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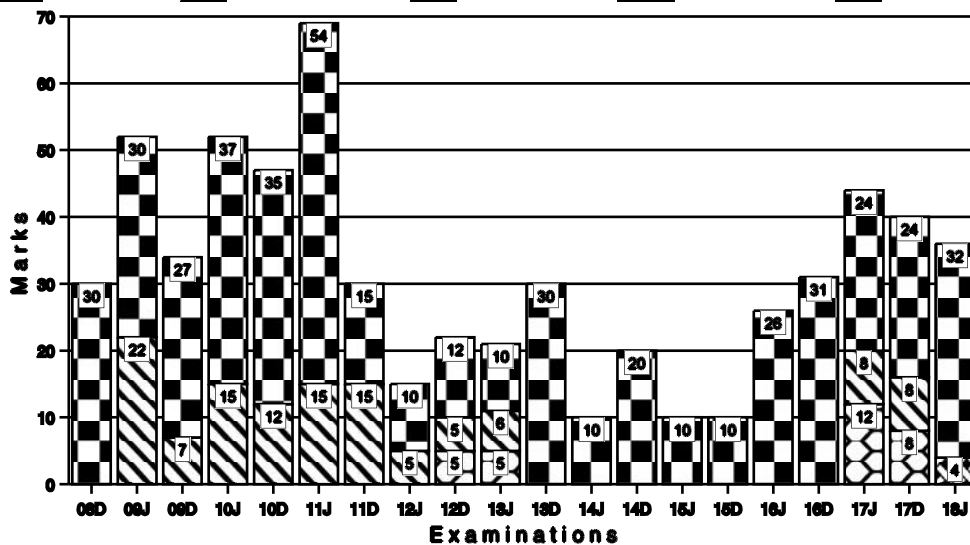
ACCOUNTING STANDARDS

THIS CHAPTER INCLUDES

- Generally Accepted Accounting Principles in India
- Accounting Standards (AS) - Applicability, Interpretation, Scope and Compliance
- International Financial Reporting Standards
- Competitive Intelligence, Communication of Strategy, Result Analysis
- Relative View of AS vs. Ind AS vs. IFRS

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

Legend



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SHORT NOTES

2012 - Dec [8] Write short note on the following:

(d) Impairment of asset and its application to inventory. **(5 marks)**

Answer:

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

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

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

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

(d) Convergence of Accounting Standards with IFRS. **(5 marks)**

Answer:

Convergence means to harmonize the Indian Accounting Standards with IFRS (International Financial Reporting Standards). There are some differences between ASs and IFRS. To converge means to sort-out these differences and agree to one way of accounting treatment which will be more investor friendly and will also enhance the comparability of financial statements. The ICAI has published the roadmap of convergence with IFRS. Presently Accounting Standards has been merged with IFRS and being renamed as Ind AS.

However, convergence does not mean that IFRS has been fully adopted. While adopting IFRS, the local business environment has also been considered and IFRS has not been adopted word by word.

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

- (a) Features of International Financial Reporting Standards (IFRS).
- (c) Objectives of Ind AS-110.
- (e) Conditions as per AS-14 amalgamation in the nature of merger.

(4 marks each)

Answer:

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

The characteristics of IFRS are:

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

They are: Introduction, Standards Basis of Conclusion.

(c) Objective of Ind AS - 110

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

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

- (a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements.
- (b) defines the principle of control, and establishes control as the basis for consolidation;
- (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidated the investee;
- (d) sets out the accounting requirements for the preparation of consolidated financial statements; and

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

(e) Amalgamation in the nature of merger:

- (a) All the assets and liabilities of the transferor company are taken over by the transferee company.
- (b) Such assets and liabilities are incorporated without any adjustment (except to ensure uniformity of accounting policies) in the financial statements of the transferee.
- (c) At least 90% equity holders of transferor become equity shareholders of transferee by virtue of the amalgamation.
- (d) The consideration for the amalgamation is discharged by equity shareholders in the transferee, except for fractional shares by cash.
- (e) The business of the transferor is intended to be carried on by the transferee.

2017 - Dec [8] Write short notes on the following:

(d) Disclosure requirement as per AS-21.

(e) IFRS-2 : Shear-based payments.

(4 marks each)

Answer:

(d) Disclosure in terms of AS-21

- (a) Disclosure should be made in accordance with the format of the parent company's financial statements. Further disclosure under all the mandatory accounting standards when material and also compliance with General Classifications should be made in order to ensure comparability for one period to the next. Supplementary information about the effect of acquisition and disposal of subsidiaries on the financial position at the reporting date and results for the reporting period with comparative preceding period amount should be disclosed.
- (b) Reasons for exclusion from consolidation of subsidiaries should be disclosed List of all subsidiaries-name, country of incorporation/residence, proportion of ownership interest and if different proportion of voting power.
- (c) Nature of relationship if the parent does not own directly or indirectly more than 50% of voting power of the subsidiary.
- (d) Names of subsidiary/subsidiaries of which reporting dates are different from that of the parent and the difference in reporting dates

Answer:

(e) IFRS 2: Share-based Payment

- IFRS 2 was issued by the International Accounting Standards Board in 2004. The Standard has been effective since January 1, 2005.
- This standard deals with the recognition of share-based payment transactions of an entity.
- IFRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.
- **IFRS 2 recognises three types of share based payments. They are:**
 1. Equity-settled transactions for goods or services acquired by an entity;
 2. Cash-settled but price or value of the goods or services based on the equity instrument of the entity; and
 3. Transactions for goods or services acquired by the entity in which either the entity can settle or supplier can claim settlement by equity instruments of the entity.

DISTINGUISH BETWEEN

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

DESCRIPTIVE QUESTIONS

2009 - June [5] (a) State the scope of disclosure of Accounting Policies as per Accounting Standard ? **(8 marks)**

(b) What is the material effect of changes in Accounting Policies? **(7 marks)**

Answer:

(a) The following is the scope and explanation to the Indian Accounting Standards.

AS – 1 DISCLOSURE OF ACCOUNTING POLICIES

This standard deals with disclosure of significant accounting policies followed in the preparation and presentation of the financial statements and is mandatory in nature.

The accounting policies refer to the specific accounting principles adopted by the enterprise .

The statement of affairs (Balance Sheet) and of the Profit or Loss (P/L A/c) are likely to be significantly affected by the accounting policies followed.

Proper disclosure would ensure meaningful comparison both inter/intra-enterprise and also enable the users to properly appreciate the financial statements.

Financial statements are intended to present a fair reflection of the financial position, financial performance and cash flows of an enterprise. The appropriate application of AS and accounting policies with additional disclosure would ensure a fair presentation of financial statements. There remains no scope for covering inappropriate accounting treatment by disclosure of accounting policies and/or by explanatory notes.

Areas involving different accounting policies by different enterprises are:

- Methods of depreciation, depletion and amortization;
- Treatment of expenditure during construction;
- Valuation of inventories;
- Treatment of intangible assets;
- Treatment of retirement benefits;
- Recognition of profit on long term contracts;
- Treatment of contingent liabilities.

The basic and fundamental consideration in the selection of accounting policy by an enterprise is to ensure true and fair state of affairs as at the Balance sheet date and of the profit / Loss for the period ending on that date.

(b) Changes in Accounting Policies

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have material effect in the later period should be disclosed. In the case of a change in accounting policies, having material effect in the current period, the amount by which any item in the financial statements, is affected by

such change should also be disclosed to the extent as ascertainable, otherwise the fact that the effect is not (wholly or partially) ascertainable, should be disclosed.

Accounting policies pertain to events or transactions which did not occur previously or that were immaterial.

2009 - June [7] (b) Financial statements are based on historical costs. Evidently inflation or deflation distorts the quality of the financial information furnished in them for the benefit of various users. Discuss the impact of inflation on financial statements and how inflation accounting and management help in improving the quality of these statements.

(7 marks)

Answer :

- Financial statements have traditionally been prepared on the basis of historical information regarding cost of acquisition of assets. This assumes stability of process and value of money. However, under steadily rising or falling prices historical cost accounting fails to provide true picture of the financial position of a business firm and its profitability. Inflation usually impacts the quality of the financial statements in following ways:
- The prices of assets stated in the balance sheet are much lower than their current replacement costs. As a result, the business firms remain undervalued and become vulnerable to unfriendly takeover bids, which may not be in overall interest of shareholders.
- As the prices of fixed assets are undervalued, the amount of depreciation charged to income statement will also be correspondingly lower. This will present distorted picture of manufacturing costs and may lead to making inappropriate decisions pertaining to making or buying products.
- If goods and raw materials are purchased for resale, inflation will inflate the margin as the purchase prices charged to income statement will be based on historical costs, which will be lower than the current prices prevailing. These overstated profits will also lead to enhancement of expectations for dividends by shareholders.
- Inflation tends to erode the purchasing power of items of current assets such as cash or near cash. So also the real values of fixed liabilities do not get reflected in the statements.

- Inflation also leads to profit being overstated as all expenses are charged to income statement at historical costs while income from sales are charged at current prices, which are higher. Inflation also tends to overstate the growth rates in values of sales income, profits and capital additions. These rates have to be adjusted for inflation to get a realistic picture.
- Thus it can be seen that inflation tends to mislead both the internal and external users of financial information furnished by companies.

The objectives of inflation accounting and management are multifold as follows:

- To improve the quality of information furnished in financial statements for decision making.
- To give effect to the changes in purchasing power caused by inflation by measuring real incomes and expenses during an accounting period, and
- To provide a better basis for inter period comparison of financial statements.

2009 - Dec [2] (a) Explain the disclosures to be made to the primary segments. **(4 marks)**

Answer:

According to AS 17 'Segment Reporting' following disclosures shall be made in respect of Primary segments:

- (i) **Segment revenue**, classified into external revenue (revenue from sales to external customers) and internal revenue (revenue from transactions with other segments);
- (ii) **Segment result**;
- (iii) Total carrying amount of **segment assets**;
- (iv) Total amount of **segment liabilities**;
- (v) **Total cost** incurred during the period **to acquire segment assets** that are expected to be used during more than one period (tangible and intangible fixed assets);
- (vi) **Total amount of expense** included in the segment result for depreciation and amortization in respect of segment assets for the period and
- (vii) **Total amount of significant non-cash expenses** other than depreciation and amortisation in respect of segment assets, that were included in segment expense and therefore, deducted in measuring segment result;

(viii) **Any other information** required for better presentation of financial statements.

2009 - Dec [6] (c) Discuss some key differences between IAS, US GAAP and Indian AS with respect to fixed assets. **(3 marks)**

Answer :

Some key differences between Indian Accounting Standard, IAS and US GAAP are as follows:

Indian Accounting Standard (AS)	IAS	US GAAP
Fixed assets are usually carried at historical cost. Revaluation of fixed assets is permitted in AS-10, AS-11 (revised) does not prescribe the capitalization of exchange differences arising on repayment of liabilities incurred for the purpose of acquiring Fixed assets even after the asset is put to use.	Fixed assets are carried at historical cost. Revaluation of fixed assets is allowed but the capitalization of exchange difference arising on repayment of liabilities incurred for the purpose of acquiring fixed assets is not permitted.	Fixed assets are carried at historical cost. Only down-ward revaluation is permitted for impairment. Exchange fluctuations on loans taken for purchase of fixed assets are expensed when incurred.

2010 - June [2] (a) Explain the difference between IFRS, US GAAP, I GAAP related to

- (i) Change in accounting policy
- (ii) Prior period items

(5 marks)

17.10**Solved Scanner CMA Final Gr. IV Paper 17 (New)****Answer :**

Particulars	IFRS	US GAAP	I GAAP
(i) Change in accounting policy	IFRS requires retro-spective application for the earliest period practical and adjustment of opening retained earnings.	Requires prospective application of change in accounting policy and disclosure of effect on income before extraordinary items on the face of income statement as separate section. Only in specific case retrospective is applicable.	Under I GAAP, effect for change in accounting policy is given with prospective effect, if the same is material.
(ii) Prior period items	A prior period item/error should be corrected by retro-spective effect by easement of opening balance of assets, liabilities or equities.	Mandates retro-spective application of error and requires restatement of comparative opening balance with suitable footnote disclosure.	Requirement of separate disclosure of prior period in the current financial statement & no testament of retained earnings are required.

2010 - June [3] (a) Explain the criteria of identification of Reportable Segments as Per AS-17. **(5 marks)**

Answer :**Criteria for identification of Reportable Segments:**

As per Para 27 of AS 17 'Segment Reporting' a business segment or geographical segment shall be identified as reportable segment if all or any of the listed criteria are/ is satisfied:

- (i) **Revenue criteria:** Its revenue from sales to external customer and from other transactions with other segment is 10% or more of the

- total revenue i.e. external and internal revenue of all segments.
- (ii) **Result Criteria:** Its segment result whether profit or loss is 10% or more of:
 - (a) The combined result of all segments in profit; or
 - (b) The combined result of all segments in lossWhichever is greater in absolute amount; or
 - (iii) **Assets Criteria:** Its segment assets are 10% or more of the total assets of all segments.
 - (iv) **External revenue attributable to reportable segments constitutes less than 75%:** If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, then additional segments should be identified as reportable segment even though they don't meet the 10% threshold limit until atleast 75% of total enterprise revenue is included in reportable segments.

2010 - June [6] (b) Briefly describe, how do you calculate "Diluted earnings per share" as per accounting standard 20. **(5 marks)**

Answer :

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

The amount of net profit or loss for the period attributable to equity shareholders should be adjusted, after taking into account any attributable change in tax expense for the period.

The number of equity shares should be the aggregate of the weighted average number of equity shares (as per paragraph 15 and 22 of AS 20) and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Dilutive potential equity share should be deemed to have been converted into equity shares at the beginning of the period, if issued later, the date of the issue of the potential equity shares.

Potential equity shares should be treated as dilutive, when and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

2010 - Dec [1] {C} (c) (ii) Explain the meaning and significance of going concern concept of accounting. **(2 marks)**

Answer:

Significance of Going Concern: The enterprise is normally viewed as a going concern that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or curtailing.

2010 - Dec [3] (b) An enterprise, which has neither more than one business segment nor more than one geographical segment, is required to disclose segment information as per AS 17. Comment. **(3 marks)**

Answer:

In case, by applying the definition of business segment and geographical segment contained in AS 17, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per AS 17 is not required to be disclosed.

However, the fact that there is only one 'business segment' and 'geographical segment' should be disclosed by way of a note only.

2010 - Dec [4] (c) How should deferred tax assets and deferred tax liabilities be disclosed in the balance sheet of a company? **(2 marks)**

Answer:

In case of a company, deferred Tax Assets should be disclosed on the face of the balance sheet separately after the head 'Investments' and deferred Tax Liabilities should be disclosed on the face of the Balance Sheet Separately after the head Unsecured Loan.

2010 - Dec [8] (a) Discuss some key differences between IFRS, US GAAP and IGAAP related to

- (i) Extra ordinary events;
- (ii) Dividends on ordinary equity shares.

(5 marks)

Answer :

Basis of Difference	IFRS	US GAAP	I GAAP
(i) Extra ordinary Events	Disclosure is prohibited.	Nature should be both: (a) infrequent (b) Unusual	Distinct from the ordinary.

		Disclosed separately on the face of income Statement net of taxes after results from operations.	
(ii) Dividends on ordinary Equity Shares	Presented as a deduction in the statement of changes in shareholders' equity in the period when authorized by shareholders' Dividends are accounted in the year when declared.	Similar to IFRS.	Presented as an appropriation to the income statement. Dividends are accounted in the year when proposed.

2011 - June [1] {C} (b) State any five Indian Accounting Standards which make use of Fair Value. **(1 × 5 = 5 marks)**

Answer :

AS – 2, 10, 13, 15, 26, 28 [Any Five].

2011 - June [8] Answer the following :

(a) State the criteria of Reportable Segment as per AS-17. **(5 marks)**

(e) Compare the following items as per Indian AS and IFRS.

(i) Impairment of Assets (ii) Business Combination. **(5 marks)**

Answer:

(a) *Please refer 2010 - June [3] (a) on page no. 21*

(e)

Items for comparison	Indian AS	IFRS
(i) Impairment of Assets	Assets are impaired if 'Recoverable Amount' is less than the 'Carrying Capital Amount'. Recoverable Amount Account will be calculated as higher of net selling price and value in used based on	Similar to Indian AS However, assets are classified and disclosed separately on the face of the balance sheet as held for sale or disposal.

17.14**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

	discounted cash flows. Impairment test is to be conducted every year and if there is upward increase in the value of assets, then reversal of impairment losses is required in certain circumstances. Assets are not separately classified or disclosed as held for sale on the face of the balance sheet.	
(ii) Business Combinations	No particular standard has been issued by ICAI till date. However, all business combinations except pooling of interest method for certain amalgamations.	All business acquisitions are business combinations as per IFRS 3.

2011 - Dec [1] {C} (b) ANNA Ltd. purchased an oil well for \$ 200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? **(5 marks)**

Answer :

As per IFRS 6 "Exploration for and Evaluation of Mineral Resources", depletion rate and depletion expense can be computed as:

Depletion rate = Current period production / Total barrels of production
= 20,000 barrels/500,000,000 barrels = 0.00004.

Depletion expenses for the first year = Purchase price x Depletion rate
= \$2,00,000,000 x 0.00004 = \$8,000.

2011 - Dec [8] Answer the followings:

- (a) State the objectives of financial reporting. **(5 marks)**
(c) State the criteria of Reportable Segment as per AS 17. **(5 marks)**

Answer :

(a) The following are the objectives of Financial Reporting:

- (i) To provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit, and similar decisions.
- (ii) To provide information to help investors, creditors, and others to assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise.
- (iii) To provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owner's equity), and the effect of transactions, events and circumstances that change resource and claims to those resources.
- (iv) To provide information about an enterprise's financial performance during a period.
- (v) To give information about an enterprise's performance provided by measures of earnings and its components.
- (vi) To provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise's resources to owners, and about other factors that may affect an enterprise's liquidity or solvency.
- (vii) To provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.
- (viii) To provide information that is useful to managers and directors in making decisions in the interest of owners.

Answer:

(c) *Please refer 2010 - June [3] (a) on page no. [21](#)*

2012 - June [8] Answer the following:

(c) Objections to Segmental Reporting

(5 marks)

Answer:

Objections to Segmental Reporting:

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

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

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

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

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

Answer:

(b) Meaning:

- (i) As per AS-18, a Company is considered to be a Fellow Subsidiary of another company, if both the companies are subsidiaries of the same holding company.
- (ii) Say, A Ltd. is holding 60 % shares of B Ltd. and A Ltd. also holds 55% shares in C Ltd. Then B Ltd. and C Ltd. are the subsidiaries of A Ltd., i.e., A Ltd. is the holding company of both B Ltd. and C Ltd. In this given Example, B Ltd. and C Ltd., are “Fellow Subsidiaries” of each other.

(c) Major considerations governing selection and application of Accounting policies are:

- (i) Prudence;
- (ii) Substance over form;
- (iii) Materiality.

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

Answer:

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

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

Answer:

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

payments from the stand point of lessee.

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

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

Answer:

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

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

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

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

Answer:

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

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

- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and
- (b) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the statement of profit and loss.

Scope

The classification and presentation requirements of this Ind AS apply to all recognised non-current assets and to all disposal groups of an entity.

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

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

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

PRACTICAL QUESTIONS

2008 - Dec [5] (a) You are provided with the details of a construction contract obtained by United Engineers Ltd. The contract is for ₹ 8,00,000 to be completed in 3 years. Data pertaining to the construction period are:

	Yr. I	Yr. II
	₹	₹
Yr. III		
₹		
Cumulative costs incurred to date	2,40,000	5,76,000
6,48,000		
Estimated cost yet to be incurred		
at year end	4,80,000	64,000

Progressive billing made during the year	1,60,000	5,92,000
48,000		
Collections of billings	1,20,000	4,80,000
2,00,000		

The firm seeks your advice and assistance in the presentation of accounts keeping in view the disclosure requirements of AS-7. Comply with the firm's request. **(12 marks)**

(b) While preparing its final accounts for the year ended 31st March, 2008, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2008 a debtor for ₹ 5 lakh had suffered heavy loss due to subversive act of terrorists: the loss was

17.20**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

not covered by any insurance policy. In April, 2008 the debtor became a bankrupt.

Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2008?

Answer with reasons.

(3 marks)

Answer :

	Yr. I	Yr. II
Yr. III		
(a) Memorandum	₹	₹
Initial amount of Revenue agreed in contract	8,00,000	8,00,000
8,00,000		
Variation	-	--
Total contract Revenue (A)	<u>8,00,000</u>	<u>8,00,000</u>
8,00,000		
Contract cost incurred	2,40,000	5,76,000
6,48,000		
Contract cost yet to be incurred to complete	4,80,000	64,000
-		
Total estimated contract cost (B)	<u>7,20,000</u>	<u>6,40,000</u>
6,48,000		
Estimated profit (A - B)	<u>80,000</u>	<u>1,60,000</u>
1,52,000		
Stage of completion		
(₹ 2,40,000/ ₹7,20,000) × 100	33⅓%	
(₹ 5,76,000/₹ 6,40,000) × 100		90%
(₹ 6,48,000/₹ 6,48,000) × 100		100%

Revenue, Expense and Profit recognized in Profit and Loss Statement

Recognized in current year	Up to the reporting Date	Recognized in prior year
₹	₹	₹
Year I		

Revenue (₹ 8,00,000 × 33⅓%)	2,66,667	-
26,667		
Cost incurred		<u>2,40,000</u> -
		<u>2,40,000</u>
Profits	<u>26,667</u>	<u>-26,667</u>
Year II		
Revenue (₹ 8,00,000 × 90%)	7,20,000	2,66,667
4,53,333		
Cost incurred	<u>5,76,000</u>	<u>2,40,000</u>
<u>3,36,000</u>		
Profits	<u>1,44,000</u>	<u>26,667</u>
Year III		
Contract Revenue earned (100%)	8,00,000	7,20,000
80,000		
Cost incurred		<u>6,48,000</u>
		<u>5,76,000</u>
Profits	<u>1,52,000</u>	<u>1,44,000</u>

Contract Disclosure (AS -7)

	Year I	Year II
Year III	₹	₹
₹		
1. Contract Revenue recognized	2,66,667	7,20,000
2. Contract expenses recognized	2,40,000	5,76,000
3. Recognized Profit (Loss)	26,667	1,44,000
4. Contract cost incurred	2,40,000	5,76,000
5. Contract cost that relates to activity recognized as an asset	nil	nil
6. Progress billing	1,60,000	7,52,000
7. Unbilled contract revenue	1,06,667	nil
8. Advances	1,20,000	4,80,000
9. Contract cost incurred + recognized profit/(Loss)	2,66,667	7,20,000
10. Gross amount due from customer	1,06,667	nil
11. Gross amount due to customer	nil	32,000
12. Retention	40,000	1,52,000

Answer:

(b) Yes, the company should provide for full loss arising out of insolvency of the debtor for the year ended 31-03-2008.

As per AS - 4, events occurring after the balance sheet date but before the date of finalization of the balance sheet, the circumstances of which were existing on the balance sheet date must be adjusted in accounts.

In the instant case, circumstances were existing on the balance sheet date and event of April (declaration of insolvency) only confirms the circumstances existing on the date of balance sheet, i.e. 31-03-2008.

2008 - Dec [7] (a) S Ltd. have six segments with the following data:

Particulars	₹ in crore					
	A	B	C	D	E	F
Segment Revenue	250	520	70	50	60	50
Segment Result	50	(190)	10	10	(10)	30
Segment Assets	100	200	75	50	50	25

The Finance Director is of the view that it is sufficient that segments A and B only be reported Advise. **(10 marks)**

(b) Softex Ltd. acquired an equipment on lease from Simplex Ltd. (Lessor) on April 1, 2008 for 3 years. Its useful life is 5 years. Both the cost and the fair market value of the equipment are ₹ 6,00,000. The amount (annual lease payment) will be paid in three instalments at end of each year. Simplex Ltd. will get back the equipment upon termination of the lease. However, Softex Ltd. is given an option to retain the equipment at a nominal value at the end of the lease period. The unguaranteed residual value at the end of 3 years is ₹ 80,000.

The internal rate of return (IRR) of the investment is 10%:

[$PVIFA_{10\%, 3 \text{ yrs}} = 2.4868$; $PVIF_{10\%, 3 \text{ yr.}} = 0.7513$].

Required:

- State with reason whether the lease constitutes a finance lease. **(3 marks)**
- Calculate unearned finance income keeping in view the relevant Accounting Standard (AS 19). **(2 marks)**

Answer :

(a) According to AS 17 on 'Segment Reporting' issued by the ICAI, a business segment or geographical segment should be identified as a reportable segment if:

- Its revenue from sales to external customers and from

- transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or
- (b) Its segment result, whether profit or loss, is 10% or more of:
 - (i) the combined result of all segments in profit, or
 - (ii) the combined result of all segments in loss,
 - whichever is greater in absolute amount: or
 - (c) Its segment assets are 10% or more of the total assets of all segments.

If total external revenue attributable to reportable segment constitute less than 75% of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10% threshold until at least 75% of total enterprise revenue is included in reportable segments. Based on the above criteria, the following segments of S Ltd are reportable segments:

Basis	Reportable Segment
Segment Revenue	A and B
Segment Results	A, B and F
Segment Assets	A, B, C, D and E

Hence, the contention of the Finance Director that only A and B need reporting is not correct, as all the six segments are reportable segments.

Answer:

- (b) (i) The IRR of the investment is 10% (given).

Investment in lease is ₹ 6,00,000.

So, from the lessor's point of view, PV of minimum lease payment (MLP) + unguaranteed residual value = ₹ 6,00,000.

Now, PV of unguaranteed residual value = ₹ 80,000 × 0.7513 = ₹ 60,104.

PV of MLP is then ₹6,00,000 - ₹ 60,104 = ₹ 5,39,896.

The fact that.....

1. The PV of MLP at the beginning of the lease period substantially.
(₹ 5,39,896 ₹ 6,00,000 or 90% approx.) covers the initial fair value.
2. the lease period covers major part (60%) of the life of the asset, and

17.24**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

3. the lessee is given the option to retain (buy) the equipment for a nominal value at the end of the lease period.....makes the lease a finance lease.

(ii) Unearned Finance Income:

Annual lease payment = ₹ 5,39,896 ÷ 2.4868 = ₹ 2,17,104.71.

	₹
Gross investment in lease : ₹ 2,17,104.71 × 3 =	6,51,314
Add : Unguaranteed residual value	<u>80,000</u>
	7,31,314
(Less) PV of Gross investment in lease	<u>(6,00,000)</u>
Unearned Finance Income	₹ 1,31,314

2009 - June [6] The Board of Directors of Venus Pens Ltd. has decided (on 11.11.2008) to discontinue a portion of PENS division, which presently manufactures two different models- Fancy and Popular, by March, 2009. The company will, however, continue its Popular pens model. During the financial year ended on March, 2009 the relevant financial information of the Pens division is as follows :

	Total	Popular Pens
Fixed Assets	1,700	600
Current Assets	600	200
Current Liabilities	300	150
Loans	1,100	250
Segmental revenue	2,000	600
Segmental expenses	1,400	200
Net operating cash flow	600	700
Investment cash flow	—	(100)
Financing cash flow	300	300

The Board of Directors has approved the plan on 11.11.2008 and announced the plan on 12.12.2008. In this case initial disclosure even has occurred before the end of the enterprise's financial reporting date and so initial disclosure shall be made in the financial statements for the period ended in March, 2009. Effective tax rate is 30%. Advise on disclosure.

(15 marks)

Answer :

The following Disclosure is suggested

Notes on Accounts (March, 2009)

Note No....

On 11th November, 2008, the BOD approved of a formal plan to dispose off 'Fancy Pens' division, which is one of the distinguishable components of the entity, though it is but a part of the Pens Business Segment. The plan was announced on 12th December, 2008. This disposal is consistent with the company's long term strategy to focus its activities on the popular Pens division. The company is actively seeking a buyer, and it is expected that during the year ending March, 2010 the discontinuance of operations will be effectively completed.

The carrying amounts, as of the balance sheet date, of the total assets to be disposed off, and liabilities to be settle in respect of Fancy Pens are as follows.	Amount (₹ In Lakhs)
Fixed Assets	1,100
Current assets	400
Current Liabilities	150

The amount of revenue, expenses and cash flows in respect of the ordinary activities attributable to the discontinuing operation during the current year are as follows.

	Discontinuing operation	Continuing operation	Total
Revenue	1,400	600	2,000
Less: Expenses	(1,200)	(200)	(1,400)
Net operating income	200	400	600
Less: Loss on sale of investments	-	(100)	(100)
Profit before tax	200	300	500
Less: Tax Expense	(60)	(90)	(150)
Net operating flows	140	210	350
Financial cash flows	-	300	300

2009 - June [8] From the following information of Alfa Ltd. calculate earning per share(EPS) in accordance with AS-20:

17.26**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

	(₹)	
	Year 31.03.2009	Year 31.03.2008
1. Net profit before tax	3,00,000	1,00,000
2. Current tax	40,000	30,000
Tax relating to earlier years	24,000	(13,000)
Deferred tax	30,000	10,000
3. Profit after tax	<u>2,06,000</u>	<u>73,000</u>
4. Other information :		
(i) Profit includes compensation from Central Government towards loss on account of earthquake in 2006(non-taxable)	1,00,000	Nil
(ii) Outstanding convertible 6% Preference shares 1,000 issued and paid on 30.09.2007. Face value ₹ 100, Conversion ratio 15 equity shares for every preference share.		
(iii) 15% convertible debentures of ₹ 1,000 each total face value ₹ 1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.06.2007.		
(iv) Total no. of Equity shares outstanding as on 31.03.2009, 20000 including 10000 bonus shares issued on 01.01.2009, face value ₹ 100.		

(15 marks)**Answer:****Calculation of Earning Per Share (EPS) of Alfa Ltd.**

			₹ Year ended 31.3.09	₹ Year ended 31.3.08
1	A	Earning after extraordinary items (2,06,000 - 6,000) (73,000 - 3,000)	2,00,000	70,000
	B	No. of Equity Shares	20,000	20,000
	C	Basic Earnings Per Share [A/B]	10.00	3.50
	A	Earning before extraordinary items	1,00,000	70,000
	B	No. of Equity Shares	20,000	20,000
	C	Basic Earnings Per Share [A/B]	5.00	3.50

2	Tax Rate Applicable	$40,000 + 30,000/2,00,000$	35%	
		$30,000 + 10,000/1,00,000$		40%
3	A	Dividend on Weighted Average Preference Shares	6,000	3,000
	B	Incremental Shares	15,000	7,500
	C	EPS on Incremental Shares [A/B]	0.40 (dilutive)	0.40 (dilutive)
4	A	Convertible Debentures Increase in earnings $(1,00,000 \times \frac{15}{100} \times 65)$	9,750	
* Since the bonus issue is without consideration, the issue is treated, as if, it had occurred prior to the beginning of the year 2007.				
		$(1,00,000 \times \frac{15}{100} \times 60 \times \frac{9}{12})$		6,750
	B	Increase in shares	1,000	750
	C	Increase in EPS [A/B]	9.75 (Antidilutive)	9.00 (Antidilutive)

It is antidilutive as it increases the EPS from continuing ordinary operations (Para 39, AS 20)

Calculation of Diluted EPS		Year ended 31.3.09 ₹	Year ended 31.3.08 ₹
A	Profit from continuing ordinary activities before Preference Dividend	1,06,000	73,000
	No. of ordinary equity shares	20,000	20,000
	Adjustment for dilutive potential of 6%	15,000	7,500

17.28**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

	convertible pref. shares		
B	Total no. of shares	35,000	27,500
C	Diluted EPS from continuing ordinary operations [A/B]	3.02	2.65
D	Profit including extraordinary items	2,06,000	73,000
E	Adjusted No. of shares	35,000	27,500
F	Diluted EPS including extraordinary items [D/E]	5.88	2.65

Disclosure of EPS in accordance with AS 20 in the Profit and Loss Account

Earning per share (Face value ₹ 100)	31.3.09 (₹)	31.3.08 (₹)
Basic EPS from continuing ordinary operations	5.00	3.50
Diluted EPS from continuing ordinary operations	3.02	2.65

2009 - Dec [5] (a) Great Pals Ltd. is in the business of manufacturing and export its product. Sometimes back in 2006, the Government put restriction on export of goods exported by Great Pals Ltd. Due to that restriction Great Pals impaired its assets.

Great Pals Ltd. acquired at the end of the year 2002 identifiable assets worth ₹ 2,000 lakh and paid ₹ 3,000 lakh, balance is treated as Goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight-line basis. When Government put the restriction at the end of the year 2005, the company recognised the impairment loss by determining the recoverable amount of assets at ₹ 1,360 lakh. In 2008 Government lifted the restrictions imposed on the export and due to this favourable change, Great Pals Ltd. re-estimated recoverable amount, which was estimated of ₹ 1,710 lakh.

The amortization period for Goodwill to be taken as 5 years as per AS-14. Requirements :

- (i) Calculation and allocation of impairment loss at the end of year 2006.
 (ii) Reversal of an impairment loss and its allocation at the end of year 2008 as per AS-28. **(5 + 5 = 10 marks)**

Answer :

GREAT PALS LTD.

- (i) Calculation and Allocation of impairment Loss for the Asset at the end of year 2006.**

(Amount in ₹ lakh)

Particulars	Goodwill	Identifiable Assets	Total
Historical cost	1,000	2,000	3,000
Accumulated/Amortization for 2002 to 2006	800	533	1,333
Carrying Amount	200	1,467	1,667
Recoverable amount at the end of year 2006			1,360
Impairment Loss (1667 - 1360)	200	107	307
Impairment Loss allocated first to Goodwill and Balance to other Assets			307
			307
Carrying amount after Impairment Loss	NIL	1,360	1,360

- (ii) Reversal of an Impairment Loss and its allocation for the Assets at the end of year 2008.**

(Amount in ₹ lakh)

Particulars	Goodwill	Identifiable Assets	Total
Carrying amount (W.N.1)	NIL	(1,360-247)	1,113
Recoverable amount		=1,113	1,710
Excess of recoverable amount over carrying amount			597

17.30**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

In accordance with Para 28.13-1 (Para 106 & 107 of AS-28) The impairment loss to be reversed in 2008 will be as under Carrying amount of assets in 2007 had no impairment loss in 2006 been recognized (1467-267)- [W.N.-2]			1,200
Carrying amount of asset at the end of the year 2008 after recognizing impairment loss in 2006 and depreciation for 2 years			1,113
GREAT PALS LTD. can increase the carrying amount of the assets by (1,200-1,113)			87

Working Note: (W.N.) 1. ₹ (1,360 ÷ 11) × 2 = ₹ 247

2. ₹1,467 - [(2,000 ÷ 15) × 2] = ₹ 1,467 - 267 = 1,200

Hence, Reversal of Impairment Loss to be recognized in 2008 by crediting the same to Profit & Loss Statement is ₹ 87 Lakh.

2009 - Dec [6] (a) The following particulars pertain to PIOUS LTD.:

Income Statement for the years ended March 31, 2009

(Amount in ₹ lakh)

Sales Revenue		3,200
Less: Cost of goods sold		<u>2,000</u>
		1,200
Add: Government Compensation for loss in riots		<u>50</u>
		1,250
Less: Operating expenses	790	
Interest on debentures	15	
Depreciation on Fixed Assets	210	
Cost of issue of Debentures (written off)	<u>1</u>	
		<u>1,016</u>
Profit before Tax		234
Less: Tax-Provision		<u>92</u>
Profit after tax		<u>142</u>

(Amount in ₹ lakh)

	As on March	
	<u>31, 2008</u>	
As on March		
<u>31, 2009</u>		
Inventories	180	220
Debtors	40	38

Bills Receivables	30	55
Cash in hand and at Bank	102	248
Creditors	78	95
Bills Payables	20	15
Outstanding Expenses	31	44

Additional Information:

The following important transactions have taken place the year ended March 31, 2009:

- (i) Fully paid Equity Shares of the face value of ₹ 200 lakh were allotted at premium of 20%.
- (ii) 10% Debentures for ₹ 300 lakh were redeemed at a premium of 2%.
- (iii) Land was Purchased for ₹ 150 lakh and the consideration was discharged by the allotment to the vendor of zero percent convertible Debentures for the amount.
- (iv) Dividend for the year ended March 31, 2008 amounting to ₹ 100 lakh was paid.
- (v) Tax paid during the year totalled ₹ 95 lakh.

Required :

Prepare Cash Flow Statement for the year ended March 31, 2009 using the Direct Method on the line specified in AS-3. **(6 marks)**

(b) PARASH LTD. had the following borrowings during a year in respect of capital expansion :

Plant	Cost of Assets	(₹) Remarks
Plant–M	100 lakh	No specific borrowings
Plant–N	125 lakh	Bank loan of ₹ 65 lakh at 10%
Plant–X	175 lakh	9% Debentures of ₹ 125 lakh were issued

In addition to the specific borrowings stated above the company had obtained term loans from two Banks :

- (1) ₹ 100 lakh at 10% from Corporation Bank and
- (2) ₹ 110 lakh at 11.5% from State Bank of India to meet its capital expansion requirements.

Required :

Determine the amount of borrowings costs to be capitalized in each of the above plants as per AS-16. **(6 marks)**

Answer :

(a) **PIOUS LTD.****Cash Flow Statement for the year ended March 31, 2008**

(Direct Method)	(Amount in ₹ lakh)	
Cash Flow from Operating Activities:		
Cash receipts from customers (W.N.1)	3,177	
Cash payments to suppliers and employees (W.N.2)	<u>(2,805)</u>	
Cash inflow from operations	372	
Income Tax paid	<u>(95)</u>	
Cash Flow from extraordinary item:	277	
Government compensation for loss in riots	<u>50</u>	
NET CASH from OPERATING ACTIVITIES	327	327
CASH FLOWS from FINANCING ACTIVITIES		
Issue of equity Share Capital at a premium	240	
Redemption of 10% Debentures at a premium	(306)	
Debenture interest paid**	(15)	
Dividend paid	<u>(100)</u>	<u>(181)</u>
Net increase in cash and cash equivalents		146
Cash and cash equivalents in the beginning		<u>102</u>
CASH AND CASH EQUIVALENTS AT THE END		<u>248</u>
Significant Non Cash Transaction:		
Land was purchased by issuing at par ZERO percent convertible debentures of ₹ 150 lakh		

**Alternatively, Debenture Interest paid may be treated as a cash flow from operating activities.

Working Note:

(1)	(₹ in lakh)	
Sales revenue		3,200
Add: Debtors on 31.3.2008		40
Bills Receivables on 31.3.2008		<u>30</u>
		3,270
Less: Debtors on 31.3.2009	38	
Bills Receivables on 31.3.2009	<u>55</u>	<u>(93)</u>
CASH Receipt from the customers		3,177
(2)	(₹ in lakh)	
Cost of goods sold		2,000

Operating Expenses		790
		2,790
Add: Inventories on 31.3.2009		220
Creditors on 31.3.2008		78
Bills Payable on 31.3.2008		20
Outstanding Expenses on 31.3.2008		31
	180	3,130
Less: Inventories on 31.3.2008	95	
Creditors on 31.3.2009	15	
Bills Payable on 31.3.2009	44	
Outstanding Expenses on 31.3.2009		(334)
CASH PAID to Suppliers and Employees		2,805

Answer:

(b)

PARASH LTD.

1. Computation of actual borrowing costs incurred during the year.

Sources	Loan Amount (₹ in lakh)	Interest Rate	Interest Amount (₹ in lakh)
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State bank of India	110.00	11.25%	12.65
	<u>400.00</u>		<u>40.40</u>
Specific Borrowing included in above	190.00		17.75

2. Weighted Average Capitalization Rate for General Borrowings

$$= \frac{\text{Total Interest} - \text{Interest on Specific Borrowings}}{\text{Total Borrowings} - \text{Specific Borrowings}}$$

$$= \left(\frac{40.40 - 17.75}{400 - 190} \right) = \frac{22.65}{210} = 10.79\%$$

3. Capitalization of Borrowings costs under AS-16 will be as under :

Plant	Borrowing	Loan Amount (₹ in lakhs)	Interest Rate (%)	Interest Amount	Cost of Assets (₹ in lakhs)

17.34**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

M	General	100	10.79	10.79		110.79
N	Specific	65	10.00	6.50	71.50	
	General	60	10.79	6.47	66.47	137.97
X	Specific	125	9.00	11.25	136.25	
	General	50	10.79	5.39	55.39	191.64
		400		40.40		440.40

Note: The amount of borrowings costs capitalized should not exceed the actual interest Cost.

2009 - Dec [8] (b) M/s. XYZ Ltd. has three segments namely X, Y, Z. The total assets of the company amount to ₹ 10.00 crores. Segment X has ₹ 2.00 crores, Segment Y has ₹ 3.00 crores and Segment Z has ₹ 5.00 crores. Deferred tax assets included in the assets of each segments are X- ₹ 0.50 crore, Y- ₹ 0.40 crore and Z- ₹ 0.30 crore. The accountant contends that all the three segments are reportable segments. Comment.

(5 marks)**Answer:**

As per Para 27 of AS 17 'Segment Reporting', a segment shall be identified as reportable segment if its segment assets are 10% or more of the total assets of all segments. Here segment assets do not include income tax assets i.e. Deferred tax assets.

So, for the purpose of AS 17 following informations are relevant:

Assets of Segment X (Total 2 crores - 0.5 crores as DTA)	1.5
Assets of Segment y (Total 3 crores - 0.4 crores as DTA)	2.6
Assets of Segment Z (Total 5 crores - 0.3 crores as DTA)	4.7
Total Assets (revised)	8.8

Since all the three segments hold more than 10% of total assets, so all segments are reportable segment.

2010 - June [4] (b) Following is the data regarding Five Segments of ENRON LTD.

(₹ in lakh)

Particulars	Segments					TOTAL
	M	N	O	P	R	
1. Segment Revenue	—	300	100	60	40	500
(a) External Sales	200	60	40	—	—	300
(b) Internal Sales						
Total Revenue (a + b)	200	360	140	60	40	800

2. Segment Result: (Profit/Loss)	30	50	(20)	15	5	80
3. Segment Assets	50	100	30	15	5	200

The General Manager (F&A) is of opinion that Segments "M" and "N" alone should be reported. Is he justified in his view?—Discuss with reference to AS-17. **(7 marks)**

Answer :

General manager (F & A) of ENRON Ltd. is not justified in his view because as per Para 27 of AS-17, "Segment Reporting", business segment or geographical segment should be identified as reportable segment if –

- (i) Its revenue from sale to external customers and from transactions with other segments is 10% or more of the total revenue external and internal, of all segments; or
- (ii) Its segment result, whether profit or loss, is 10% or more of
 - (a) The combined result of all segments in profit, or
 - (b) The combined result of all segments in loss, which ever is greater in absolute terms.
- (iii) Segment asset is 10% or more than total assets of all segments.

Based on the above criteria reportable segments are identified as follows:

Segment Revenue	Segments				
	M	N	O	P	Q
Segment revenue as % of total revenue of all segment ₹ 800 Lakh.	25%	45%	17.5%	7.5%	5%
Segment	Reportable	Reportable	Reportable	-	-
Segment Result Profit/ (loss)	Combined result of all segments in profit: ₹ 100 Lakh Combined result of all segment in loss: ₹ 20 Lakh. Combined result in profit is greater than the combined result in loss. The combined result in profit should be base for this test				

Segment Revenue	Segments				
	M	N	O	P	Q
Segment Revenue as a % of combined	30%	50%	(20%)	15%	5%

17.36

Solved Scanner CMA Final Gr. IV Paper 17 (New)

result in profit					
Segment	Reportable	Reportable	Reportable	Reportable	-
Segment Assets	Segments				
	M	N	O	P	Q
Segment Assets as a % of combined Assets	25%	50%	15%	7.5%	2.5%
Segment	Reportable	Reportable	Reportable	-	-

Hence, as the segments M, N, O and P are reportable segments, the contention of General Manager (F & A) that only segments M and N Need reporting, is not correct.

2010 - June [5] Examine the following schedule prepared by X Ltd. Schedule of funds provided by operations for the year ended 31st July, 2009:

	(₹'000)		
(₹ '000)			
Sales	32,760		
Add: Decrease in bills receivable	1,000		
Less: Increase in accounts receivable	<u>(626)</u>		33,134
Inflow from operating revenues			
Cost of goods sold	18,588		
Less: Decrease in inventories	(212)		
Add: Decrease in trade payable	<u>81</u>	18,457	
Wages and Salaries	5,284		
Less: Increase in wages payable	<u>(12)</u>	5,272	
Administrative Expenses	3,066		
Add: Increase in prepaid payable	<u>11</u>	3,077	
Property taxes		428	
Interest expenses	532		
Add: Amortisation of premium on bonds payable	<u>20</u>	<u>552</u>	<u>27,786</u>
From Operations			5,348
Rent Income	207		
Add: Increase in unearned rent	<u>3</u>		<u>210</u>
Income Tax	1,330		5,558
Less: Increase in deferred tax	<u>50</u>		<u>1,280</u>
Funds from operations			4,278

Required:

- (i) What is the definition of funds shown in the Schedule?
- (ii) What amount was reported as gross margin in the Income Statement?
- (iii) How much cash was collected from the customers?
- (iv) How much cash was paid for the purchases made?
- (v) As a result of change in inventories, did the working capital increase or decrease and by what amount?
- (vi) How much rent was actually earned during the year?
- (vii) What was the amount of tax expenses reported on the income statement?
- (viii) Can you reconcile the profits after tax with the funds provided by the operation? **(15 marks)**

Answer :

- (i) 'Funds' shown in the schedule refer to the cash and cash equivalents (as defined) in AS – 3 (Revised) on Cash Flow Statements
- | | |
|---|----------|
| | ₹ ('000) |
| (ii) Gross margin in the income statement | 32,760 |
| Sales | 18,588 |
| Cost of goods sold | 14,172 |
| (iii) Cash collected from the customers | 33,134 |
| (iv) Cash paid for purchases made | 18,457 |
| (v) Change in inventories would reduce the working capital by | 212 |
| (vi) Rental income earned during the year | 207 |
| (vii) Tax expenses reported in the income statement | 1,330 |
| (viii) Reconciliation Statement | ₹('000) |
| Profit after tax (See W.N.) | 3,719 |
| Decrease in bills receivable | 1,000 |
| Increase in accounts receivable | (626) |
| Decrease in inventories | 212 |
| Decrease in trades payable | (81) |
| Increase in wages payable | 12 |
| Increase in prepaid expenses | (11) |
| Increase in unearned rent | 3 |
| Increase in deferred tax | 50 |
| Fund from operation as shown in the schedule (i.e. cash and cash equivalents) | 4,278 |

Working Note :

Calculation of Profit after Tax		₹ (`000)
Sales		32,760
Less : Cost of goods sold		<u>18,588</u>
Gross margin		14,172
Add : Rental income		<u>207</u>
		14,379
Less : Wages and salaries	5,284	
Administrative expenses	3,066	
Property taxes	428	
Interest expenses	532	
Amortisation premium on bond payable	<u>20</u>	<u>9,330</u>
Profit before Tax		5,049
Less : Income Tax		<u>1,330</u>
Profit after Tax		<u>3,719</u>

2010 - June [7] (b) (i) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2009 at ₹ 500 lakhs. As at that date the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.

From the above data:

- (1) Calculate impairment loss;
- (2) Prepare journal entries for adjustment of impairment loss;
- (3) Show, how impairment loss will be shown in the Balance Sheet.

(4 marks)

- (ii) Bottom Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognize the sale and the gain at the Balance Sheet date? Give your view with reasons.

(3 marks)

Answer :

- (i) 1. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Thus, impairment loss = Carried amount – Recoverable amount*

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

* Recoverable amount is higher of asset's net selling price ₹ 375 Lakhs and its value in use ₹ 400 Lakhs.

Recoverable amount = ₹ 400 Lakhs.

2. Journal Entries

Particulars	Dr. (Amount ₹ in Lakhs)	Cr. (Amount ₹ in Lakhs)
(a) Impairment Loss Account Dr. To Asset Account (Being the entry made for accounting Impairment loss)	100	100
(b) Profit & Loss Account Dr. To Impairment Loss Account (Being the entry to transfer Impairment loss to Profit and Loss Account)	100	100

3. Balance Sheet of Venus Ltd. as at 31.03.2009

₹ in lakhs

	Particulars	Note No.	As at 31.03.2009
1.	ASSETS Non Current Assets	1	400

Note No.1	Non Current Assets	₹ in lakhs
	Assets less Depreciation	500
	Less: Impairment loss	(100)
	Total	400

(ii) Yes, it is possible for the Bottom Ltd. to recognize the sale and the gain at the Balance Sheet date according to AS – 9 ‘Revenue Recognition’. It is evident, that the significant risks and rewards of ownership has passed before the balance sheet date and the delay in transfer of property was merely because of formality in getting the transfer deed registered. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per AS 4 ‘Contingencies and Events occurring after the Balance sheet date.’

2010 - June [8] (a) Jagannath Ltd. had made a rights issue of shares in 2008. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end of 31st March, 2010. The

17.40

■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

draft results for the year, prepared on the hitherto followed accounting policies and presented for pursual of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director decided on the following:

- (i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (30 crores);
- (ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 crores is lower than the amount of ₹ 45 crores which would have been provided had the old method been followed, by ₹ 18 crores;
- (iii) Not to provide for “after sales expenses” during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹ 600 crores;
- (iv) Provide for permanent fall in the value of investments which fall had taken place over the past five years—the provision being ₹ 10 crores.

As Chief Accountant of the Company, you are asked by the Managing Director to draft the notes on accounts for inclusion in the annual report for 2009-2010.

(8 marks)

Answer:

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

Notes on Accounts:

- (i) During the year inventory has been valued at factory cost, against the principle of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method on account of heavy capital expenditure during the year. As a result of this change, the year – end inventory has been valued at ₹ 50 crores and the profit for the year is greater by ₹ 20 crores.
- (ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹ 27 crores which is lower than the change which would have been made had old method and the old rates been applied, by ₹ 18 crores. To that extent, the profit for the year is greater.
- (iii) So far, the Company has been providing 2% of sales for meeting “after sales expenses during the warranty period, With the improved method of production, the probability of defects, occurring in the products has reduced considerably. Hence, the Company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is greater by ₹ 12 crores than would have been the case if the old policy were to continue.
- (iv) The Company has decided to provide ₹ 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crores.

2010 - Dec [2] (b) X Ltd. had issued debentures which had been guaranteed by the Government of India both as to the repayment of the principal and interest. The company disclosed the same as ‘secured loans’ in their balance sheet Comment. **(3 marks)**

Answer :

Debentures, which are guaranteed by the Government can not be classified as secured since they are not secured by way of tangible assets. According to Part-1 of **Schedule III** to the Companies Act 2013, the nature of security should be specified in case of secured loan which include debentures.

17.42**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Therefore, the debentures, under the given case, should be, classified as 'unsecured loan' in the Balance sheet with a disclosure of the fact of a Government Guarantee.

2010 - Dec [3] (c) Following details are given for PHIMPEX LTD.'s for the year ended March 31,2010.

(Amount in ₹ lakh)

Sales:

Food Products	5,650	
Plastic and Packaging	625	
Health and Scientific	345	
Others	<u>162</u>	6,782

Expenses:

Food Products	3,335	
Plastic and Packaging	425	
Health and Scientific	222	
Others	<u>200</u>	4,182

Other items:

General Corporate Expenses		562
Income from investments		132
Interest expenses		65

Identifiable Assets:

Food Products	7,320	
Plastic and Packaging	1,320	
Health and Scientific	1,050	
Others	<u>665</u>	10,355

General Corporate Assets		722
--------------------------	--	-----

Other information:

(i) Inter-Segment sales are as below:

Food Products	55
Plastic and Packaging	72
Health and Scientific	21
Others	7

(ii) Operational Profit includes ₹ 33 lakhs on inter-segment sales.

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

Required:

Prepare a statement showing financial information about PHIMPEX LTD.'s operations in different industry segment-keeping in view AS-17. **(6 marks)**

Answer :

Information about PHIMPEX Ltd.'s operation in different industry segment is furnished in the following table.

(Amount in ₹ Lakhs)

	Food product	Plastic & Packaging	Health and Scientific	Others	Inter-segment Elimination	Consolidated
External Sales	5,595	553	324	155	-	6,627
Inter-Segment	55	72	21	7	155	-
Total	5,650	625	345	162	155	6,627
Segment Expenses	3,335	425	222	200	122	4,060
Operating profit	2,315	200	123	(38)	33	2,567
General Corporate Expenses						(562)
Income from Investment						132
Interest expenses						(65)
Income from continuing operations						2,072
Identifiable assets	7,320	1,320	1,050	665	-	10,355
General Corporate Assets	-					722
Total Assets						11,077

2010 - Dec [5] (b) On 1st October, 2009, GREEN GARDEN LTD. (Construction Company) undertook a contract to construct a building for ₹ 170 lakh. On 31st March, 2010 the company found that it had already spent ₹ 129.98 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 64.02 lakh.

Required:

What is the additional Provisions for foreseeable loss, which must be made in the final accounts for the year ended 31st March, 2010 as per provisions of AS-7? **(5 marks)**

Answer :**Green Garden Ltd.**

	(₹ In Lakhs)
Contract price	170.00
Cost Incurred	<u>129.98</u>
Estimated cost of completion	<u>64.02</u>
Loss of provided for the year ended 31st March,	

2000 as per AS 17	
$(29.98 + 64.02) - 170 = (194 - 170)$	24.00
Loss to be recognized:	
$\{(129.98) \div 194\} \times 24$:	16.08
Loss to be provided (Provision):	
$(24.00 - 16.08)$	7.92

2010 - Dec [7] Answer the following questions:

- (a) X Y Ltd. was making provisions for non-moving stocks based on issues for the last 12 months upto 31.3.2009.

Based on technical evaluation, the company wants to make provisions during the year 2009-10.

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?

- (b) PQ Ltd. has been including interests in the valuation of closing stock. In the accounting year 2009-10 the management of the company decided to follow AS-2 and accordingly interests have been excluded from the valuation of closing stock. This has resulted in decrease in profits by ₹ 2,50,000.

Is a disclosure necessary? If so, draft the same.

- (c) AB Ltd. has set up its business in a designated backward area which entitles the company to receive from the Govt. of India a subsidy of 25% of the cost of investment. Having fulfilled all the conditions under the scheme, the company in its investment of ₹ 80 crores in capital assets, received ₹ 20 crores from the Govt. in February, 2010 in the accounting period 2009-10. The company wants to treat this receipt as an item of revenue and thereby reduce the losses in P & L A/c for the year ended 31.3.2010.

Do you think the treatment is justified? Answer with reference to relevant A.S. **(5 × 3 = 15 marks)**

Answer :

- (a) The decision of making provisions for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of company may require that provisions for non-moving stocks should be made, The method of estimating the amount of provisions may be changed in case a more prudent estimate can be made.

In the instant case, as per AS-1, considering the total value of stocks, the change in the amount of required provisions of non –moving stocks from ₹ 4.0 lakhs to ₹ 3.20 lakhs is almost material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the financial statements of XY Ltd. for the year ending 31.3.10.

“The company had provided for non-moving stocks 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, the net assets would have been higher by ₹ 0.80 lakhs”.

- (b)** As per AS-5 (revised), change in accounting policy can be made for any reasons, one of these is for compliance with an AS. In the instant case, the company has changed its accounting policy in order to conform with the AS-2 (revised) on Valuation of inventories. Therefore, a disclosure is necessary in the following lines by way of notes to the annual accounts for the year 2009-10. “To be in conformity with the Accounting Standard on Valuation of inventories, interest has been excluded from the valuation of closing stock unlike preceding years. Had the same principle been followed in previous years, profits for the year and its corresponding effect on the year and net assets would have been higher by ₹ 2.50 lakhs”.
- (c)** As per para 10 of AS-12 ‘Accounting for Govt. Grants’, when the Govt. grants are of the nature of promoters’ contribution., i.e., they are given with reference to the total investment in an undertaking or by way of the contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can neither be distributed as dividend nor considered as deferred income.

In the instant case, the subsidy received is neither in relation to specific fixed assets nor in relation to revenue, Thus it is inappropriate to recognise Govt. grants in the profit and loss statement, since they are not earned but represent an incentive provided by Govt. without related costs. The correct treatment is to credit the subsidy to Capital Reserve. Therefore, the accounting treatment followed by the company is not proper.

17.46

Solved Scanner CMA Final Gr. IV Paper 17 (New)

2010 - Dec [8] (b) The following is an extract from the cash flow statement of VENTEX LTD. prepared for the year ended March 31, 2010.

Particulars	(₹ in Lakh)	
Net Profit		600
<i>Add:</i> Sale of Investment		700
Depreciation of Assets		110
Issue of Preference shares		90
Loan raised		45
Decrease in stock		<u>120</u>
		<u>1665</u>
<i>Less:</i> Purchase of Fixed Assets	650	
Decrease in Creditors	60	
Increase in Debtors	80	
Exchange Gain	80	
Profit on Sale of Investments	120.0	
Redemption of Debentures	57.0	
Dividend Paid	14.0	
Interest Paid	<u>9.45</u>	<u>1070.45</u>
		594.55
<i>Add:</i> Opening Cash & Cash equivalent		<u>123.41</u>
Closing Cash & Cash equivalent		<u>717.96</u>

Required:

Redraft and reconstruct the cash flow statement of VENTEX LTD. in proper order for the year ended March 31, 2010 in accordance with AS-3 (Revised) using indirect method. **(6 marks)**

Answer :

VENTEX LTD.

Cash Flow Statement for the year ended March, 31, 2010

₹ In Lakhs

1. Cash Flow from operating Activities:		
Net profit before Tax and Extra ordinary items:		600.0
Adjustment For:		
Depreciation	110.0	
Profit on Sale of Investment	(120.0)	
Foreign Exchange Gain	(80.0)	(90.0)
		<u>510.0</u>
Working Capital Adjustment:		
Decrease in Stock	120.0	
Decrease in Creditors	(60.0)	

Increase in Debtors	(80.0)	(20.0)
Cash from Operation		490.0
Tax paid		-
Cash from Operating Activities		490.0
2. Cash flow from Investing Activities:		
Sales of investment	700.0	
Purchase of fixed assets	(650.0)	50.0
Net cash from investing Activities		50.0
3. Cash flow from Financing Activities:		
Loan raised	45.0	
Issue of Preference shares	90.0	
Redemption of Debentures	(57.0)	
Dividend paid	(14.0)	
Interest paid	(9.45)	54.55
Net Cash from financing Activities		54.55
Net increase in Cash and Cash Equivalents [(1) + (2) + (3)]		594.55
Cash and Cash equivalent at beginning of the year (April, 2009)		123.41
Cash and Cash Equivalent at the end of year (March, 2010).		717.96

2011 - June [2] Answer any three of the following :

(a) HEAVEN & HELL Ltd. is developing a new production process. During the financial year 31st March 2010, the total expenditure on this process was ₹ 40 lakhs. The production process met the criteria for recognition as an intangible asset on 1st Dec. 2009. Expenditure incurred till this date was ₹ 16 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March 2011, was ₹ 70 lakhs. As at 31-3-2011, the recoverable amount of know-how embodied in the process is estimated to be ₹ 62 lakhs.

This includes estimates of future cash outflows as well as inflows.

You are required to work out :

- (i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March 2010? (Ignore depreciation for this purpose)
- (ii) What is the carrying amount of the intangible asset as at 31st March 2010?

17.48**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

- (iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March 2011? (Ignore depreciation for this purpose)
- (iv) What is the carrying amount of the intangible asset as at 31st March 2011?

- (b) LOVE & SACRIFICE LTD. gives the following estimates of cash flows relating to fixed asset on 31-12-2010. The discount is 15%.

Year	2011	2012	2013	2014	2015
Cash Flow (₹ in lakhs)	4,000	6,000	6,000	8,000	4,000
Present Value	0.870	0.756	0.658	0.572	0.497

Factors @ 15%

Residual value at the end of 2015 ₹ 1,000 lakhs, Fixed Asset purchased on 1-1-2008 ₹ 40,000 lakhs, Useful life 8 years, Net selling price on 31-12-2010 ₹ 20,000 lakhs.

Calculate on 31-12-2010 :

- (a) Value in use on 31-12-2010;
- (b) Carrying amount at the end of 2010;
- (c) Recoverable amount on 31-12-2010;
- (d) Impairment loss to be recognized for the year ended 31-12-2010;
- (e) Revised carrying amount;
- (f) Depreciation charge for 2011.
- (c) At the end of the financial year ending on 31st March 2011, COUNSLE & CLIENT LTD. finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows :

	Probability	Loss (₹)
In respect of five cases (Win)	100%	—
Next ten cases (Win)	60%	—
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	—
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

- (d) J Ltd. purchased machinery from K Ltd. on 30.09.2010. The price was ₹ 370.44 lakhs after charging 8% GST and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price. A loan of ₹ 300 lakhs was taken from the bank on which interest at 15% per annum was to be paid. Expenditure incurred on the trial run was Materials ₹ 35,000, Wages ₹ 25,000 and Overheads ₹ 15,000.

Machinery was ready for use on 1.12.2010. However, it was actually put to use only on 1.5.2011. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1.12.2010 to 1.5.2011. The entire loan amount remained unpaid on 1.5.2011.

- (e) FIRE & WATER LTD. provides the following information :

Net profit for the year 2009-2010	₹ 11,00,000
Net profit for the year 2010-2011	₹ 15,00,000
No. of shares outstanding prior to rights issue	5,00,000 shares
Rights issue price	₹ 15.00
Last date to exercise rights	1st March 2011
Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)	
Fair value of one equity share immediately prior to exercise of rights on 1st March 2011 was ₹ 21.00. Compute Basic Earnings Per Share.	

(5 + 5 + 5 = 15 marks)

Answer :

- (a) (i) ₹ 16 lakhs
 (ii) Carrying amount as on 31-3-2010 will be expenditure incurred after 1-12-2009 = ₹ 24 lakhs
 (iii) Book cost of intangible asset as on 31-3-2011 is as follows
 Total Book cost = ₹ (70 + 24) lakhs = ₹ 94 lakhs
 Recoverable amount as estimated = ₹ 62 lakhs
 Difference to be charged to Profit and loss account = ₹ 32 lakhs

17.50**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

(iv) ₹ 62 lakhs

(b) (a) Calculation of value in use:

Year	Cash flow (₹ in lakhs)	Discount factor as per 15%	Discounted Cash Flow (₹ in lakhs)
2011	4,000	0.870	3,480
2012	6,000	0.756	4,536
2013	6,000	0.658	3,948
2014	8,000	0.572	4,576
2015	4,000	0.497	1,988
2015	1,000 (Residual Value)	0.497	497
		Value in use	19,025

(b) Carrying amount on 31-12-2010 = [Original cost – Depreciation till date] = ₹ 40,000 – [(40,000 – 1,000) × 3/8] = ₹ 25,375 lakhs.

(c) Recoverable Amount (being Higher of Value in use and Net Selling Price) = ₹ 20,000 lakhs.

(d) Impairment Loss [Carrying Amount – Recoverable Amount] = ₹ (25,375 – 20,000) = ₹ 5,375 lakhs.

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

(f) Depreciation Charge for 2011 = (20,000 – 1,000)/5 = ₹ 3,800 lakhs.

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

(i) present obligation must exist on balance sheet date;

(ii) present obligation must be probable causing outflow of resources embodying economic benefits;

(iii) no provision for cost that needs to be incurred to operate in the future or future operating losses;

(iv) it is not necessary to identify the party to whom obligation is owed, it may be public at large;

(v) when obligations arises due to changes in the law, provision should be recognised only when the legislation is virtually certain to be enacted;

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

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

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

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

(d)

	₹ (in lakhs)	₹ (in lakhs)
Quoted price (refer to working note)	350.00	
Less: 2% Trade Discount	<u>7.00</u>	
	343.00	
Add: 8% Sales tax (8% × ₹ 343 lakhs)	<u>27.44</u>	370.44
Transport charges (0.25% × ₹ 350 lakhs)		0.88
		(approx)
Installation charges (1% × ₹ 350 lakhs)		3.50
Financing cost for the period From 30.9.2010 to 1.12.2010 (₹ 300 lakhs × 15% × 2/12)		7.50
Trial Run Expenses:		
Material	0.35	
Wages	0.25	
Overheads	<u>0.15</u>	0.75
		383.07

17.52

Solved Scanner CMA Final Gr. IV Paper 17 (New)

Total cost

Interest on loan for the period 1.12.2010 to 1.05.2011 = ₹ 300 lakhs
 $\times 15\% \times 5/12 = ₹ 18.75$ lakhs.

The expenditure may be charged to profit and loss Account or deferred for amortization between say three to five years. It has been assumed that no other expenses are incurred on the machine during this period.

Working Note:

Let the quoted price 'X'

Less: Trade Discount 0.02X.

Actual Price = 0.98X.

Sales Tax @ 8% = 1.08 × 0.98 X

$$\text{or } X = \frac{₹370.44}{1.08 \times 0.98} = ₹ 350 \text{ lakhs}$$

(e) Fair value of shares immediately prior to exercise of rights

+ Total amount received exercise

Number of shares outstanding prior to exercise

+ Number of shares issued in the exercise

$$\frac{(₹21.00 \times 5,00,000) + (₹15.00 \times 1,00,000)}{5,00,000 + 1,00,000}$$

Theoretical ex-rights fair value per share = ₹ 20.00

Computation of adjustment factor =

Fair Value per share prior to exercise of rights

Theoretical ex - rights value per share

$$\frac{₹21.00}{₹20.00} = 1.05$$

Computation of earnings per share:

EPS for the year 2009 – 2010 as originally reported:

$$₹ 11,00,000 / 5,00,000 \text{ shares} = ₹ 2.20$$

EPS for the year 2009 – 2010 restated for rights issue:

$$₹ 11,00,000 / (5,00,000 \text{ shares} \times 1.05) = ₹ 2.10$$

EPS for the year 2010 – 11 including effects of rights issue:

$$(5,00,000 \times 1.05 \times 2/12) + (6,00,000 \times 10/12) = 5,87,500 \text{ shares}$$

$$\text{EPS} = 15,00,000 / 5,87,500 = ₹ 2.55$$

2011 - June [5] (a) A Ltd. acquired 25% of shares in B Ltd. as on 31.3.2010 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.2010 is given below :

₹

Share Capital	5,00,000
Reserves and Surplus	<u>5,00,000</u>
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
Current Assets	<u>3,00,000</u>
	10,00,000

During the year ended 31.3.2011 the following are additional information available :

- A Ltd. received dividend from B Ltd., for the year ended 31.3.2011 at 40% from the Reserves.
- B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.2011.
- B Ltd., declared a dividend @ 50% for the year ended 31.3.2011 on 30.4.2011.

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

Calculate :

- Goodwill if any on acquisition of B Ltd.'s shares .
- How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements ?
- How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements ? **(9 marks)**

(b) A Ltd. entered into a joint venture with B Ltd. on 1 : 1 basis and a new company C Ltd. was formed for the same purpose and following are the balance sheets of all the three companies as at 31st March 2011 :

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserves and Surplus	18,00,000	16,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Fixed Assets	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	—
Current Assets	2,00,000	1,25,000	50,000

Prepare the Balance Sheet of A Ltd., B Ltd. and C Ltd. under proportionate consolidation method. **(6 marks)**

17.54**Solved Scanner CMA Final Gr. IV Paper 17 (New)****Answer :**

(a) In terms of AS 23, B Ltd. will be considered as an associate company of A Ltd. as shares acquired represent to more than 20%.

(i) Calculation of Goodwill	₹ in lakhs
Cost of investment	3.00
Less: Share in the value of Equity of B. Ltd. as at the date of investment [25% of ₹ 10 lakhs (₹ 5 lakhs + ₹ 5 lakhs)]	2.50
Goodwill	0.50

(ii) A Ltd.

Consolidated Profit and Loss Account for the year ended 31st March, 2011

₹ in lakhs

By Share of profits in B Ltd.		1.75
By Dividend received from B Ltd.	0.50	
Transfer to investment A/c	0.50	Nil

(iii) A Ltd.

Consolidated Balance Sheet as on 31.3.2011

₹ in Lakhs

Investment in B Ltd.		
Share in B Ltd's Equity	2.50	
Less: Dividend received	<u>0.50</u>	
	2.00	
Share of Profit for year 2010 – 11	<u>1.75</u>	
	3.75	
Add: Goodwill	0.50	4.25

Working Note:

1. Dividend received from B Ltd. amounting to ₹ 0.50 lakh will be reduced from investment value in the books of A Ltd. However goodwill will not change.
2. B Ltd. made a profit of ₹ 7 lakhs for the year ended 31st March, 2011. A Ltd's share in the profits of ₹ 7 lakhs is ₹ 1.75 lakhs. Investment in B Ltd. will be increased by ₹ 1.75 lakhs and profit and loss account of A Ltd. will be credited with ₹ 1.75 lakhs in the consolidated financial statement of A Ltd.
3. Dividend declared on 30th April, 2011 will not be recognized in the consolidated financial statement of A Ltd.

Answer:

(b) **Balance Sheet of A Ltd.**
(As at 31st March, 2011)

	Particulars	Note No.	Amount (₹ in lakhs)
I	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital		10,00,000
	(b) Reserves and Surplus		
	A Ltd.	18,00,000	
	C Ltd.	<u>6,00,000</u>	24,00,000
	(2) Non current Liabilities:		
	Long term Borrowings		
	A Ltd.	3,00,000	
	C Ltd.	<u>1,00,000</u>	4,00,000
	(3) Current Liabilities:		
	A Ltd.	4,00,000	
	C Ltd.	<u>50,000</u>	4,50,000
	Total		42,50,000
II	Assets		
	(1) Non-current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets		
	A Ltd.	30,50,000	
	C Ltd.	<u>9,75,000</u>	40,25,000
	(ii) Intangible Assets		
	(b) Non current investment		
	(2) Current Assets		
	A Ltd.	2,00,000	
	C Ltd.	<u>25,000</u>	2,25,000
	Total		42,50,000

Balance Sheet of B Ltd.
(As at 31st March, 2011)

	Particulars	Note No.	Amount (₹ in lakhs)
1	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital		7,50,000
	(b) Reserves and Surplus		
	B Ltd.	16,00,000	
	C Ltd.	<u>6,00,000</u>	22,00,000
	(2) Non current Liabilities:		
	Long term Borrowings		
	A Ltd.	4,00,000	
	C Ltd.	<u>1,00,000</u>	5,00,000
	(3) Current Liabilities		
	A Ltd.	2,50,000	
	C Ltd.	<u>50,000</u>	3,00,000
	Total		37,50,000
II	Assets		
	(1) Non-current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets		
	A Ltd.	26,25,000	
	C Ltd.	<u>9,75,000</u>	36,00,000
	(ii) Intangible Assets		
	(b) Non current investment		
	(2) Current Assets		
	A Ltd.	1,25,000	
	C Ltd.	<u>25,000</u>	1,50,000
	Total		37,50,000

2011 - June [6] (d) As on 1st April 2010 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of BHC out benefits of ₹ 19,000 and received inward contributions of ₹ 49,000. On 31st March 2011 the fair value of the defined benefit obligation was ₹ 1,47,920. Actuarial losses on the obligations for the year 2010-11 were

On 1st April 2010 the company made the following estimates, based

on its market studies, understanding and prevailing prices.

	%
Interest and dividend income, after tax payable by the fund	9.25
Realized and unrealized 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 and Actuarial Gain/Loss for the year 2010-11.

(5 + 5 + 5 = 15 marks)

Answer :

	₹
A. Closing Balance of Fair Value of Plan Assets	1,50,000
B. <i>Add:</i> benefits paid	19,000
C. <i>Less:</i> Contributions Received	(49,000)
D. <i>Less:</i> Opening Balance of Fair Value of Plan Assets	(1,00,000)
E. Actual Return on Plan Assets	20,000
A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12]	₹ 10,250
B. Return on Net Contributions Received [Contributions – Benefits Paid] [(₹ 49,000 – ₹ 19,000) × 5%]	₹ 1,500
C. Expected Return on Plan Assets	₹ 11,750

Note : Equivalent Half Yearly Compounding Interest Rate

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

$$= \sqrt{(1 + .1025)} - 1 = 0.05 \text{ or } 5\%$$

Actuarial Gain = Actual Return on Plan Assets – Expected Return on Plan Assets

$$= ₹ 20,000 - ₹ 11,750 = ₹ 8,250$$

2011 - June [7] (a) A Ltd. Leased a machinery to B Ltd. on the following terms :

Fair value of the machinery ₹ 20 lakhs, Lease terms 5 years, Lease

17.58**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Rental per annum ₹ 5 lakhs, Guaranteed Residual value ₹ 1 lakh, Expected Residual value ₹ 2 lakhs, Internal Rate of Return 15%. Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year. **(9 marks)**

Answer :**Computation of Unearned Finance Income**

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

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.

$$\begin{aligned} \text{Gross Investment} &= \text{Minimum lease payment} + \text{Unguaranteed residual value} \\ &= (\text{Total lease rent} + \text{Guaranteed residual value}) + \text{Unguaranteed residual value} \\ &= [(\text{₹ } 5,00,000 \times 5 \text{ years}) + \text{₹ } 1,00,000] + \text{₹ } 1,00,000 \\ &= \text{₹ } 27,00,000 \quad \dots\dots\dots(a) \end{aligned}$$

- (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.	5,00,000	0.8696	4,34,800
2.	5,00,000	0.7561	3,78,050
3.	5,00,000	0.6575	3,28,750
4.	5,00,000	0.5718	2,85,900
5.	5,00,000	0.4972	2,48,600
	1,00,000 (guaranteed residual value)	0.4972	49,720

1,00,000 (unguaranteed residual value)	0.4972 (i) + (ii)	17,25,820 49,720 <u>17,75,540</u>	(i) (ii) (b)
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Unearned Finance Income = (a) – (b)
 = ₹ 27,00,000 – ₹ 17,25,540
 = ₹ 9,74,460

Journal Entries in the books of B Ltd.

Particulars	₹	₹
At the inception of lease Machinery account Dr. To A Ltd's account (Being lease of machinery recorded at present value of MLP)	17,25,820 (Note 1)	17,25,820
At the end of the first year of lease Dr. Finance charges account (Refer Working Note) To A Ltd's account (Being the finance charges for first year due)	2,58,873	2,58,873
A Ltd's account Dr. To Bank account (Being the lease rent paid to the lessor which includes outstanding liability of ₹ 2,41,127 and finance charge of ₹ 2,58,873)	5,00,000	5,00,000
Depreciation account Dr. To Machinery account (Being the depreciation provided @ 10% p.a. on straight line method)	1,72,582	1,72,582
Profit and loss account Dr. To Depreciation account To Finance charges account (Being the depreciation and finance charges transferred to profit and loss account)	4,31,455	1,72,582 2,58,873

17.60**Solved Scanner CMA Final Gr. IV Paper 17 (New)****Note:****Working Note 1:**

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

Year	Outstanding liability (opening balance) ₹	Lease rent ₹	Finance charge ₹	Reduction in outstanding liability ₹	Outstanding liability (closing balance) ₹
1	17,25,820	5,00,000	2,58,873	2,41,127	14,84,693
2	14,84,693	5,00,000	2,22,704	2,77,296	12,07,397
3	12,07,397	5,00,000	1,81,110	3,18,890	8,88,507
4	8,88,507	5,00,000	1,33,276	3,66,724	5,21,783
5	5,21,783	5,00,000	78,267	5,21,783	1,00,050*
			8,74,230	17,25,820	

*The difference between this figure and guaranteed residual value (₹ 1,00,000) is due to approximation in computing the interest rate implicit in the lease.

2011 - Dec [2] READ & LEARN Ltd. is engaged in the business of manufacture of electric passenger cars. Its Balance Sheet as at 31.03.2011 is as under:

Liabilities	₹ (lakh)	Assets	₹ (lakh)
Equity Shares of ₹ 10 each	1,500	Gross fixed Assets	1,500
General Reserve	500	Less: Depreciation till date	(500)
12% Term Loan from Bank	500	Investment:	300
Creditors	210	Non-trade	90
Provision for Tax	10	Trade	
Proposed Dividend	140	Current Assets:	420
		Overseas Debtors	
		(1 \$ = INR 42)	400
		Indian Debtors	350
		Stock in Trade	300
		Cash and Bank Balances	
	2,860		2,860

Additional Information:

- (a) The closing exchange rate for the U.S. dollar was INR 48. There was a loss for the year ended 31.03.2011 owing to write down of cost of acquisition of non-trade investments by 4%. There was no other transaction under non-trade investments during the year.
- (b) Current year depreciation charged on historical cost was ₹ 100 lakhs. Current cost of Fixed assets is determined at ₹ 2,000 lakhs.
- (c) While current cost of closing stock is ₹ 367 lakhs, that of the opening stock was ₹ 200 lakhs against its historical cost of ₹ 148 lakhs. The market value of non-trade investments at the year end was ₹ 300 lakhs. The overseas debtors made settlements in U.S. \$ only.
- (d) The industry average rate of return on current cost of capital employed is 12% on long-term debt, and 15% on equity. The opening balance in general reserve was ₹ 150 lakhs. While prevailing tax rate is 30% such rate is expected to decline by 5%.

Required: Using the above information you are required to arrive at value of the goodwill of the company under equity and long-term fund approaches and also show the leverage effect on Goodwill. **(15 marks)**

Answer:

Particulars	₹ in lakhs
Future Maintainable Profit	
Profit made in the current year:	
Increase in Reserve (₹500 lakhs – ₹150 lakhs)	350.00
Add: Proposed Dividend	<u>140.00</u>
Profit after tax	490.00
Add back: Income tax $\left(\frac{490 \times 30\%}{70\%} \right)$	<u>210.00</u>
	700.00
Less: Additional depreciation required (W.N.1)	81.82
Adjustment for change in revaluation of stock (opening and closing) (W.N.2)	<u>35.00</u>
	<u>116.82</u>
	583.18
Add: Debtor's adjustment – exchange gain (W.N.3)	60.00
Add: Loss on non trade investment [₹lakhs (300 x 100/96)-300]	<u>12.50</u>
	655.68
Less : Tax @ 25%	<u>(-)163.92</u>
Profit after tax under equity approach	491.76
Add Back: Interest on term loss (net of taxes) [₹ 500 lakhs x 12% x 75%]	45.00
Profit after tax under long term fund approach	536.76

17.62**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Capital Employed	₹ in lakhs
Assets as per Balance Sheet	2,860.00
Less : Non – trade investments	<u>300.00</u>
	2,560.00
<i>Add:</i> Current cost adjustments:	
Net increase in fixed assets costs [₹ (2,000* - 1,100)	
900 lakhs – ₹ 81.82 lakhs] 818.18	
increase in the value of closing stock (₹ 367 lakhs – ₹ 350 lakhs)	
17.00	<u>895.18</u>
Increase in the value of Debtors	<u>3,455.18</u>
<u>60.00</u>	
* it is assumed that current cost of fixed assets amounting ₹ 2,000 lakhs is determined on 1.4.2010.	
Less: External Liabilities :	
Sundry Creditors	
210.00	<u>720.00</u>
Provision for tax	2,735.18
10.00	<u>500.00</u>
12% Term Loan	
<u>500.00</u>	
Capital employed under equity approach	
<i>Add:</i> 12% Term loan	
Capital employed under long term fund approach	3235.18

Valuation of Goodwill**Equity approach**

	₹ in lakhs
Capitalized value of future maintainable profit of ₹ 491.76 @ 15%	3,278.40
Less: Capital employed under equity approach	<u>2,735.18</u>
Goodwill under equity approach	543.22

*Goodwill has been computed on the basis of closing capital employed

Long term fund approach	₹ in lakhs
Capitalised value of future maintainable profit of ₹ 536.76 @ 12%	4,473.00
Less: Capital employed under long term fund approach	<u>3,235.18</u>

Goodwill under long term fund approach	1237.82
--	---------

Leverage effect on goodwill: The adverse leverage effect on Goodwill is ₹694.60 lakhs (₹ 1,237.82 lakhs – ₹ 543.22 lakhs). The company has a low leverage ratio and its goodwill value is lower under equity approach as compared to that under the long term fund approach.

Working Notes:

₹ in lakhs

1. Shortfall in depreciation	
Current cost of fixed Assets as on 1.4.2010	2,000
Value of fixed assets as per Balance Sheet on 31.3.11	1,000
Add back: Depreciation for 2010-11	<u>100</u>
Cost of fixed assets on 1.4.2010	<u>1,100</u>
Depreciation rate $(100/1,100) \times 100 = 9.091\%$	
Revised amount of depreciation (₹ 2,000 lakhs x 9.091%)	181.82
Less: Depreciation already charged	<u>100.00</u>
Additional depreciation to be provided	<u>81.82</u>

2. Stock adjustment	₹ In lakhs
Increase in current cost of opening stock ₹(200-148) lakhs	
52	
Increase in current cost of closing stock ₹(367-350) lakhs	
<u>17</u>	
	<u>35</u>

3. Stock adjustment	
₹ In lakhs	Debtor's adjustment
Overseas Debtors in US\$ = $420/42 = \$10$ lakhs	
Overseas Debtors in INR at the end of the year ($\$10 \times ₹ 48$)	
480	
Less: balance sheet value of overseas debtors	
<u>420</u>	
Gain due to change in exchange rate	
<u>60</u>	

2012 - June [2] (a) As on 1st April, 2011 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2011 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2012 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation

17.64**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

was ₹ 1,48,000. Actuarial losses on the obligations for the year 2011-12 were ₹ 1,000. On 1st April, 2011 the company made the following estimates, based on its market studies, understanding and prevailing prices:

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

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

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

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

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

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

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

Answer:

(a)

A. Closing Balance of Fair Value of Plan Assets	₹ 1,50,000
B. Add: Benefit Paid	₹ 20,000
C. Less: Contributions Received	(₹ 50,000)
D. Less: Opening Balance of Fair Value of Plan Assets	₹ 1,00,000
E. Actual Return on Plan Assets	₹ 20,000

A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12]	₹ 10,250
B. Return on Net Contributions Received [Contributions - Benefits paid] [(₹ 50,000 - ₹ 20,000) × 5%]	₹ 1,500
C . Expected Return on Plan Assets	₹ 11,750

Note : Equivalent Half Yearly Compounding Interest Rate

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

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

Answer:

(b)

(a) Calculation of value in use

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

Value in use = ₹ 19,025 lakhs

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

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

Impairment Loss = Carrying amount – Recoverable amount
= ₹ (25,375 - 20,000) = ₹ 5,375 lakhs

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

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

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

17.66**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

income tax expenses to be reported for each quarter as per AS-25?

(2 marks)

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

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

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

(2 marks)**Answer:**

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

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

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

30% of ₹ 2,00,000	= ₹ 60,000
10% of ₹ 4,00,000	= ₹ <u>40,000</u>
	= ₹ 1,00,000

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

		(₹ in Lakhs)
Sales:		
Food Products	5,650	
Plastic & Packaging	625	
Health & Scientific	345	
Others	<u>162</u>	6,782
Expenses:		
Food Products	3,335	
Plastic & Packaging	425	
Health & Scientific	222	
Others	<u>200</u>	4,182
Other Items:		
General Corporate Expenses		562
Income from Investments		132

Interest expenses		65
Identifiable Assets:	7,320	
Food Products	1,320	
Plastic & Packaging	1,050	
Health & Scientific	665	
Others		10,355
General Corporate Assets		722
<i>Other Information:</i>	55	
(i) Inter Segment Sales :Food Products	72	
Plastic & Packaging	21	
Health & Scientific	7	
Others		

(ii) Opening profit includes ₹ 33 lakhs on inter-segment sales;
 (iii) Information about inter-segment expenses are not available.
 You are required to prepare a statement showing financial information about Samrat Ltd.'s operation in different industry segments. **(8 marks)**

Answer:

	Food Products	Plastic & packaging	Health & Scientific	Others	Inter Segment Elimination	Consolidated
External Sales	5595	535	324	155	-	6627
Inter Segment Sales	55	72	21	7	155	-
Total	5650	625	345	162	155	6627
Segment Expenses	3335	425	222	200	122	4060
Operating Profit	2315	200	123	(38)	33	2567
General Corporate Expenses						(562)
Income from Investments						132
Interest						(65)
Income from continuing operations						2072
Identifiable Assets	7320	1320	1050	65	-	10355
Corporate Assets						722
Total Assets						1107

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

17.68**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

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

(2 marks)

Answer:**Calculation of Possible Value of Brand**

Particulars	in lakh
Profit after Tax (650 - 150)	500
Less: Profit allocated to tangible fixed assets:	300
Profit relating to intangible assets including Brand:	200
Capitalization factor 25%	
Capitalized value of intangibles including brand $\left[\frac{200}{25} \times 100 \right]$	800
Less: Identified intangibles other than Brand:	500
Brand Value	300

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

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

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

Required:

- (i) Calculation and allocation of Impairment loss in 2010.
- (ii) Reversal of an Impairment loss and its allocation as per AS-28 at the end of year 2012. **(4 + 4 = 8 marks)**

Answer:

(i)

ALEENA LTD.

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

Amount in ₹ lakh

Particulars	Goodwill	Identifiable Assets	Total
Historical Cost	2,500.00	5,000.00	7,500.00
Accumulated/ Amortization for 2007 to 2010	2,000.00	1,333.00	3,333.00
Carrying Amount:	500.00	3,667.00	4,167.00
Recoverable amount at the End of 2010 = 3,400			
Impairment of Loss (4,167 - 3,400) = 767			
Impairment Loss allocated first to Goodwill and balance to other Assets			
Carrying Amount after	500.00	267.00	767.00
Impairment loss	Nil	3,400.00	3,400.00

(ii)

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

17.70**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

	Goodwill	Identifiable Assets	Total
Carrying amount	Nil	2,782.00 (3,400 - 618) (W.N.7)	2,782.00
Recoverable Amount			4,275.00
Excess of Recoverable amount in accordance with Para 28.23.1 (Para 106 & 107 of AS - 28)			1,493.00
The impairment loss to be reversed in 2012 will be as under:			
Carrying Amount of Asset in 2012 had no impairment loss in 2010 been recognized (W.N.2) (3667 - 667)			3,000.00
Carrying Amount of Asset at the end of 2012 after Recognizing impairment loss in 2010 and depreciation for 2 years			2,782.00
ALEENA Ltd. can increase the amount of the assets by (3000 - 2782)			218.00

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

Working Notes:

(1) $[(3,400)/11 \text{ years}] \times 2 \text{ years} = ₹ 618 \text{ (lakh)}$

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

2013 - Dec [1] Answer the following:

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

From the above data:

- (i) Calculate Impairment Loss
- (ii) Prepare Journal Entries for adjustment of Impairment Loss
- (iii) Show how the Impairment Loss will be shown in the Balance Sheet

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

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

Tax Rate	30%
MAT Rate	10%

(5 × 2 = 10 marks)

Answer :

- (b) (i) Calculation of Impairment Loss
 Recoverable amount is higher of value in use ₹ 400 and Net Selling Price ₹ 375
 Thus, Recoverable Amount = ₹ 400
 Impairment Loss = Carried Amount – Recoverable Amount
 = ₹ 500 lakhs – ₹ 400 lakhs = ₹ 100 lakhs.

(ii) **Journal Entries**

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

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

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

Answer:

- (c) Tax as per accounting profit 10,00,000 × 30% = ₹ 3,00,000
 Tax as per income tax profit 1,00,000 × 30% = ₹ 30,000
 Tax as per MAT 9,00,000 × 10% = ₹ 90,000
 Tax Expense = Current Tax + Deferred Tax
 Therefore Deferred Tax Liability as on 31. 3.2013 = ₹ 3,00,000 – ₹ 30,000 = ₹ 2,70,000

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

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

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

Alternative answer for second part of the answer

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

= Current Tax (MAT) + Deferred Tax = 90,000 + 2,70,000 = 3,60,000

Both the options can be considered favourably.

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

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

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

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

Answer :

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

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

Gross Investment in the lease is the aggregate of :

- minimum lease payments from the standpoint of the lessor, and
- any unguaranteed residual value according to the lessor.

Gross Investment = Minimum Lease Payments + Unguaranteed residual value

= (Total lease rent + Guaranteed Residual Value)

$$\begin{aligned}
 &+ \text{ Unguaranteed Residual value} \\
 &= [(\text{₹ } 1,00,000 \times 5 \text{ years}) + (\text{₹ } 20,000)] + \text{₹ } 20,000 \\
 &= 5,40,000
 \end{aligned}$$

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

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

$$\begin{aligned}
 \text{Unearned Finance Income} &= (a) - (b) \\
 &= \text{₹ } (5,40,000 - 3,55,108) \\
 &= \text{₹ } 1,84,892
 \end{aligned}$$

JOURNAL ENTRIES IN THE BOOKS OF SB LTD.

Particulars	Amount ₹	Amount ₹
At the inception of lease Machinery A/c Dr. To Manasi Ltd. A/c (Being lease of machinery recorded at present value of minimum lease payments)	3,45,164	3,45,164

17.74

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

Working Note:

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

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

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

Income Statement for the year ended March 31, 2013.

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

The Balance Sheets of X Ltd. as on	31.03.2012	31.03.2013
	₹	₹
Equity and Liabilities		
Shareholders' Funds		
Share Capital		
Equity Shares of ₹ 10 each, fully paid up	35,00,000	45,00,000
Reserves and Surplus		
Profit and Loss A/c	12,50,000	12,70,000
Current Liabilities		
Trade payables	26,60,000	25,50,000
Other payables:		
Outstanding expenses	3,20,000	7,40,000
Income tax payable	<u>1,30,000</u>	<u>1,45,000</u>
Total	<u>78,60,000</u>	<u>92,05,000</u>
Assets		
Non-current assets		
Tangible assets		
Land	5,00,000	10,00,000
Plant and machinery (at cost)	35,00,000	56,00,000
Less: Accumulated Depreciation	<u>13,00,000</u>	<u>27,00,000</u>
Current Assets		
Inventories	25,50,000	
Trade receivables	18,50,000	10,40,000
Cash and cash equivalents	7,00,000	20,60,000
Advances	<u>60,000</u>	8,80,000
Total	<u>78,60,000</u>	<u>92,05,000</u>

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

(10 marks)

17.76

Solved Scanner CMA Final Gr. IV Paper 17 (New)

Answer :

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

Particulars	Amount (₹)
Cash flow from operating activities:	
Net profit before tax and extra-ordinary item	15,00,000
Add: Depreciation	8,00,000
Opening profits before working capital charges	23,00,000
Increase in Debtors	(2,10,000)
Decrease in stock	15,10,000
Increase in Advances	(15,000)
Decrease in Sundry Creditors	(1,10,000)
Increase in outstanding expenses	4,20,000
Cash generated from operations	38,95,000
Income tax paid	9,35,000
Net cash from operation (A)	29,60,000
Cash flows from investment activities:	
Purchase of land	(5,00,000)
Purchase of plant & machinery	(29,00,000)
Sale of machinery	2,60,000
Net cash used in investment activities (B)	(31,40,000)
Cash flows from financing activities:	
Issue of share capital	10,00,000
Dividends paid	(6,40,000)
Net Cash from Financing Activities	3,60,000
Net increase in cash and cash equivalents (A + B + C)	1,80,000
Cash and cash equivalents at the beginning	7,00,000
Cash and cash equivalents at the end	8,80,000

Working Note:**Plant & Machinery Account**

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

Accumulated Depreciation on Plant & Machinery Accounts

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

Sale of Assets (Machinery) Account

Particulars	₹
Original Cost	8,00,000
Less: Accumulated depreciation	6,50,000
Net Cost	1,50,000
Profit on Sale of Asset	1,10,000
Sale Proceeds from Asset sales	2,60,000

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

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

- (i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?
- (ii) What is the carrying amount of the intangible asset as at 31st March, 2013?
- (iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?
- (iv) What is the carrying amount of the intangible asset as at 31st March, 2014?
- (b) Calculate the actual return on plan assets from the following information available from a company's defined benefit pension plans for a particular year.
- | | |
|--|-------------|
| Fair market value of plan assets (beginning of year) | ₹ 20,00,000 |
| Fair market value of plan assets (end of year) | ₹ 28,50,000 |
| Employer's contribution | ₹ 7,00,000 |
| Benefit paid | ₹ 5,00,000 |
- (c) ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2014 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2013-14 is ₹ 25. The details of exercisable option are given below :
- Weighted average number of shares under stock option scheme during the year 2013-14 = 4,00,000.
- Exercise price for shares under stock option during the year ended 31st March, 2014 = ₹ 20.
- Calculate (i) Basic EPS and (ii) Diluted EPS. **(5 × 2 = 10 marks)**

Answer:

- (a) The given problem is based upon AS-26 i.e. Intangible Assets. After using the provisions of this AS we will have following answers:
- (i) **Expenditure to be charged to the P&L Account for the financial year ended 31-03-2013:** Expenditure incurred up to 1.12.2012 will be taken to profit and loss account for the financial year ending 31.03.2013, which is ₹ 28 lakhs.
- (ii) **Carrying Amount:** It means such amount of expenditure incurred after 1.12.2012 i.e. ₹ 75 lakhs - ₹ 28 lakhs = ₹ 47 lakhs.
- (iii) **Expenditure to be charged to the P&L Account for the financial year ended 31.03.2014:**

Particulars	Amount (₹ in Lakhs)
Carrying Amount as on 31.03.2013	47
Expenditure Incurred during the F.Y. 2013-2014	140
Total Book Cost	187
Recoverable Amount, as estimated	125
Difference to be charged to P&L Account as impairment	62

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

Answer:

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

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

Answer:

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

(i) Basic EPS: =

Net Profit for the period attributable to equity shareholder

Weighted average number of equity shares outstanding during the period

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

(ii) Calculation of Diluted EPS

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

17.80**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Total No. of equity shares	20,80,000
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$$\begin{aligned} \text{Diluted EPS:} &= \frac{\text{Net profit for the period attributable to equity shareholder (after adjustment of diluted earning)}}{\text{Diluted average number of equity shares outstanding during the period (Assuming potential equity shares)}} \\ &= \frac{60,00,000}{20,80,000} = ₹ 2.88 \text{ (approx)} \end{aligned}$$

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

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

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

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

- (i) The estimated unguaranteed residual value would be ₹ 2,00,000.
- (ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.
- (iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

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

Answer:

(a)

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

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

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

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

Answer:

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

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

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

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

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

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

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

Balance Sheets	(₹ in thousand)	
	As on 31.03.2013	As on 31.03.2014
Particulars		
Liabilities:		

17.82

Solved Scanner CMA Final Gr. IV Paper 17 (New)

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

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

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

Net Profit after Tax

4,160

Supplementary Information:

Ventex Ltd. informs you that the Debentures have been redeemed at par.

Required:

Prepare the CASH FLOW statement for the year ended March 31, 2014 in accordance with AS-3 (Revised) using the 'Direct Method'(10 marks)

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

Particulars	Amount (₹ '000)	Amount (₹ '000)
Cash Flow from Operating Activities		
- Collection From Debtors	36,202	
<i>Less:</i> - Paid to Creditors	(19,346)	
- Operating Expenses Paid	(7,779)	
- Tax paid	(4,160)	
Cash Flow from Operating Activities Excluding Extraordinary items	4,917	
<i>Add:</i> - Compensation Received in Law Suite	550	
Net Cash Flow From Operating Activity		5,467
Cash Flow from Investing Activity		
- Sale of Investment	1,575	
- Interest Received on Investment	210	
<i>Less:</i> - Purchase of Fixed Assets	(2,000)	
Net Cash Flow from Investing Activity		(215)
Cash Flow From Financing Activity		
<i>Less:</i> - Redemption of Debentures	(1,000)	
- Interest paid on Debentures	(660)	
- Dividend Paid	(3,000)	
Net Cash Flow from Financing Activity		(4,660)
Net Cash Flow from All Activities		592

17.84**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Add: Opening Cash & Cash Equivalents		1,342
Closing Cash & Cash Equivalents		1,934

Working Notes:**1. Investment A/c**

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

2. Debtors A/c

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

3. Reserve A/c (retained earning)

Particulars	Amount ₹ ('000)	Particulars	Amount ₹ ('000)
To Dividend Paid (balancing fig.)	2,500	By Balance b/d	8,300
To Balance c/d	9,460	BY Profit & Loss A/c	4,160
Total	11,960	Total	12,460

4. Trade Creditors A/c

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

Total	20,563	Total	20,563
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5. Operating Expenses A/c

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

6. Fixed Assets A/c

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

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

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

17.86**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

- (i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and
- (ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015. **(5 marks)**

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

- (i) Compute amount of impairment loss as per AS-28, on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.
- (ii) What will be the accounting treatment in respect of impairment loss computed above? **(5 marks)**

Answer: (a)

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

• **For F.Y. 2013-14**

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

• **For F.Y. 2014-15**

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

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

(ii) Calculation of carrying value of intangible assets:

• **In F.Y. 2013-14**

Carrying amount will be the expenditure incurred after the date of recognition of impairment assets i.e. Expenditure incurred

after 1-12-2013 i.e. ₹ 35,00,000 (₹ 60,00,000 - 25,00,000).

• **In F.Y. 2014-15**

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

Answer: (b)

(i) Computation of Impairment loss:

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

(ii) Accounting Treatment of Impairment Loss:

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

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

- (i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.
- (ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.
- (iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.

17.88**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

- (iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.
- (v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

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

Answer:

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

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

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

Net profit for the current year (after tax)	₹ 86,50,000
No. of equity shares outstanding	25,00,000
No. of 10% convertible debentures of ₹ 100 each	1,00,000

Each debenture is convertible into 10 equity shares
 Interest expenses for the current year ₹ 5,00,000
 Tax relating to interest expenses 30%

(5 marks)

Answer:

Statement of Diluted EPS

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

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

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

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

Required:

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

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

17.90**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(5 marks)**Answer :****(a) Calculation of Actual Return as on 31st March, 2016:**

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

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

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

Note: Equivalent half yearly compounding interest rate

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

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

(b) The given problem is based upon AS-26, which provides for amortisation of intangible assets, over the useful life of the assets. In the given case there is no problem as the amortisation is being done as per SLM method, in 12 years as per company's policy. Again it is being shown in the balance sheet at the depreciated value.

But here it is not clear in the question about the nature of the intangible assets, if we assume it as goodwill then it should be amortised within 10 years. In that case amortisation is not proper. Accordingly, Global Ltd. would be required to restate the carrying

amount of intangible assets as on 01-04-2015 at ₹ 120 lakhs less ₹ 36 lakhs ($\text{₹ } 120 \text{ lakhs} / 10 \text{ years} \times 3 \text{ years}$) ₹ 84 lakhs. The difference of ₹ 6 lakhs i.e. ($\text{₹ } 90 \text{ lakhs} - \text{₹ } 84 \text{ lakhs}$) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 84 lakhs would be amortized over remaining 7 years by ₹ 12 lakhs per year.

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

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

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

Answer:

Please refer 2011 - June [2] (c) on page no. 61

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

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

17.92**Solved Scanner CMA Final Gr. IV Paper 17 (New)**

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

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

Answer:

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

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

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

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

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

Find out the amortization cost of the patent for each of the years, as per AS-26.

(b) PLANTINUM LTD. supplied the following information:

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

You are required to compute:

- (i) Basic earnings per share and
 - (ii) Adjusted earnings per share as per AS-20.
- (c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability as per AS-22 and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

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

(5 marks each)

Answer:

(a)

Total cost of the patent is ₹ 144 lakhs.

Amortization for first 3 years = $(144/6) \times 3 = ₹ 72$ lakh.

Unamortized amount of ₹ 144 lakhs – ₹ 72 lakhs = ₹ 72 lakh to be written off for next 5 years in proportion of cash flows from the product in these years. The amount to be written off during next

17.94

Solved Scanner CMA Final Gr. IV Paper 17 (New)

year's calculated as follows:

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

(b)

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

	2014 – 2015	2015 – 2016
Basic EPS	$\frac{33,00,000}{1,65,000}$ = ₹ 20 per share	$\frac{49,50,000}{1,65,000}$ = ₹ 30 per share
Adjusted earnings per share	$\frac{33,00,000}{1,65,000 \times 1.070}$ = ₹ 18.69 per share	$\frac{49,50,000}{(1,65,000 \times 1.07 \times 0.25) + (2,06,250 \times 0.75)}$ = $\frac{49,50,000}{1,98,825}$ = ₹ 24.90 per share
Right factor =	$\frac{\text{Fair value per share prior to right issue}}{\text{Theoretical ex-right fair value per share}}$	$\frac{405}{378} = 1.071$

Right factor:

Theoretical Ex-right

Fair Value

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

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

= ₹ 378.

(c)

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

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

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

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

Required:

- Record the entries for the year ended 31st March, 2016 for the loan transaction.
- At what value loan should be recognized initially and also calculate the amortized cost for all the subsequent five years, keeping in view provisions of AS-30 (Financial instruments: Recognition and Measurement).

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

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

(8 marks)

17.96**Solved Scanner CMA Final Gr. IV Paper 17 (New)****Answer:**

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

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

Entries:

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

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

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

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

2020	2,83,594	28,406 (Balancing fig.)	3,12,000	Nil
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2016 - Dec [7] (b) X Ltd. had the following summarised Balance Sheet as at 31st March, 2015:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Stock	3,75,000	Land	2,00,000
Retained Earnings	1,22,500	Plant and Machinery	3,37,500
Bonds Payable	1,25,000	Investments	1,00,000
Long-term loan	1,27,500	Account Receivable	1,50,000
Current Liabilities	75,000	Cash	37,500
Total	8,25,000	Total	8,25,000

During 2015-16, the following transactions took place:

- (i) A piece of land was purchased for ₹ 38,750 in cash.
- (ii) Bonds payable worth ₹ 30,000 were paid in cash at face value.
- (iii) An additional amount of ₹ 1,00,000 was received in cash on issue of equity shares.
- (iv) Dividend totalling ₹ 46,875 was paid.
- (v) Net income for 2015-16 was ₹ 1,42,250, after allowing depreciation of ₹ 47,500.
- (vi) Another land was purchased through the issuance of bonds worth ₹ 1,12,500.
- (vii) A part of investments portfolio was sold for ₹ 64,375 in cash. The transaction resulted in a gain of ₹ 6,875.
- (viii) Current liabilities increased to ₹ 90,000 as on 31.03.2016.
- (ix) Accounts receivable as on 31.03.2016 total ₹ 1,90,000.

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

Answer:

Cash Flow Statement for the year ended 31.03.2016

17.98

Solved Scanner CMA Final Gr. IV Paper 17 (New)

Cash Flows from Operating Activities	₹	₹
Net Profit	1,42,250	
<i>Add:</i> Depreciation	47,500	
<i>Less:</i> Gain on sale of investment	(6,875)	
Operating profit before working capital changes	1,82,875	
<i>Add:</i> increase in current liabilities	15,000	
<i>Less:</i> increase in account receivable	(40,000)	
Net Cash flow from operating activities		1,57,875
Cash flow from Investing Activities		
Sale of investment	64,375	
Purchase of Land	(38,750)	
Net Cash from investing activities		25,625
Cash Flows from Financing Activities		
Issue of shares	1,00,000	
Redemption of Bonds	(30,000)	
Dividend paid	(46,875)	
Net Cash from financing activities		23,125
Net increase in cash and cash equivalents during the period		2,06,625
<i>Add:</i> Cash and cash equivalents in the beginning of the period		37,500
Cash and cash equivalents at the end of the period		2,44,125

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

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

following data pertain to the construction period:

(₹ in Lakhs)

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

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

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

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

(8 marks)

Answer:

(a)

Particulars	₹ in Lakhs	₹ in Lakhs	₹ in Lakhs
Initial amount of Revenue agreed in contract	100	100	100
Variation	—	—	—
Total Contract Revenue (A)	100	100	100

17.100 ■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

Contract Cost Incurred	30	70	85
Contract cost yet to be incurred to complete	60	10	–
Total Estimated Contract Cost (B)	90	80	85
Estimated Profit [(A) – (B)]	10	20	15
Stage of Completion	$\frac{30}{90} \times 100$ = 33.33%	$\frac{70}{80} \times 100$ = 87.5%	$\frac{85}{85} \times 100$ = 100%

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

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

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

$$\begin{aligned}
 &= \frac{\text{₹ } 44,00,000}{\text{₹ } 1,10,000 \times 1.125} \\
 &= \frac{\text{₹ } 44,00,000}{\text{₹ } 1,23,750} = \text{₹ } 35.56 \\
 \text{EPS of the year 2016 – 2017 including effect of Right issue} \\
 &= \frac{\text{₹ } 44,00,000}{\text{₹ } 1,23,750} \\
 &= \frac{\text{₹ } 65,00,000}{\left(\text{₹ } 1,10,000 \times 1.125 \times \frac{4}{12} \right) + \left(1,65,000 \times \frac{8}{12} \right)} \times \frac{\text{₹ } 65,00,000}{\text{₹ } 1,51,250} = \text{₹ } 42.98
 \end{aligned}$$

Working Notes:

- Calculation of Theoretical Ex- Rights Fair Value Per Share

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

$$= \frac{(1,10,000 \times 270) + \left(1,10,000 \times \frac{2}{4} \right) \times 180}{1,10,000 + 55,000} = \frac{\text{₹ } 2,97,00,000 + \text{₹ } 99,00,000}{\text{₹ } 1,65,000}$$

$$= \text{₹ } 240$$
- Calculation of Adjustment Factor

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

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

	Payment made for	₹ in Lakhs
(i)	To acquire a Software	204
(ii)	To acquire a Website for a period of 8 years	165
(iii)	To acquire a Copyright for a period of 15 years	135
(iv)	To acquire Goodwill of a firm	155
(v)	To acquire Goodwill arising under amalgamation in the nature of purchase	110

17.102 ■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

(vi)	To acquire a Patent for a period of 5 years. The net cash flows from the product during these 5 years are expected to be ₹ 36 Lakhs; ₹ 46 Lakhs; ₹ 44 Lakhs; ₹ 40 Lakhs and ₹ 34 Lakhs	60
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You are required to find out the amortization cost of the each of the item to be charged to Statement of Profit and Loss as per AS-26. **(8 marks)**

Answer:

- (i) Amortization Cost of Software = ₹ 204 Lakhs/5 = ₹ 40.80 Lakhs per year (Since maximum amortization period of software is 5 years)
- (ii) Amortization Cost of Website = ₹ 165 Lakhs/5 = ₹ 33 Lakhs per year (Since maximum amortization period of Website is 5 years)
- (iii) Amortization Cost of Copy-right = ₹ 135 Lakhs/10 = ₹ 13.50 Lakhs per year (Since maximum amortization period of Copy-right is 10 years unless a higher period is justified with reasons in Notes to Accounts)
- (iv) Amortization Cost of Goodwill = ₹ 155 Lakhs/10 = ₹ 15.50 Lakhs per year (Since maximum amortization period of Goodwill is 10 years unless a higher period is justified with reasons in Notes to Accounts)
- (v) Amortization Cost of Goodwill arising under amalgamation in the nature of purchase = ₹ 110 Lakhs/5 = ₹ 22 Lakhs per year (Since maximum amortization period of such Goodwill is 5 years)
- (vi) Amortization Cost of Patent

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

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

	₹ in Crores
Total Contract Price	720
Work Certified	300
Work pending certification	60
Estimated further cost to completion	420
Stage wise payments received	264
Progress payments in pipe line	72

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

- (i) compute the amount of profit/loss for the year ended 31st March, 2017.
- (ii) arrive at the contract work in progress as at the end of financial year 2016-2017.
- (iii) determine the amount of revenue to be recognized out of the total contract value.
- (iv) work out the amount due from/to customers as at year end.
- (v) list down relevant disclosures with figures as per relevant accounting standard. **(8 marks)**

Answer:

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

(₹ in Crores)	
Particulars	2017
A. Work Certified	300
B. Work pending Certification	60
C. Contract Work – in – Progress (A + B)	360
D. Estimated Cost for Completion of Contract	420
E. Total Completion Cost of Project (C + D)	780

17.104 ■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

F. Stage of Completion (Cost Incurred till year End/ Total Completion Cost of Project) i.e. (D/E)	0.461538 or 46.1538%
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(ii) **Revenue and Profit/Loss to be recognized in statement of profit as per AS – 7**

(₹ in Crores)

Particulars	2017
A. Revenue to be recognized Total Contract Revenue x Stage of Completion i.e. ₹ 720 Lakhs x 46.1538%	332.31
B. Cost Incurred till the year end (Contract Expenses recognized during the year)	360.00
C. Loss to be recognized at the end of each year (Revenue Recognized in year – Cost Incurred till year End) i.e. (A – B)	27.69
D. Total Expected Loss on Contract i.e. Total Estimated Cost for Completion of Contract – Total Contract Revenue = ₹ 780 Lakhs – ₹ 720 Lakhs	60.00
E. Further Loss to be recognized in year = D – C	32.31

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

(₹ in Crores)

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

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

	₹ in crores
Contract revenue till 31 st March, 2017	332.31
Contract expenses till 31 st March, 2017	360.00
Recognized losses for the year 31 st March, 2017	(60)
Progress billings (264 + 72)	336
Retention (billed but not received from contractee)	72
Gross amount due to customers	36

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

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

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

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

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

17.106 ■ Solved Scanner CMA Final Gr. IV Paper 17 (New)

Answer:

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

	₹ in Lakhs
₹ 50 Lakhs × 12/12	50.00
₹ 55 Lakhs × 9/12	41.25
₹ 125 Lakhs × 6/12	62.50
₹ 36 Lakhs × 1/12	3.00
	156.75

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

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

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

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

Actual Interest Cost

$$(50 \times 10\%) + (80 \times 11\%) + (150 \times 13\%) = 33.3$$

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

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

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

(v) **Journal Entry**

		₹ in Lakhs		
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.17	Building A/c Dr. To Bank A/c (Being amount of cost of building and borrowing cost thereon capitalized)		284.134 5	284.134 5

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

(8 marks)

Answer:

Particulars	2014-15	2015-16	2016-17
(a) Accounting Profit / Loss	(50,00,000)	25,00,000	32,00,000
(b) Income Tax Profit before adjustment	(50,00,000)	25,00,000	32,00,000
(c) <i>Less:</i> Set off of Brought Forward Losses		- (25,00,000)	(25,00,000)
(d) Loss Carried Forward to Subsequent Years	(50,00,000)	(25,00,000)	-

17.108 ■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

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

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

Raw material X	
Closing Balance	500 units
	₹ per unit
Cost price including GST	200
GST (Input credit is receivable on the GST paid)	10
Freight inward	20
Unloading charges	10

Replacement cost	150
Finished Goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

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

Calculate the value of the closing stock, when

- Realizable Value of the Finished Goods Y is ₹ 440 and Realizable Expenses ₹ 40
 - Realizable Value of the Finished Goods Y is ₹ 330 and Realizable Expenses ₹ 30
- (4 + 4 = 8 marks)**

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

₹ in lakhs							
Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	-50	-140	80	10	-10	10	-100
Segment Revenue	200	320	200	90	90	100	1000

Identify the Reportable Segments as per AS-17

(8 marks)

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

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

17.110 ■ **Solved Scanner CMA Final Gr. IV Paper 17 (New)**

- (iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.
- (iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.
- (v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law. **(8 marks)**

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

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

(8 marks)

Repeatedly Asked Questions		
No.	Question	Frequency
1	Practical question of 11 - June [2] (c), 16 - June [6] (b)	2 Times

Table Showing Marks of Compulsory Questions										
Year	13 D	14 J	14 D	15 J	15 D	16 J	16 D	17 J	17 D	18 J
Practical						10	15			
Total						10	15			