 × 8% × 6/12) × 62.10		62,100
At the end of the year 2		10,000	1,85,900

The entire amount of exchange difference of ₹ 35,000 will be capitalized to 'Fixed Asset Account'. This capitalized exchange difference will be depreciated over the useful life of the asset.

2015 - May [7] Answer the following:

(b) HS Limited manufactures goods and caters to both national and international markets. As on 31st March, 2015, it has the following stocks in its warehouse at factory:

Goods meant for national market - Sale value of ₹ 100 lacs

Goods meant for international market - Export value of ₹ 50 lacs

The company has a policy to mark up the products for national markets at one-third of cost while those for exports are marked up at 150% of its cost. Excise duty on goods is payable @ 12.36%. The management is of the opinion that excise is payable only on clearance of goods from factory and as such the same should not be a part of cost of inventory.

You are required to guide the company in the light of relevant guidance note. (4 marks)

Answer:

Provision:

– **Guidance note on accounting treatment for Excise Duty** says that excise duty is a duty on manufacture of excisable goods in India.

– According to Central Excise Rules, 2002, such duty should be collected at the time of removal of goods from factory premises or warehouse. Collection part is shifted to the stage of removal.

– Further, paragraph 23(i) of the guidance note makes it clear that excise duty should be considered as a manufacturing expense & like other manufacturing expenses be considered as an element of cost for inventory valuation.

Advice:

Managements contention is incorrect. Excise duty on goods meant for national market = ₹ 12.36 lacs. Excise duty on goods meant for international market should be provided for when the manufacture of goods is completed. However, if it is assumed that all conditions specified in Rule 19 of Central excise Rules, 2002 regarding export of such goods are not fulfilled, excise duty may not be provided for.

2015 - May [7] Answer the following:

(c) Krishna sold goods to Madhav for ₹ 100 crores against an export order of Madhav. Subsequent to the sale by Krishna, the export order of Madhav was cancelled for unavoidable reasons. Madhav decided to sell the goods in local market, provided a price discount is allowed by Krishna. Krishna acceded to the request of Madhav. Advise how the discount given shall be dealt in the books of accounts of Krishna. (4 marks)

Answer:

In the given case Krishna sold goods to Madhav for ₹ 100 crores against an export order of Madhav. Subsequent to the sale by Krishna, the export order of Madhav was cancelled for unavoidable reasons. Madhav decided to sell the goods in local market, provided a price discount is allowed by Krishna. Krishna acceded to the request of Madhav. Therefore two possibilities are generated if discount is given in current year then value is sale minus discount which means sale reduced by amount of discount.

If discount is given next year then discount is recognized as expense.

Question Based on AS - 5

2015 - May [7] Answer the following:

(d) A company desires to make provision in respect of its non-moving or slow moving items of stock. The following information is available:

Particulars	₹ in Lacs Current year	Previous year
Value of Closing Stock	169	105
Provision based on No. of issues during the year	4.50	4.00
Provision based on products technicality	5.50	4.25

The company has been making provisions based on number of issues. However, from this year, the management has decided to make provision based on technical evaluation.

Explain whether such change will amount to change in 'accounting policy'. Also draw a suitable note, if in your view the proposed change requires the same to be given in the financial statement of the current year.

(4 marks)

Answer:

According to AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', due to uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. Accordingly, the basis of provisioning is either on 'number of issues' or on 'technical evaluation'.

Now, the decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made.

The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. Further, if the company is able to demonstrate satisfactorily that having regard to circumstances, provision made on the basis of 'technical evaluation' provides more satisfactory results than provision based on 'number of issues' then the company can change the basis of making the provision.

In the given case, the change in the amount of required provision of non-moving/slow moving inventory from ₹ 4.5 lacs to ₹ 5.5 lacs is also not material. The following disclosure shall be made for such change in the financial statements of the company for the current year.

"The company has provided for non-moving/slow moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been higher by ₹ 1 lac."

Question Based on AS - 29

2015 - May [7] Answer the following:

(e) Lucky P Limited has been assessed to Income-tax, in which a demand of ₹ 10 lacs has been made. The company has gone in appeal. The company has deposited ₹ 6.00 lacs against the demand, on being pursued by the department. The company has been advised by its counsel that there is 80% chance of losing in respect of one of the grounds which may end up confirming the demand of ₹ 4.00 lacs, while on other grounds, there is fair chance of winning the appeal. How the company should treat the same while preparing the final accounts for the year ending 31st March, 2015? (4 marks)

Answer:

According to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", a provision should be recognised when:

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

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

(c) a reliable estimate can be made of the amount of the obligation.

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

In the given case, there is a present obligation of demand of ₹10 lacs raised by the Income-tax department. As per the advise by the counsel, the outflow of resources upto ₹ 4 lacs is more likely to happen to settle the obligation since there is 80% probability of losing on one ground. Therefore, a provision of ₹ 4 lacs shall be made in the books of account for the year ended 31st March, 2015.

However, in respect of other grounds, there are fair chances of winning the appeal. Thus, no provision is required to be made for the remaining amount of ₹ 6,00,000 and it should be shown as contingent liability in the books of the company while preparing the final accounts for the year ended 31st March, 2015.

The company paid ₹ 6 lacs against demand on being pursued by the department but created a provision of ₹ 4 lacs only. Hence, it is expecting to get a refund in due course. Till the final settlement of the case, ₹ 6 lacs paid against income tax demand will appear under the heading 'Non-current/Current Loans and Advances' and 'Provision for taxation' under the heading Long/Short term Provisions', based on the expected date of settlement.

2015 - Nov [1] {C} (a) From the following information, you are required to compute the basic and adjusted earnings per share:

Net profit for 2013-14	₹ 11 lakhs
Net profit for 2014-15	₹ 15 lakhs
No. of shares issued before rights issue	5 lakhs
Right issue One for every 5 held	
Right issue price	₹ 15 per share
Last date of exercising right option	01-06-2014
Fair value of shares before right issue	₹ 21 per share

(5 marks)

Answer:

$$\frac{\text{Fair value of shares Immediately Prior to Ex. Right + Total Amount Received from Exercise}}{\text{No. of shares O/S Prior to + No. of shares Issued Exercise}}$$

$$\frac{(5,00,000 \times 21) + (1,00,000 \times 15)}{5,00,000 + 1,00,000} = 20$$

Theoretical Ex-Right fair value = 20 per share

Computation of adjustment factor

$$= \frac{\text{F.V. Per Share Prior to Exe. of Rights}}{\text{Ex} - \text{Right value}} = \frac{21}{20} = 1.05$$

- **Computation of EPS**
  1. EPS For 2013-14 = $\frac{11,00,000}{5,00,000}$ = ₹ 2.20/-
  2. EPS For 2013-14 Restated = $\frac{11,00,000}{5,00,000 \times 1.05}$ = ₹ 2.10/-
  3. EPS For 2014-15
     (5,00,000 × 1.05 × 2/12) + (6,00,000 × 10/12) Shares
     = 87,500 + 5,00,000 = 5,87,500 Shares
     EPS = $\frac{15,00,000}{5,87,500}$ = ₹ 2.55

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 $= \frac{\text{Cost of machine} - \text{Residual value}}{\text{useful life}}$

$= \frac{14 \text{ crore} - 0}{7}$

= 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
	(-) 6.00 crore
T/F Revaluation reserve	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 = $\frac{₹14 \text{ crores}}{7 \text{ years}} \times 4$ 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 $\left[\frac{10.20 \text{ crores}}{3 \text{ years}} \times 2 \text{ years}\right]$	(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

Question Based on AS - 13

2015 - Nov [1] {C} (c) Sagar Future is a non-banking finance company. It makes available to you the costs and market price of various investments held by it as on 31-03-2015 as under:

(**Figures ₹ in Lakhs**)

Scripts:		Cost	Market Price
A.	Equity Shares –		
	A	60.00	61.20
	B	31.50	24.00
	C	60.00	36.00

	D	60.00	120.00
	E	90.00	105.00
	F	75.00	90.00
	G	30.00	6.00
B.	Mutual Funds –		
	MF - 1	39.00	24.00
	MF - 2	30.00	21.00
	MF - 3	6.00	9.00
C.	Government Securities –		
	GV - 1	60.00	66.00
	GV - 2	75.00	72.00

(i) Can the company adjust depreciation of a particular item of investment within a category?

(ii) What should be the value of investments as on 31.03.2015?

(iii) Is it possible to off-set depreciation in investment in mutual fund against appreciation of the value of investment in equity shares and government securities?

(5 marks)

Answer:

(i) Quoted Current Investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value shall be aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the Net Deprecation shall be charged to the Profit/Loss Account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net Appreciation shall be ignored. Therefore, Depreciation of a particular item of investments can be adjusted within the same category of Investments.

(ii) Value of Investments as on 31-3-15

(Category Wise)

Type of Investment	Value Principle	₹ in lacs
Equity shares	Lower of cost or Market Value	406.50
Mutual Funds	NAV (M.V. assumed to be NAV)	54.00
Gov. Securities	Cost	135.00
	∴ Total	595.50

As per para 14 of AS 13 "Accounting for Investments" the carrying Amount for current Investments is the lower of cost and market value.

When considered scrip-wise

Type of Investment	Valuation Principle	Value ₹ in lakhs
Equity Shares (Aggregated)	Lower of cost or market value	351.00
Mutual Funds	NAV (Market value assumed to be NAV)	51.00
Government Securities	Cost	135.00
	Total	537.00

(iii) Inter category Adjustments of Appreciations and Depreciation in values of Investments cannot be done. Therefore it is not possible to offset Depreciation in Investment in Mutual Funds against Appreciation of the value of Investment in Equity Shares and Government Securities.

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 & 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

Question Based on AS - 1 and AS - 29

2015 - Nov [7] Answer the following questions:

(a) 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 locked in various claims/petition 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 accepted 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 the contract, 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 Account. State whether the treatment done by the company is correct or not. (4 marks)

Answer:

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.

AS 29 'Provisions, Contingent Liabilities and Contingent Assets' states that provision should be recognised when there is a present obligation as a result of a past event and an outflow of resources embodying economic benefits will be required to settle the obligation and lastly a reliable estimate can be made of the amount of the obligation.

Given Case:

Amount has not been paid on due date so present obligation arises on non-payment of principal amount which is to be settled by paying later. Also the question states that the interest has been paid till due date. It implies that interest on overdue amount can also be calculated by applying that rate. Therefore, reliable estimate can be made for the amount of provision.

Thus, it is apparent that the company has an obligation on account of the interest on the overdue amount to be paid after due date. The company should provide for the liability (since it is not waived off by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case.

However, in respect of the interest, for which the payment of principal amount has been later on made, 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 for the interest amount from due date to the date of repayment of principal is not correct.

2015 - Nov [7] (c) Aakash Limited is the owner of a CGU (Cash Generating Unit) block of assets whose current carrying cost is ₹ 1,000 lakhs. Current carrying cost of the CGU block of assets as per Accounting and Tax records are after charging depreciation of the current year. The company, after a detailed study by its technical team, has assessed the present value recoverable amount of this CGU block of assets at ₹ 550 lakhs. The value of the block of assets as per the Income Tax records is ₹ 800 lakhs. The Approving Authority of the company have issued a signed statement confirming that the impairment in the value of CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of taxable incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the tax rate of 30% plus 10% surcharge thereon. The depreciation rate for tax purposes is 15% and that as per books is 13.91% (4 marks)

Answer:

Statement showing Deferred Tax workings for the current year

	₹ in lakhs
Depreciation as per Accounting Books for the current year $\frac{\mathbf{1,000}}{\mathbf{(1-.1391)}} \times .1391$	161.58
Depreciation as per Income Tax Records for the current year $\frac{\mathbf{800}}{\mathbf{(1-.15)}} \times .15$	(141.18)
Timing difference	20.40
Tax effect of the above timing difference at 33%* (deferred tax asset) (A)	6.73
Impairment Loss recognised in the profit and loss account (1,000-550)	450.00
Impairment Loss allowed for tax purposes	Nil
Timing difference	450.00
Tax effect of the above timing difference at 33% (deferred tax asset) (B)	148.50
Total deferred tax asset (A+B)	155.23

2016 - May [1] {C} (a) 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:

(₹ In Lakhs)

	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 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.

(5 marks)

Answer:

	Particulars	(₹)
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	30,00,000
2.	Total cost of Phases I and II (₹ 34,00,000 + 64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. **For Phase I and Phase II**
   Since Phase I and Phase II have become operational during the year (assumed as mid of the year), half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be expensed off during the year.
2. **For Phase III and Phase IV**
   Interest of ₹ 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Question Based on AS - 2

2016 - May [1] {C} (c) The following information on Zenith Ltd. is given below. You are required to

(1) Calculate the value of raw materials and finished goods at cost.
(2) Calculate the value of closing stock when
  (a) Net realizable value of finished Goods B is ₹ 800
  (b) Net realizable value of finished Goods B is ₹ 600

Raw Material A

Closing Balance	1000 Units
	₹ per Unit
Cost price including excise duty	400
Excise duty (Cenvat credit is receivable on excise duty paid)	20
Freight Inward	40
Unloading Charges	20
Replacement Cost	300

Finished Goods B

Closing Balance	2400 units
	₹ per Unit
Raw materials consumed	440
Direct Labour	120
Direct Overhead	80

Raw material A is used for productions of finished Goods B. The total fixed overhead for the year was ₹ 4 Lakhs on normal capacity of 20,000 units.

(5 marks)

Answer:

1. **Calculation of Value of Raw Materials and Finished Goods at cost**

Raw Material: A

As per AS - 2, all the cost to bring Raw Material to the factory premises are require to be added for calculation of cost of Raw Material. Taxes and duties for which credit is available is required to be deducted.

Cost price	400
Less: Excise duty	(20)
Add: Freight inward	40
Add: Unloading Charges	20
Total cost	**440**

As per AS-2, cost or Replacement cost whichever is lower, is to be counted for Raw Material valuation.

So, cost of Raw material is per unit 300.

Total = 300 × 1,000 = 3,00,000

Raw Material: B

For calculation of Finished Goods Stock, all the direct overhead to produce the goods is to be added.

Raw Material cost	440
Direct Labour	120
Direct overhead	80
Fixed overhead $\left[\frac{4,00,000}{20,000}\right]$	20
Total cost	**660**

Closing stock of Finished goods = 2,400 × 660

= 15,84,000

2. **Calculation of closing stock:**

(a) **When Net Realizable Value (NRV) of the Finished Goods B is ₹ 800 per unit**

NRV is greater than the cost of Finished Goods B i.e. ₹ 660 per unit
Hence, Raw Material and Finished Goods will be valued at cost
Accordingly, value of closing stock will be:

	Quantity	Rate	Amount (₹)
Raw Material A	1,000	440	4,40,000
Finished Goods B	2,400	660	15,84,000
Total cost of closing stock			20,24,000

(b) **When Net Realizable Value of the Finished Goods B is ₹ 600 per unit**

NRV is less than the cost of Finished Goods B i.e. ₹ 660 per unit
Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV.
Accordingly, value of closing stock will be:

	Quantity	Rate	Amount (₹)
Raw Material A	1,000	300	3,00,000
Finished Goods B	2,400	600	14,40,000
Total cost of closing stock			17,40,000

2016 - May [1] {C} (d) The directors of Aqua Limited are considering the acquisition of an existing company Bose Limited engaged in a line of business suited to them. The financial data at the time of acquisition being:

	Aqua Ltd.	Bose Ltd.
Net profit after tax	₹ 36,00,000	₹ 7,20,000
Number of shares	7,20,000	3,00,000
Market price per share	₹ 150	₹ 50
Earnings per share	₹ 5	₹ 2.50
Price earnings ratio	30	20

It is expected that the net profit after tax of the two companies would continue to be ₹ 43,20,000. Aqua Limited would pay the amount in the form of shares of Aqua Limited.
Explain the effect on EPS of the merged company if Aqua Limited offers to pay ₹ 60 per share to the shareholders of Bose Limited. (5 marks)

Answer:

In the given case, Aqua Ltd. offers to pay ₹ 60 per share to Bose Ltd.

The share exchange ratio would be $\frac{60}{150} = 0.4$

It means, Aqua Ltd. would give 0.4 share for every one share of Bose Ltd. In other words, Aqua Ltd. would give 2 shares for 5 shares of Bose Ltd.
The total number of shares to be issued by Aqua Ltd. to Bose Ltd.

= 3,00,000 × 0.4 = 1,20,000 shares

Total number of shares of Aqua Ltd. after acquisition of Bose Ltd.

= 7,20,000 + 1,20,000 = 8,40,000 shares

Calculation of E.P.S. of the amalgamated company

$$= \frac{\text{Total Net Profit after Interest and Tax}}{\text{Total Number of shares}}$$

= 43,20,000/8,40,000

= ₹ 5.14 per share

After amalgamation, the EPS of Aqua Ltd., will improve from ₹ 5 to ₹ 5.14.

Note: Earnings per share of Bose Ltd., i.e. ₹ 2.50 per share as given in the question, does not tally with the calculation i.e. 7,20,000/3,00,000 = ₹ 2.40 per share. However, the above solution has been given on the basis of EPS of Bose Ltd. as given in the question.

2016 - May [7] Answer the following:

(c) Dark Ltd. purchased a Plant for ₹ 100 Lakhs (excluding excise duty of 10 Lakhs) from Mark Ltd. during 2015-16 and installed immediately. During 2015-16, the company produced excisable goods on which the excise authority charged excise duty to the extent of ₹ 9.00 Lakhs. Show the necessary Journal entries explaining the treatment of CENVAT credit in the books of Dark Ltd. You are also required to indicate the value of Plant at which it should be recorded in Fixed Asset Register. (4 marks)

Answer:

Journal Entries in the books of Dark Ltd. for the year 2015-16

	Particulars		(₹) in lakhs	
(a)	Plant A/c	Dr.	100	
	CENVAT credit A/c	Dr.	10	
	To Bank A/c or Trade Payables A/c			110
	(Being capitalization of plant)			
	CENVAT credit deferred A/c	Dr.	5	
	CENVAT credit receivable on capital goods A/c	Dr.	5	
	To CENVAT credit A/c			10
	(Being 50% of CENVAT credit transferred to receivable A/c and remaining deferred)			
(b)	Excise duty A/c	Dr.	9	
	To CENVAT credit receivable on capital goods A/c			5
	To Bank A/c			4
	(Being excise duty set off to the extent of 50% of excise duty paid in the first year of acquisition of capital asset)			

Plant would be recorded at ₹ 100 lakhs in fixed assets register.

2016 - May [7] Answer the following:

(e) C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties- Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss.

Comment whether the classification of the rent income made by the accountant is correct or not in the light of Schedule III to the Companies Act, 2013. (4 marks)

Answer:

As per Schedule-III and other Provisions of Companies Act, 2013, if a company has their one division doing non regular business and their main working area are some other business, then income from non regular business are required to be shown under "Other Income" in Profit & Loss Account.

As per the information given in the question, C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products and its one of the division deals in leasing of properties-Mobile Towers. Since its one division is continuously engaged in leasing of properties, it shall be considered as its principal or ancillary revenue-generating activities. Therefore, the rent arising from such leasing shall be shown under the head "Revenue from operations" and not as "other income".

Hence, the presentation of rent arising from the leasing of such properties as "other income" in the Statement of Profit and Loss is not correct. It should be shown under the head "Revenue from operations".

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:

- 6th year salary
  = $15{,}52{,}303 \times (110\%)^5$ = ₹ 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:

- 6th year salary
  = 15,52,303 × $(110\%)^5$ = ₹ 25,00,000
- Defined Benefit Obligation
  $= \frac{25,00,000}{12} \times 25\% \times 5 \text{ years}$ = ₹ 2,60,417
- Amount Charged to P&L every year
  $= \frac{2,60,417}{5}$ = ₹ 52,083.

Calculation of Service Cost & 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

Question Based on AS - 2 & 9

2016 - Nov [1] {C} (b) Sun Ltd. has fabricated special equipment (solar power panel) during 2014-15 as per drawing and design supplied by the customer. However due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31-03-2016 are as follows:

Solar power panel (WIP)	₹ 85 lakhs
Solar power panel (finished products)	₹ 55 lakhs
Sundry Debtor (solar power panel)	₹ 65 lakhs

The petition for winding up against the customer has been filed during 2015-16 by Sun Ltd.

Comment with explanation on provision to be made of ₹ 205 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statement of 2015-16. (5 marks)

Answer:

Case – 1: Sundry debtors (Solar Power Panel) - 65 lakhs:

Provision:

As **per AS 9, Revenue Recognition,** if uncertainty of collection arises after Revenue has been Recognised, a separate provision should be made thereof. Revenue already recognised should not be adjusted.

Analysis & Conclusion: Revenue has been recognised in 2014-2015 to the extent of ₹ 65 lakhs included in debtors which is not recoverable as on 31/3/2016. Since ₹ 65 lakhs is not considered recoverable it has to be provided for, as provision for doubtful debts.

Case - 2: Solar Power Panel (FG) - 55 Lakhs

Case - 3: Solar Power Panel (WIP) - 85 Lakhs

Provision:

As per **AS 2,** Valuation of Inventories, items of inventories which are Partially or Completely obsolete, should be valued at NRV, if cost is not fully recoverable.

Analysis & Conclusion for [Case - 2]:
Finished stock includes ₹ 55 lakhs made as per a customer's specific requirements. The earlier supplies made to this customer have not been realized, and the company has filed a winding up petition against the customer. Assuming this stock is not saleable to other customers hence, obsolete, and not having any NRV, it should be fully provided for as "Provision for unsaleable stock."

Analysis & Conclusion for [Case - 3]:
WIP includes ₹ 55 lakhs made as per a customer's specific requirements. The customer has requested for discontinuance of production, and a winding-up petition has been filed against him.
Assuming this stock does not have any NRV, it should be fully provided for as "Provision for obsolete WIP.

2016 - Nov [1] {C} (c) A construction contractor has a fixed price contract for ₹ 13,500 lakhs to build a railway tunnel. The contractor's initial estimate of contract costs is ₹ 12,000 lakhs. It will take 3 years to build the tunnel.
By the end of year 1, the contractor's estimate of contract costs has increased to ₹ 12,075 lakhs.
In year 2, the Railway Authority approves a variation resulting in an increase in contract revenue of ₹ 300 lakhs and estimated additional contract costs of ₹ 225 lakhs. At the end of year 2, costs incurred include ₹ 200 lakhs for materials at site to be used fully in year 3, to complete the work.
Contract costs incurred up to the reporting date of

Year 1. ₹ 3,139 lakhs
Year 2. ₹ 9,102 lakhs
Year 3. ₹ 12,300 lakhs

You are required to find out the amount of revenue, expenses and profit to be recognised in the statement of Profit and Loss in all the three years.
(5 marks)

Answer:

The Contact Revenues, Costs and Profits recognised in each of the 3 years are given below :

(₹ in lakhs)

Year	Particulars	Upto reporting date	Already recognised in previous years	Recognised during Current years
1.	Contract Revenue	13,500 × 26% = 3,510	Nil	3,510
	Contract Costs	= 3,139	Nil	3,139
	Contract Profits	371	Nil	371
2.	Contract Revenue	13,800 × 72.37% = 9,987	3,510	6,477
	Contract Cost	8,902	3,139	5,763
	Contract Profits	1,085	371	714
3.	Contract Revenue	13,800 × 100% = 13,800	9,987	3,813
	Contact Cost	12,300	8,902	3,398
	Contract Profit	1,500	1,085	415

Working Note:

Particulars (in ₹ lakhs)	As at year 1	As at year 2	As at year 3
Contract Price	13,500	13,500	13,500
Variations (Increase)	Nil	300	300
(a) Total Contract Revenue	13,500	13,800	13,800
(b) Costs till date	3,139	9,102 - 200 = 8,902	3,398
(c) Total Contract Costs	(Given) 12,075	12,075 + 225 = 12,300	(Note 1) 12,300
(d) % of Completion $= \frac{\text{Cost Till Date}}{\text{Total Contract Costs}} = \frac{b}{c}$	$= \frac{3,139}{12,075} = 26\%$	$= \frac{8,902}{12,300} = 72\%$	100%

Note:

1. Total contract costs = ₹ 12,075 estimated at end of year 1 + Additional 225 estimated in year 2.

2016 - Nov [1] {C} (d) From the following summary of cash account for the year ended 31st March, 2016 of X Ltd., Calculate cash flow from Operating Activities using direct method.

Particulars	₹	Particulars	₹
To Balance b/d	1,25,000	By Cash purchases	1,30,000
To Cash sales	1,50,000	By Trade payables	1,44,000
To Trade receivables	1,60,000	By Rent paid	50,000
To Interest & dividend	2,000	By Office expenses	25,000
To Loan from Bank	1,50,000	By Income tax	30,000
To Sale of investment	80,000	By Investment	90,000
To Trade commission	40,000	By Repayment of loan	1,00,000
		By Interest on loan	7,000
		By Balance c/d	1,31,000
	7,07,000		**7,07,000**

(5 marks)

Answer: **Cash Flow statement of X Ltd.**
for the year ended 31st March, 2016 (Direct Method)

Cash Flow from Operating Activities	Amount (₹)	Amount (₹)
Cash Received from Customers towards Sale of Goods and Rendering of Services		
Cash Sales	1,50,000	
Trade Receivables Collection	1,60,000	
Commission Income	40,000	
	3,50,000	3,50,000
Cash Payments to Suppliers for Good and Services		
Cash Purchases	1,30,000	
Trade Payables Payment	1,44,000	
Rent Paid	50,000	
Office Expenses	25,000	
	3,49,000	(3,49,000)

Cash Generated from Operations before Taxes		1,000
Less: Taxes paid (assumed relating to Operating Activities only)		(30,000)
Net Cash Flow from/(used in) operating activities		(29,000)

Question Based on AS - 22

2016 - Nov [7] Answer the questions:

(b) From the following details of Jubilee Ltd. for the year ended 31.3.2016. Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to Profit and Loss Account for the year ended 31.3.2016.

Particulars	₹
Accounting Profit	15,00,000
Book Profit as per MAT	8,75,000
Profit as per Income Tax Act	1,50,000
Tax Rate	30%
MAT Rate	7.50%

(4 marks)

Answer:

Particulars	Computation	Amount (₹)
(a) Tax at normal rates on taxable income	₹ 1,50,000 × 30%	45,000
(b) Tax based on MAT provisions	₹ 8,75,000 × 7.50%	65,625
(c) Tax payable for the year = (a) or (b), whichever is higher	Hence, current tax	65,625
(d) Difference between Accounting profit and taxable income	₹ 15,00,000 - ₹ 1,50,000	13,50,000
(e) Permanent Difference	Not Specified	NIL
(f) Timing Difference = (d) - (e)	₹ 13,50,000 - NIL	13,50,000
(g) DTL = Timing Difference × Regular tax rate	₹ 13,50,000 × 30%	4,05,000
(h) Tax expense for the year = current tax + Deferred tax	₹ 65,625 + ₹ 4,05,000	4,70,625

Note: 1. DTA/DTL should be credited based on the regular tax rates not at the MAT rate.

2. It is assumed that the company does not anticipate availing of MAT credit in the future years.

3. Reconciliation of total tax expense
   = (Profit as per books × tax rate) + Additional - tax obligation due to MAT.
   = (15,00,000 × 30%) + (65,625 - 45,000)
   = ₹ 4,70,625

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.

Question Based on AS - 26

2016 - Nov [7] (e) Nirman Solutions incurred costs to develop and produce a routine, low risk computer software product, as follows, as on 31st March, 2016:

Completion of detailed program design	₹ 15,00,000
Costs incurred for coding and testing to establish technological feasibility	₹ 8,00,000

Other coding and testing costs after establishment of technological feasibility	₹ 6,50,000
Cost of producing product masters for training materials	₹ 4,20,000
Duplication of computer software and training materials from Product masters (5000 units)	₹ 2,50,000
Packaging product (2500 units)	₹ 1,50,000

(i) What amount should be capitalized as software cost, subject to amortization of Nirman Solutions as on 31st March, 2016.

(ii) What amount should be reported in Inventory of Nirman Solutions as on 31st March, 2016. (4 marks)

Answer:

Particulars	Reason and Treatment
1. Upto technical feasibility has been established	• As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility has been established for the product.
2. Completion of detailed program design	• Technological feasibility has been established upon completion of detailed program design or working model. In this case, ₹ 23,00,000 would be recorded as an expense (₹ 15,00,000 for completion of detailed program design and ₹ 8,00,000 for coding and testing to establish technological feasibility.

3. Capitalisation of Cost	• Cost incurred from the point of technological feasibility until the time when products costs are incurred are capitalized as software cost. In this situation, ₹ 10,70,000 (i.e. ₹ 6,50,000 + ₹ 4,20,000) will be capitalized as the cost of the software.
4. Cost of Duplication of computer software and training material	• The cost of duplication of computer software and training materials from product masters (5,000 units) amounting ₹ 2,50,000 and packaging product (2,500 units) amounting ₹ 1,50,000 should be reported as inventory cost as on 31st March, 2016 i.e. inventory value is total of ₹ 4,00,000.

NOTE: 1. Amount capitalized as intangible asset.
= ₹ 6,50,000 + ₹ 4,20,000 = ₹ 10,70,000

2. Value of inventory should comprise proportionate cost of items 5 and 6 along with amortization expense, as applicable.

2017 - May [7] Answer the following:

(a) PQR Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2016-17 the company wants to recognize the entire interest receivable. Do you agree?

(4 marks)

(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)

(e) Sky Limited are Heavy Engineering Contractors specializing in construction of Flyovers. The company just entered into a contract with a local municipal corporation for building a flyover. No activity has started on this contract.

As per the terms of the contract, Dee Limited will receive an additional ₹ 50 Lakhs if the construction of the flyover were to be finished within a period two years of the commencement of the contract. The Accountant of the Dee Limited wants to recognise this revenue since in the past the company has been able to meet similar targets very easily.

With reference to relevant Accounting Standard, discuss whether the accountant's proposal to recognize incentive receipt as contract revenue is correct or not. (4 marks)

KZ - 17 **Knowledge Zone**

Difference between AS 11 and IAS 21

AS 11	IAS 21
Does not make any such exclusions. However forward contract has been removed vide limited revision in AS-11. Consequent to Issuance AS 30.	Excludes from its scope forward contract.

Based on Integral and Non-integral operation.	Based on functional currency approach.
Reporting currency shall always be local currency.	Based on presentation currency. Which can be different from local currency.

Similarly Asked Questions				
No.	Category	Question	Marks	Frequency
1	Practical	Practical Question of 09- May [1] (b) 10 - May [1] (b)	4, 5	2 Times

Table Showing Marks of Compulsory Questions										
Year	12 N	13 M	13 N	14 M	14 N	15 M	15 N	16 M	16 N	17 M
Practical	20	20	20	20	20	20	20	15	20	
Total	20	20	20	20	20	20	20	15	20	