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DISCOVER_2E / ACCOUNTING STANDARDS [GR.I & GR.II]

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INDEX

ACCOUNTING STANDARDS [GROUP – 1]

INTRODUCTION TO ACCOUNTING STANDARDS

PART 1: DESCRIPTIVE QUESTIONS

1. Benefits and limitations of accounting standards Explain. **[M19 (O) – 4M]**

2. "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards. **[N18 (N) – 5M]**

3. What are Accounting Standards? Explain the issues, with which they deal. **[N17 (O) – 5M]**

4. List out the criteria laid down for classification of non-corporate entities to bring them under Level I category as per ICAI. **[N17 (O) – 4M]**

FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

PART 1: PROBLEMS

1. Summarized Balance Sheet of Cloth Trader as on 31.03.2017 is given below: **[M19 (N) – 5M]**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows:

1. The remaining life if fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2018 was Rs. 3,25,000.
2. Purchases and sales in 2017-18 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.
3. The cost and net realizable value of stock on 31.03.2018 were Rs. 2,00,000 and Rs. 2,50,000 respectively.
4. Expenses for the year amounted to Rs. 78,000
5. Deferred expenses are amortized equally over 5 years
6. Sundry debtors on 31.03.2018 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re installation of certain product supplied to the customer.
7. Closing sundry creditors are Rs. 75,000, likely to be settled at 10% discount.
8. Cash balance as on 31.03.2018 is Rs. 4,22,000
9. There is an early repayment penalty for the loan of Rs. 25,000

   You are required to prepare:

   (Not assuming going concern)

1. Profit & Loss Account for the year 2017-18
2. Balance Sheet as on 31st March, 2018

2. Balance sheet of Ram & Co. on 31st March, 2017 is given below. **[M19 (O) – 5M]**

Liabilities	Rs	Assets	Rs
Capital	50,000	Fixed assets	69,000
Profit and Loss	29,000	Stock in trade	43,000
10 % Loan	43,000	Trade receivables	10,000
Trade payables	18,000	Deferred	15,000
		Expenditure	3,000
		Bank	
Total	**1,40,000**	Total	**1,40,000**

Additional Information:-

a) Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31st March, 2018 was Rs. 54,000.

b) Firm's sales and purchases for the year 2017-18 amounted to Rs.3.55 lakhs and Rs 2.5 lakhs respectively.

c) The cost and net realizable value of the stock were Rs34, 000 and Rs. 38,000 respectively.

d) General Expenses for the year 2017-18 were Rs.16,500.

e) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2016-17 i.e. Rs.5,000 per year.

f) Out of Debtors worth Rs. 10,000, collection of Rs. 4,000 depends on successful redesign of certain product already supplied to the customer.

g) Closing trade payable is Rs 10,000, which is likely to be settled at 95%

h) There is prepayment penalty of Rs 2,000 for Bank loan outstanding.

Prepare Profit & Loss Account for the year ended 31st March,2018 by assuming it is not a going concern.

3. Shankar started a business on 1st April, 2017 with Rs. 12,00,000 represented by 60,000 units of Rs. 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shankar in the year 2017-18 if Financial Capital is maintained at Historical cost. **[M18 (O) – 4M]**

4. ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2016 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd. **[M17 (O) – 4M]**

PART 2: DESCRIPTIVE QUESTIONS

5. "One of the characteristic of the financial statement is neutrality". Do you agree with this statement? Explain in brief. **[N18 (N) – 5M]**

6. What are the basis of measurement of Elements of Financial Statements? Explain in brief. **[N18 (O) – 4M]**

7. Briefly explain the elements of financial statements. **[M18 – 5M, M17 – 4M, M17 (O) –4M]**

8. What are fundamental accounting assumptions? **[N17 (O) – 4M]**

9. Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss. **[N16 (O) – 4M]**

10. What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? **[M13 (O) – 4M]**

11. List out the criteria laid down for classification of non-corporate entities to bring them under level I category as per ICAI. **[N17 (O) – 4M]**

AS-1: DISCLOSURE OF ACCOUNTING POLICIES

PART 1: PROBLEMS

1. HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2017. The company now wants to make provision based on technical evaluation during the year ending 31.03.2018. **[N18 (N) – 5M]**

Total value of stock	Rs.	120 lakhs
Provision required based on technical evaluation	Rs.	3.00 lakhs
Provision required based on 12 months no issues	Rs.	4.00 lakhs

You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

i) Does this amount to change in accounting policy?

ii) Can the company change the method of accounting?

2. ABC Financial Services Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. ABC Financial Services Ltd. has accepted Inter Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in FS. **[M17 (O) – 5M]**

On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by was of a note in the accounts instead of making a provision in the Profit and Loss Account.

State whether the treatment done by the company is correct or not as per relevant AS.

3. Balance Sheet of Anurag Trading Co. on 31st March, 2014 is given below: **[N15 (O) – 5M]**

Liabilities	Rs.	Assets	Rs.
Capital	50,000	Fixed Assets	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Creditors	18,000	Deferred Expenditure	15,000
	-	Bank	3,000
	1,33,000		**1,33,000**

Additional Information:

i) Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31st March, 2015 was Rs. 64,000.

ii) Firm's sales and purchases for the year 2014-15 amounted to Rs. 5 lakhs and Rs. 4.50 lakhs respectively.

iii) The cost and net realizable value of the stock were Rs. 34,000 and Rs. 38,000 respectively.

iv) General Expenses for the year 2014-15 were Rs. 16,500.

v) Deferred Expenditure is normally amortized equally over 4 years starting from F.Y. 2013-14 i.e. Rs. 5,000 per year.

vi) Out of debtors worth Rs. 10,000, collection of Rs. 4,000 depends on successful redesign of certain product already supplied to the customer.

vii) Closing trade payable is Rs. 10,000, which is likely to be settled at 95%.

viii) There is pre-payment penalty of Rs. 2,000 for Bank loan outstanding.

Prepare P&L A/c for the year ended 31.03.15 by assuming it is not a Going Concerned

4. In the books of M/s Prashant Ltd. closing inventory as on 31.03.2015 amounts to Rs. 1,63,000 (on the basis of FIFO method). **[N15 (O) – 5M]**

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.3.15 amounts to Rs. 1,47,000. Realisable value of the inventory as on 31.3.15 amounts to Rs. 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

PART 2: DESCRIPTIVE QUESTIONS

5. What do you mean by 'Accrual in reference to AS-1? Also specify any three reasons for 'Accrual Basis of Accounting' **[M19 (N) – 5M]**

6. State whether the following statements are 'True' or 'False'. Also give reason for your answer. **[M18 (O) – 5M]**

i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

v) There is no single list of accounting policies which are applicable to all circumstances.

7. What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1? Briefly describe each one of them. **[N17 (O) – 4M]**

AS-2: VALUATION OF INVENTORIES

PART1: OBJECTIVE QUESTIONS

1. As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price. **(T/F)** **[M19 (N) – 1M]**

PART 2: PROBLEMS

2. Wooden plywood limited has a normal wastage of 5% in the production process. During the year 2017-18, the company used 16,000 MT of Raw material costing Rs190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books. **[M19 (N) – 5M]**

You are required to:

1) Calculate the amount of abnormal loss

2) Explain the treatment of normal loss and abnormal loss.

[in the context of AS-2(revised)]

3. A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017. **[N17 (O) – 5M]**

Particulars	Rs. Per unit
Raw Material X:	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y:	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.

ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

a) Net realizable value of Chemical Y is Rs. 800 per unit.

b) Net realizable value of Chemical Y is Rs. 600 per unit.

4. The closing stock of finished goods at cost of a company amounted to Rs. 4,50,000. The following items were included at cost in the total. **[M19 (O) – 5M]**

a. 100 coats, which had cost Rs. 2,200 each and normally sold for Rs. 4,000 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal selling price.

b. 200 skirts, which had cost Rs. 50 each. These too were found to be defective. Remedial work in April cost Rs. 2 per skirt, and selling expenses for the batch totaled Rs. 200. They were sold for Rs. 55 each.

c. Shirts which had cost Rs. 50,000, their net realizable value at Balance sheet date was Rs. 55,000. Commission @ 10% on sales is payable to agents.

What should the inventory value be according to AS 2 after considering the above item

5. Z Limited ordered 13,000 kg. of chemicals at Rs. 90 per kg. The purchase price includes excise duty of Rs. 5 per kg, in respect of which full CENVAT credit is admissible. Further, State VAT is leviable at Rs. 2.5 per kg on purchase price. Freight incurred amounted to Rs. 30,000. **[M16 (O) – 5M]**

Normal transit loss is 4%. The company actually received 12,400 kg and consumed 10,000 kg. The company has received trade discount in the form of cash amounting to Rs. 1 per kg. The chemicals were delivered in containers. The containers were not reusable, hence sold for Rs. 500. The administrative expenses incurred to bring the chemicals were Rs. 10,000.

Compute the value of inventory and allocate the material cost as per AS-2.

6. Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A. **[M15 (O) – 5M]**

i) 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-03-2015 is Rs. 90 per unit.

ii) 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.

iii) 1500 units of finished Product X and total cost incurred Rs. 320 per unit.

Expected selling price of Product X is Rs 300 per unit.

Determine how each item of inventory will be valued as on 31-3- 2015. Also calculate the value of total inventory as-on 31-3-2015.

7. Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in books. **[N14 (O) – 5M]**

Explain in the context of AS 2 the treatment of abnormal loss and abnormal loss and also find out the amount of abnormal loss if any.

8. Calculate the value of raw materials and closing stock based on following information: **[M14 (O) – 5M]**

Raw Material X:

Closing balance	500 units
	Rs. Per unit
Closing price including excise duty	200
Excise duty (CENVAT credit is receivable on the excise duty paid.)	10
Freight inward	20
Unloading charges	10
Replacement cost	150

Finished goods Y:

Closing Balance	1200 units
	Rs. Per unit
Material consumed	220
Direct labour	60
Direct overhead	40
Total Fixed overhead for the year was Rs. 2,00,000 on normal capacity of 20,000 units	

Calculate the value of the closing stock, when

i) Net Realizable Value of the Finished Goods Y is Rs. 400.

ii) Net Realizable Value of the Finished Goods Y is Rs. 300.

AS-3: CASH FLOW STATEMENT

PART 1: PROBLEMS

1. Classify the following activities as (a) Operating activities, (b) Investing activities, (c) Financing activities, (d) Cash equivalents, with reference to As 3 (Revised) **[M19 (O) – 5M]**

- **a.** Brokerage paid on purchase of investments
- **b.** Underwriting commission paid
- **c.** Trading commission received
- **d.** Proceeds from sale of investment
- **e.** Purchase of goodwill
- **f.** Redemption of preference shares
- **g.** Rent received from property held as investment
- **h.** Interest paid on long-term borrowings
- **i.** Marketable securities
- **j.** Refund of income tax received.

2. Classify the following activities as **[M18 (N) – 5M]**

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

- **a)** Cash receipts from Trade Receivables
- **b)** Marketable Securities
- **c)** Purchase of investment
- **d)** Proceeds from long term borrowings
- **e)** Wages and Salaries paid
- **f)** Bank overdraft
- **g)** Purchase of Goodwill
- **h)** Interim dividend paid on equity shares
- **i)** Short term Deposits
- **j)** Underwriting commission paid

3. How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 2018? **[M18 (O) – 5M]**

- **i)** 10% Debentures issued: As on 01-04-2017 Rs. 1,10,000
  As on 31-03-2018 Rs. 77,000
- **ii)** Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.
- **iii)** Unpaid Interest on Debentures: As on 01-04-2017 Rs. 275
  As on 31-03-2018 Rs. 1,175
- **iv)** Debtors of Rs. 36,000 were written off against the Provision for Doubtful Debts A/c during the year.
- **v)** 10% Bonds (Investments): As on 01-04-2017 Rs. 3,50,000
  As on 31-03-2018 Rs. 3,50,000
- **vi)** Accrued Interest on Investments: As on 31-03-2018 Rs. 10,500

4. Explain the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3. **[M17 (O) – 5M]**

Ruby Exports had a bank balance of USD 25,000, stated in books at Rs. 16,76,250 using the rate of exchange Rs. 67.05 per USD prevailing on the date of receipt of dollars.

However, on the balance sheet date, the closing rate of exchange was Rs. 67.80 and the bank balance had to be restated at Rs. 16,95,000.

Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

5. Classify the following activities as per AS 3 Cash Flow Statement:

- **i)** Interest paid by financial enterprise
- **ii)** Dividend paid

iii) Tax deducted at source on interest received from subsidiary company

iv) Deposit with Bank for a term of two years

v) Insurance claim received towards loss of machinery by fire

vi) Bad debts written off

Which activity does the purchase of business falls under and whether netting off of aggregate cash flows from disposal and acquisition of business units is possible? **[M16 (O) – 4M]**

6. Prepare Cash Flow from Investing Activities of M/s. Creative S Furnishings Limited for the year ended 31-3-15. **[M15 (O) – 5M]**

Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loan given to subsidiaries	4,85,000
Interest on loan received from subsidiaries Company	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment (TDS of Rs.8,200 was deducted on the above interest)	68,000
Book value of plant sold (loss incurred Rs.9,600)	84,000

7. Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash flow statement. **[M14 (O) – 4M]**

a) Loans and Advances given to the following and interest earned on them:

i) to suppliers

ii) to employees

iii) to its subsidiaries companies

b) Investment made in subsidiary Smart Ltd. and dividend received

c) Dividend paid for the year

d) TDS on interest income earned on investments made

e) TDS on interest earned on advance given to suppliers

f) Insurance claim received against loss of fixed asset by fire.

Discuss in the context of AS 3 Cash Flow Statement.

AS-10 (REVISED): PROPERTY, PLANT AND EQUIPMENT

PART 1: PROBLEMS

1. In the year 2017-18, an entity has acquired a new freehold building with a useful life of 25 years for Rs. 45,00,000. The entity desires to calculate the depreciation charge per annum using a straight line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows: **[M19 (O) – 5M]**

Component	Useful life (Years)	Cost (Rs.)
Land	Infinite	10,00,000
Roof	25	5,00,000
Lifts	10	2,50,000
Fixtures	5	2,50,000
Remainder of building	25	25,00,000
		45,00,000

i) Calculate depreciation for the year 2017-18 as per componentization method.

ii) Also state the treatment, in case Roof requires replacement at the end of its useful life.

2. Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed. **[N18 (N) – 5M]**

Management has prepared the following budget for this period:

Salaries of the staff engaged in preparation of restaurant before its opening	Rs. 7,50,000
Construction and remodeling cost of restaurant	Rs. 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

3. Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin. **[N18 (O) – 5M]**

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3rd month. The company operates on Bank Overdraft @ 14% p.a.

Ascertain the amount at which the Machinery should be capitalized under AS 10

4. ABC Ltd. is installing a new plant at its production factory. provides you following information:**[N17 (O) – 4M]**

Cost of the plant (cost as per supplier's invoice)	Rs. 31,25,000
Estimated dismantling costs to be incurred after 5 years	Rs. 2,50,000
Initial Operating losses before commercial production	Rs. 3,75,000
Initial delivery and handling costs	Rs. 1,85,000
Cost of site preparation	Rs. 4,50,000
Consultants used for advice on the acquisition of the plant	Rs. 6,50,000

Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10: Property, Plant and Equipment.

5. Hema Ltd. purchased a machinery on 1.04.2008 for Rs.15,00,000. The company charged straight line depreciation based on 15 years working life estimate and residual value Rs.3,00,000. At the beginning of the 4th year, the company by way of systematic evaluation revalued the machinery upward by 20% of net book value as on date and also re-estimated the useful life as 7 years and scrap value as nil. The increase in net book value was credited directly to revaluation reserves. Deprecation (on SLM basis) later on was charged to Profit & Loss Account. At the beginning of 8th year the company decided to dispose off the machinery and estimated the realizable value to Rs.2,00,000**[N16 (O) – 5M]**

You are required to ascertain the amount to be charged to Profit & Loss Account at the beginning of 8th year with reference to AS-10.

6. A machinery with a useful life of 6 years was purchased on 1st April, 2012 for Rs. 1,50,000. Depreciation was provided on straight line method for first three years considering a residual value of 10% of cost. **[N15 (O) – 5M]**

In the beginning of fourth year the company reassessed the remaining useful life of the machinery at 4 years and residual value was estimated at 5% of original cost.

The accountant recalculated the revised depreciation historically and charged the difference to profit and loss account. You are required to comment on the treatment by accountant and calculate the depreciation to be charged for the fourth year.

7. Briefly explain the treatment of following items as per relevant accounting standards: **[N15 (O) – 5M]**

i) The accountant of Star Limited valued the Goodwill of the company at Rs. 50 lakhs and showed the same as Fixed Asset in Balance Sheet. The corresponding credit was given to Reserves.

ii) An expense of Rs. 5 crores was incurred on a Machine towards its Repairs and Maintenance. The accountant wants to capitalize the same considering the significance of amount spent.

iii) A plant was ready for commercial production on 01.04.2014 but could commence actual production only on 01.06.2014. The company incurred Rs. 50 lakhs as administrative expenditure during the period of which 20% was allocable to the plant. The accountant added Rs. 10 lakhs to cost of plant.

8. M/s. Versatile Limited purchased machinery for 4,80,000 (inclusive of excise duty of 40,000). CENVAT credit is available for 50% of the duty paid. The company incurred the following other expenses for installation. **[M15 (O) – 4M]**

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

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

9. In the books of Optic Fiber Ltd., plant and machinery stood at Rs. 6,32,000 on 1.4.2013. However on scrutiny it was found that machinery worth Rs. 1,20,000 was included in the purchases on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of Rs. 1,89,000 on 1.4.2013 at Rs. 1,75,000 in part exchange of a new machine costing Rs. 2,56,000. The company charges depreciation @ 20% WDV on plant and machinery. You are required to calculate: **[N14 (O) – 5M]**

i) Depreciation to be charged to P/L

ii) Book value of Plant and Machinery A/c as on 31.3.2014

iii) Loss on Exchange of Machinery.

10. From the following information state the amount to be capitalized as per AS 10. Give the explanations for your answer. **[N14 (O) – 4M]**

i) Rs. 5 lakhs as routine repairs and Rs. 1 lakh on partial replacement of a part of a machine.

ii) Rs. 10 lakhs on replacement of part of a machinery which will improve the efficiency of a machine.

11. Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd. and amount to be debited to the Profit and Loss Account in the context of the relevant Accounting Standard. **[M14 (O) – 5M]**

Narrations for the adjustments made should form part of the answer:

i) Goodwill was valued at Rs. 1,20,000 by independent valuers and no consideration was paid. The Company has not yet recorded the same.

ii) Balance of Office Equipment as on 01.04.2013 is Rs. 1,20,000. On 01.04.2013, out of the above office equipment having book value Rs. 20,000 has been retired from use and held for disposal. The net realizable value of the same is Rs. 2,000. Rate of depreciation is 15% p.a. on WDV basis.

iii) Book Value of Plant and Machinery as on 01.04.2013 was Rs. 7,20,000. On 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value Rs. 10. The Fair Market value of the equity shares on 01.08.2013 was Rs. 120. Rate of depreciation is 10% p.a. on WDV basis.

PART 2: DESCRIPTIVE QUESTIONS

12. Explain 'Bearer Plant' & 'Biological Asset' as per AS-10. **[M18 (O) – 5M]**

AS-11: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

PART 1: PROBLEMS

1. Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machines of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2017. It borrowed US41 million form International Funding Agency, USA when exchange rate was 1$= Rs 63. The funds were used for acquiring machineries on the same date to be used in three different plants. The useful life of the machineries is 10 years and their residual value is Rs 30,00,000. **[M19 (O) – 5M]**

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalised even though the company had an option to capitalize it as per notified As. 11

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2018 is 1 us $= Rs 62. Assume that on 31st March, 2018, legal Ltd is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2017.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2018. If yes, then calculate the depreciation amount on machineries as on 31st March, 2018.

2.

i) ABC Ltd. a Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs. 30,00,000. It was recorded at US $1 = Rs. 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US $1 = Rs. 62.00. **[N18 (N) – 5M]**

ii) Trade receivable includes amount receivable from Preksha Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = Rs. 59.00. The exchange rate on balance sheet date (31.03.2018) was US $1 = Rs. 62.00.

3. AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs. 62.50 per dollar. The exchange rate per dollar was as follows: **[N18 (N) – 5M]**

On 1st January, 2018 Rs. 60.75 per dollar

On 31st March, 2018 Rs. 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

4. ABC Ltd. borrowed US $ 5,00,000 on 01/07/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under: **[M18 (N) – 5M]**

01/01/2017	1 US$ =	Rs. 68.50
31/03/2017	1 US $ =	Rs. 69.50
31/07/2017	1 US $ =	Rs. 70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

5. Rahul Ltd. purchased a plant for US$ 2,00,000 on 1st January 2017, payable after 5 months. Company entered into a forward contract for five months @ Rs. 64.75 per dollar. Exchange rate per dollar on 1st Jan. 2017 was Rs. 64.25. How will you recognize the profit or loss on forward contract in the books of Rahul Ltd.? **[N17 (O) – 4M]**

6. Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2015 payable after 6 months. The company entered into a forward contract for 6 months @Rs. 64.25 per Dollar. On 31st October, 2015, the exchange rate was Rs. 61.50 per Dollar. You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2016. **[M16 (O) – 5M]**

7. Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.3.2015: **[N15 (O) – 5M]**

Sundry Debtors include amount receivable from Umesh Rs. 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1= Rs. 58.50.

Long term loan taken from a U.S. Company, amounting to Rs. 60,00,000. It was recorded at US $ 1 = Rs. 55.60, taking exchange rate prevailing at the date of transaction.

US $ 1 = Rs. 61.20 on 31.3.2015.

8. Stem Ltd. purchased a Plant for US$ 30,000 on 30th November, 2013 payable after 6 months. The company entered into a forward contract for 6 months @ Rs. 62.15 per dollar. On 30th November, 2013; the exchange rate was Rs. 60.75 per dollar. **[N14 (O) – 5M]**

How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014?

PART 2: DESCRIPTIVE QUESTIONS

9. With reference to AS 11, define the following: **[N16 (O) – 4M]**

i) Integral Foreign Operation.

ii) Non-Integral Foreign Operation.

10. What are the indicators of Non-Integral Foreign Operation (NFO)? **[N14 (O) – 4M]**

AS-12: ACCOUNTING FOR GOVERNMENT GRANTS

PART1:OBJECTIVE QUESTIONS

1. As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.**(T/F)** **[M19 (N) – 1M]**

PART 2: PROBLEMS

2. How would you treat the following in the accounts in accordance with As-12 'Government Grants?' **[M19 (O) – 5M]**

a) Rs 35 Lakhs received from the local authority for providing medical facilities to the employees.

b) Rs 100 Lakhs received as subsidy from the Central Government for setting up a unit in a notified backward area.

Rs 10 Lakhs Grant received from the Central Government on installation of anti- pollution equipment

3. On 01.04.2014, XYZ Ltd. received Government grant of Rs. 100 Lakhs for an acquisition of new machinery costing Rs. 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. **[M18 (N) – 5M]**

The company had to refund the entire grant in 2nd April, 2017 due to non-fulfillment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

4. Ram Ltd. purchased machinery for Rs. 80 lakhs. (Useful life 4 years and residual value Rs. 8 lakhs). Government grant received is Rs. 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if **[M17 (O) – 5M]**

i) The grant is credited to Fixed A/c.

ii) The grant is credited to Deferred Grant A/c.

5. ABC Ltd. purchased fixed assets for Rs. 50,00,000. Government grant received towards it is 20%. Residual value is Rs. 8,00,000 and useful life is 8 years. Assumed depreciation is on the basis of Straight Line Method, asset is shown in the Balance Sheet net of grant. After one year, grant becomes refundable to the extent of Rs. 7,00,000 due to noncompliance of certain conditions. **[M16 (O) – 5M]**

Pass Journal entries for 2nd year in the books of the company.

6. M/s. A Ltd. has set up its business in a designated backward area with an investment of Rs. 200 Lakhs. The Company is eligible for 25% subsidy and has received Rs. 50 Lakhs from the Government.

Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company. **[M15 (O) – 4M]**

PART 2: DESCRIPTIVE QUESTIONS

7. Explain in brief the treatment of Refund of Government Grants in line with AS 12 in the following three situations: **[M14 (O) – 4M]**

i) When Government Grant is related to revenue,

ii) When Government Grant is related to specific fixed assets,

iii) When Government Grant is in the nature of Promoter's contribution.

AS-13: ACCOUNTING FOR INVESTMENTS

PART1 OBJECTIVE QUESTIONS

1. As per the provision of AS-13, a current investments is an investment that is by its nature is readily realizable and is intended to be held for not more than six months from the date on which such investment is made **[M 19 (N) – 1M]**

PART 2: PROBLEMS

2. Mother Mart Ltd. wants to re-classify its investment in accordance with As 13. Decide on the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller: **[M19 (O) – 5M]**

i) A portion of current investments purchased for Rs. 25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was Rs. 30 Lakhs.

ii) Another portion of current investments purchased for Rs. 20 lakhs has to be re-classified as long-term investments. The market value of these investments as on the date of the balance sheet was Rs. 12.5 lakhs.

iii) One portion of long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 15 lakhs, but had been written down to Rs. 11 lakhs to recognize permanent decline as per AS 13.

3. On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information: **[M19 (N) – 5M]**

1) A portion of long term investments purchased on 1st March, 2017 are to be re classified as current investments. The original cost of these investments was Rs. 14 lakhs but had been written down by Rs. 2 lakhs (to recognize other than temporary decline in value). The market value of these investments on 15th June, 2018 was Rs. 11 lakhs.

2) Another portion of long term investments purchased on 15th January, 2017 are to be re classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognize other than temporary decline in value). The fair value of this investment on 15th June, 2018 was Rs. 4.5 lakhs.

3) A portion of current investments purchased on 15th March, 2018 for Rs. 7 lakhs are to be re classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs. 6 lakhs and fair value on 15th June 2018 was Rs. 8.5 lakhs.

4) Another portion of current investments purchased on 7th December, 2017 for Rs. 4 lakhs are to be re classified as long term investments. The market value of these investments was:

On 31st March, 2018 Rs. 3.5 lakhs

On 15th June, 2018 Rs. 3.8 lakhs.

4. Sun Ltd. wants to re-classify its investments in accordance with AS-13. State the values at which the investments have to be re-classified as per AS-13 in the following cases: **[M18 (O) – 4M]**

a) Current investments in Company Fine Ltd. costing Rs. 39,000 are to be re-classified as long term investments. The fair value on the date of transfer is Rs. 37,000.

b) Long term investment in Company Bold Ltd., costing Rs. 16 lakhs are to be reclassified as current investments. The fair value on the date of transfer is Rs. 15 lakhs and book value is Rs. 16 lakhs.

5. How you will deal with following in the financial statement of the Paridhi Electronics Ltd. as on 31.3.16 with reference to AS-13? **[N16 (O) – 5M]**

i) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of Rs.3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2016 reveals that the company has incurred cash losses with decline market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs.45,000.

ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs.5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5 lakhs.

6. M/s Active Builders Ltd. invested in the shares of another company on 31st October, 2015 at a cost of Rs. 4,50,000. It also earlier purchased Gold of Rs. 5,00,000 and Silver of Rs. 2,25,000 on 31st March, 2013.

Market values as on 31st March, 2016 of the above investments are as follows: **[M16 (O) – 5M]**

Shares Rs. 3,75,000; Gold Rs. 7,50,000 and Silver Rs. 4,35,000

How will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2016 as per the provision of AS-13?

7. Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance AS 13. **[N14 (O) – 5M]**

i) Long term investments in Company A, costing Rs. 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs. 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

ii) Long term investments in Company B, costing Rs. 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs. 8 lakhs and book value is Rs. 7 lakhs.

iii) Current investment in Company C, costing Rs. 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 12 lakhs.

Current investment in Company D, costing Rs. 15 lakhs are to be re-classified as long term. The market value on date of transfer is Rs. 14 Lakhs.

AS-16: BORROWING COSTS

PART 1: PROBLEMS

1. M/s First Ltd began construction of a new factory building on 1st April, 2017. It obtained Rs. 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other nonspecific loans. Details of other outstanding nonspecific loans were: **[M19 (N) – 5M]**

Amount (Rs.)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditure that was made on the factory building construction was as follows:

Date	Amount (Rs.)
1st April, 2017	3,00,000
31st May, 2017	2,40,000

1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS – 16, you are required to:

- Calculate the amount of interest to be capitalized.

Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building

2. Rutu Builders Limited has borrowed a sum of US$ 20,00,000 at the beginning of Financial year 2017-18 for its residential project at LIBOR +3%. The interest is payable at the end of the financial year. **[M18 (O) – 5M]**

At the time of availment exchange rate was 61 per US $ and the rate as on 31st March, 2018 was 65 per US $. If Rutu Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been @ 10.50%.

Compute Borrowing cost and exchange difference for the year ending 31st March, 2018 as per Accounting Standards 16. (Applicable LIBOR is 1%).

3. Small Limited began construction of a building on 1st April, 2016 which is expected to cost Rs. 25,00,000. The construction of the building was financed through a special loan of Rs. 10,00,000 obtained at an interest rate of 10% per annum on 1st April, 2016. Further, expenditure on the building was financed through other non-specific finance arrangements of the company. Details of non-specific finance arrangements are as under: **[N17 (O) – 5M]**

Amount (Rs.)	Rate of Interest P.a.
30,00,000	12%
20,00,000	15%

Cumulative expenses incurred on the building were as follows:

Date	Amount (Rs.)
1st April, 2016	Rs. 5,00,000
1st July, 2016	Rs. 13,00,000
1st November, 2016	Rs. 20,00,000
31st January, 2017	Rs. 25,00,000

Construction of the building was completed on 31st March, 2017. Following the principles specified in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized.

4. M/s. Zen Bridge Construction Limited obtained a loan of Rs. 64 crores be utilized as under: **[N16 (O) – 5M]**

i) Construction of Hill link road in Kedarnath: (work was held up totally for a month during the year due to heavy rain which are common in the geographic region involved)	Rs. 50 crores
ii) Purchase of Equipment and Machineries	Rs. 6 crores
iii) Working Capital	Rs. 4 crores
iv) Purchase of Vehicles	Rs. 1crore
v) Advances for tools/cranes etc.	Rs. 1crore
vi) Purchase of Technical Know-how	Rs. 2 crores
vii) Total Interest charged by the Bank for the year ending 31st March, 2016	Rs. 1.6 crores

Show the treatment of Interest according to Accounting Standard by M/s. Zen Bridge Construction Limited.

5. Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014-15 for its residential project at LIBOR + 3 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2015 Rs. 62 per US $. If Shan Builders Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2015 as per applicable Accounting Standards. (Applicable LIBOR is 1%). **[N15 (O) – 5M]**

6. M/s. Ayush Ltd. began construction of a new building on 1st January, 2014. It obtained Rs. 3 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were: **[M15 (O) – 5M]**

Amount	Rate of Interest
Rs.6,00,000	11%
Rs.11,00,000	13%

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

	Amount (Rs)
January, 2014	3,00,000
April, 2014	3,50,000
July, 2014	5,50,000
December 2014	1,50,000

Building was completed on 31st December, 2014. 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 in respect of the building

7. Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2013, to be utilized as under: **[M14 (O) – 5M]**

Particulars	Amount (Rs. in Lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2014, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2014 was Rs. 11,00,000. During the year 2013-14, the company had invested idle fund out of money realised from debentures in bank's fixed deposit and had earned an interest of Rs. 2,00,000.

Show the treatment of interest under AS 16 and also explain nature of assets.

PART 2: DESCRIPTIVE QUESTIONS

8. Write short note on 'Suspension of Capitalisation' in context of AS 16. **[M16 (O) – 4M]**

THE END

ACCOUNTING STANDARDS (GROUP – 2)

AS-4: CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

PART1: OBJECTIVE QUESTIONS

1. As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events **(T/F)**
[M19 (N) – 1M]

PART 2: PROBLEMS

2. The financial statements of PQ Ltd, for the Year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided: **[M19 (N) – 5M]**

i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of Rs. 25 lakhs

ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was Rs. 50 lakhs.

iii) Theft of cash of Rs. 5 lakhs by the cashier on 31st March, 2018 But was detected on 16th July, 2018.

iv) Company sends a proposal to sell an immovable property for Rs. 40 lakhs in March, 2018. The book value of the property is Rs. 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018

v) A major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

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

3. The accounting year of Dee Limited ended on 31st March, 2018 but the accounts were approved on 30th April, 2018. On 15th April, 2018 a fire occurred in the factory and office premises. The loss by fire is of such a magnitude that it was not possible to expect the enterprise Dee Limited to start operation again.
[N18 (N) – 5M]

State with reasons, whether the loss due to fire is an adjusting or non- adjusting event and how the fact of loss is to be disclosed by the company in the context of the provisions of AS-4 (Revised).

4. The Board of Directors of M/s. New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders. **[M17 (O) – 5M]**

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

5. While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 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, 2016? **[N16 (O) – 5M]**

Comment with reference to relevant Accounting Standard.

6. With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet in case of a company which follows April to March as its financial year. **[M16 (O) – 5M]**

i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of Rs. 20 lakhs.

iii) It sends a proposal to purchase an immovable property for Rs. 30 lakhs in March. The book value of the property is Rs. 20 lakhs as on year end date. However, the deed was registered as on 15th April.

iv) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was Rs. 40 lakhs.

v) Theft of cash of Rs. 2 lakhs by the cashier on 31st March but was detected the next day after the financial statements have been approved by the Directors.

7. M/S AB Ltd is in the process of finalizing its account for the year ended 31st March, 2015. The company seeks your advice on the following **[M16 (O) – 5M]**

i) the company sale tax assessment for assessment year 2012-13 has been completed on 14th Feb ,2015 with a demand of Rs 5.40 cr. The company paid the entire due under protest without prejudice to its right of appeal before the appellate authority where in the grounds of appeal cover tax on additions made in the assessment order for a sum of 3.70 cr.

ii) The company has entered into a wage agreement in May 2018 where by the labour union has accepted a revision in wage from June2014.The agreement provides that the hike till May 2015 will not be paid to the employees but will be settled to them at the time of retirement .The company agrees to deposit the arrears in government Bonds by September 2015.

8. In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March 2014, a debtor of Rs. 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured. **[M14 (O) – 5M]**

State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.

AS-5: NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

PART1:OBJECTIVE QUESTIONS

1. As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.(T/F) **[M19 (N) – 1M]**

PART 2: PROBLEMS

2. Shama was working with ABC Ltd. drawing monthly salary of Rs. 25,000 per month. She went on maternity leave with pay for 7 months i.e. from 1-01-2017 to 31-7-17. Her salary for 3 months was not provided for in financial statements for F.Y. 2016-17 due to omission. When she joined after leave period, the whole salary for 7 months was paid to her. You are required to: **[N18 (O) – 5M]**

i) Pass the necessary journal entries in F.Y. 2017-18 to record the above transaction as per accounting standard-5 and state reason for the same.

ii) Would the treatment have been different, if Shama was terminated on 01-01-2017 and was reinstated in service by the court w.e.f. 01-08-2017 with instruction to pay Shama salary for the intervening period i.e. 1-01- 2017 to 31-07-2017.

3. PQR Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2018. The company seeks your advice on the following: **[M18 (N) – 5M]**

i) Goods worth Rs. 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of Rs. 3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.

ii) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18.

iii) Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra-ordinary item or prior period item?

4. The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard. **[N17 (O) – 5M]**

i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.

ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

5. M/s. Shishir Ltd., a public Sector Company, provides consultancy and engineering services to its clients. In the year 2014-15, the Government set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of Rs.1250 lakhs for pay revision in the financial year 2014-15 on the estimated basis as there port of the commission is yet to come. As per the contracts with client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job. **[M15 (O) – 5M]**

The company discloses through notes to accounts:

"Salaries and benefits include the provision of Rs.1,250 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made."

The Accountant feels that the company should also book/recognize the income by Rs. 1250 lakhs in Profit & Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit. Comment on the opinion of the Accountant with reference to relevant Accounting Standards.

6. Give two examples on each of the following items: **[N14 (O) – 4M]**

i) Change in Accounting Policy
ii) Change in Accounting Estimate
iii) Extra Ordinary Items
iv) Prior Period Items

AS-7: CONSTRUCTION CONTRACTS

PART 1: PROBLEMS

1. on 1st December 2017, GR Construction Co Ltd. undertook a contract a building for RS.45 Lakhs .on 31st March, 2018, the company found that it had spent Rs.32.50 Lakhs on the Construction. Additional cost of completion is estimated at Rs.15.10 lakhs What amount should be charged to revenue in the final Accounts for the year ended 31st march , 2018 as per provisions for AS-7 ? **[M19 (N) – 2.5M]**

2. AP Ltd., a construction contractor, undertakes the construction of commercial Complex for kay Ltd. AP Ltd submitted separate Proposals for each of 3 units of commercial Complex . A single agreement is entered into between the two parties . The agreement lays down the value of each of the 3 units , i.e. RS.50 Lakh, Rs.60lakh and RS.75 Lakh respectively Agreement also lays down the completion time for each unit.

Comment ,with reference to AS-7, whether AP Ltd., Should treat it as a single contract or three separate contracts **[M19 (N) – 2.5M]**

3. M/s Action Construction Company Ltd. undertook a fixed price construction contract to construct a building within 3 years time for Rs. 10,000 lakhs. **[N18 (O) – 5M]**

A summary of the financial data during the construction period is as follows: **(Rs. lakhs)**

Particulars	**Year-1**	**Year-2**	**Year-3**
Initial amount for revenue agreed in contract	10,000	10,000	10,000
Variation in Revenue (+)	-	500	1000
Contract costs incurred upto the reporting date	2415	6375	8500
Estimated profit for whole contract	1950	2000	2500

The variation in cost and revenue in year 2 and 3 has been approved by customer.

Determine the stage of completion of contract and amount of revenue expenses and profit or loss to be recognised in the statement of Profit and Loss for three years as per AS-7 (Revised).

4. Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018: **[M18 (N) – 5M]**

Particulars	Rs. In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of AS 7 "Accounting for Construction Contracts". you are required to compute:

a) Profit/Loss for the year ended 31st March, 2018.

b) Contract work in progress as at end of financial year 2017-18.

c) Revenue to be recognized out of the total contract value.

d) Amount due from/to customers as at the year end.

5. Akar Ltd. Signed on 01/04/16, a construction contract for Rs. 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/17. **[M17 (O) – 5M]**

- Materials issued Rs. 75,00,000
- Labour charges paid Rs. 36,00,000
- Hire charges of plant Rs. 10,00,000
- Other contract cost incurred Rs. 15,00,000
- Out of material issued, material lying unused at the end of period is Rs. 4,00,000
- Labour charges of Rs. 2,00,000 are still outstanding on 31.3.17.
- It is estimated that by spending further Rs. 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS-7.

6. GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of “Retail Petrol & Diesel Outlet Stations”. Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. Rs.102 lacs, Rs.150 lacs, Rs.130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region. **[N16 (O) – 5M]**

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

7. Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.16 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crores with an escalation clause. The costs to complete the whole contract are estimated at Rs. 9.50 crores of rupees. You are given the following information for the year ended 31.03.16: **[M16 (O) – 5M]**

Cost incurred upto 31.03.2016 Rs. 4 crores

Cost estimated to complete the contract Rs. 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS-7.

8. A construction contractor has a fixed price contract for Rs.9,000 lacs to 5 build a bridge in 3 years' time frame. A summary of some of the financial data is as under: **[M15 (O) – 5M]**

	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	--	200	200
Contracts costs incurred up to the reporting date	2093	6168*	8100**
Estimated profit for whole contract	950	1000	1000

*Includes Rs 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs 100.lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer

Compute year wise amount Rs.100 Lacs of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

AS-9: REVENUE RECOGNITION

PART 1: PROBLEMS

1. on 1st December 2017, GR Construction Co Ltd. undertook a contract a building for RS.45 Lakhs .on 31st March, 2018, the company found that it had spent Rs.32.50 Lakhs on the Construction. Additional cost of completion is estimated at Rs.15.10 lakhs What amount should be charged to revenue in the final Accounts for the year ended 31st march , 2018 as per provisions for AS-7 ? **[M19 (N) – 5M]**

2. Goods worth Rs. 6,62,500 were sold on 31.10.2017 by X Ltd. to Y Ltd. Y Ltd. requested for a trade discount of 8% which was agreed by X Ltd. The sale was effected and goods were dispatched, However, on receipt of the goods, Y Ltd. found that goods worth Rs. 77,500 were damaged. Consequently, Y Ltd. returned the damaged goods to X Ltd. and made the due payment amounting to Rs. 5,32,000. The accountant of X Ltd. booked the sale for Rs. 5,32,000. **[N18 (O) – 5M]**

Discuss the above treatment by the accountant with reference to applicable Accounting Standard.

3. Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017: **[N17 (O) – 5M]**

i) On 15th January, 2017 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

iii) On 1st November, 2016 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

4. Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing Rs. 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of Rs. 30,00,000 and Raj Ltd. Stated dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth Rs. 15,00,000 ready for dispatch. Raj Ltd. accounted Rs. 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. With reference to the provision of AS-9. **[M17 (O) – 5M]**

5. A manufacturing company has the following stages of production and sale in manufacturing Fine paper rolls: **[N16 (O) – 5M]**

Date	Activity	Cost to Date (Rs.)	Net Realizable Value (Rs.)
15.1.16	Raw Material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31.3.16 on this product according to AS-9.

6. M/s Umang Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 12% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2015 interest due from agent (because of delay in payment) amounts to Rs. 1,72,000. The accountant of M/s Umang Ltd. booked Rs. 1,72,000 as interest income in the year ended 31st March, 2015. Discuss the contention of the accountant with reference to AS-9. **[N15 (O) – 5M]**

7. Given the following information of M/S. Paper Products Ltd. **[M15 (O) – 4M]**

   i) Goods of RS.60,000 were sold on 20-03-2015 but at the request of the buyer these were delivered on 10-04-2015.

   ii) On 15-01-2015 goods of RS.1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2015.

   iii) RS.1,20,000 worth of goods were sold on approval basis on 1-12-2014.The period of approval was 3 months after which they were considered sold. Buyer sent for approval 75% goods up to 31-01-2015 and no approval or disapproval received for the remaining goods till 31-03-2015.

   iv) Apart from the above , the company has made cash sales of RS.7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

   You are required to advise ,the accountant of M/s. papers Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-03-2015.

8. Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received Rs. 2,40,000 on 10.3.2014 and Rs. 60,000 on 10.4.2014 for the March 2014 issue. **[N14 (O) – 5M]**

   Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.03.2014. What will be the treatment if the publication is delayed till 2.4.2014?

AS-14: ACCOUNTING FOR AMALGAMATION

PART 1: PROBLEMS

1. On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows: **[N18 (N) – 5M]**

   i) Issued 50,000 fully paid Equity shares of Rs. 10 each at a premium of Rs. 5 per share to the equity shareholders of Rina Ltd.

   ii) Cash payment of Rs. 50,000 was made to equity shareholders of Rina Ltd.

   iii) Issued 2,000 fully paid 12% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Rina Ltd.

   iv) Debentures of Rina Ltd. (Rs. 1,20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

   Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

2. Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2018. The terms and conditions of takeover were as follows: **[M18 (O) – 5M]**

   i) Som Ltd. issued 56,000 equity shares of Rs. 100 each at a premium of Rs. 15 per share to the equity shareholders of Dove Ltd.

   ii) Cash payment of Rs. 39,000 was made to equity shareholders of Dove Ltd.

   iii) 24,000 fully paid preference shares of Rs. 50 each issued at par to discharge the preference shareholders of Dove Ltd.

   iv) The 8% Debentures of Dove Ltd. (Rs. 78,000) converted into equivalent value of 9% debentures in Som Ltd.

v) The actual cost of liquidation of Dove Ltd. was Rs. 23,000. Liquidation cost is to be reimbursed by Som Ltd. to the extent of Rs. 15,000.

You are required to:

a) Calculate the amount of purchase consideration as per the provisions of AS-14 and

b) Pass Journal Entry relating to discharge of purchase consideration in books of Som Ltd.

3. Anjana Ltd. is absorbed by Sanjana Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding Rs. 10,000 (actual cost Rs. 9,000) the payment of the 9% debentures of Rs. 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of Rs. 15 per share in cash and allotment of three 11% preference share of Rs. 10 each at a discount of 10% and four equity share of Rs. 10 each. at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of share of the vendor company are 1,50,000 of Rs. 10 each fully paid.

Calculate purchase consideration as per Accounting Standard 14. **[M16 (O) – 4M]**

PART 2: DESCRIPTIVE QUESTIONS

4. Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS-14. **[N15 (O) – 4M]**

AS-17: SEGMENT REPORTING

PART 1: PROBLEMS

1. M/s Nathan Limited has three segments namely P, Q and R. The assets of the company are Rs. 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - Rs. 1 crore, Q - Rs. 0.90 crores and R - Rs. 0.80 crores. The accountant contends all these three segments are reportable segments. Comment. **[M18 (N) – 5M]**

AS-18: RELATED PARTY DISCLOSURES

PART 1: PROBLEMS

1. Identify the related parties in the following cases as per AS-18 **[M19 (N) – 5M]**

(I) Maya Ltd. holds 61% shares of sheetal Ltd.

Sheetal Ltd. holds 51% of shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

(give your answer Reporting Entity wise for Maya Ltd., Sheetal Ltd., care Ltd. and Fair Ltd.)

Mr. Subhash Kumar is Managing Director of A ltd. and also holds 72% capital B Ltd.(B Ltd. is subsidiary of A Ltd.)

2. Following transactions are disclosed as on 31st March, 2018: **[N18 (N) – 5M]**

i) Mr. Sumit, a relative of Managing Director, received remuneration of Rs. 2,10,000 for his services in the company for the period from 1st April, 2017 to 30th June, 2017. He left the service on 1st July, 2017.

Should the relative be identified as a related party as on closing date i.e. on 31-3-2018 for the purpose of AS-18.

ii) Goods sold amounting to Rs. 50 lakhs to associate company during the 1st quarter ended on 30th June, 2017. After that related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer.

Decide whether transactions of the entire year have to be disclosed as related party transactions.

AS-19: LEASES

PART 1: PROBLEMS

1. Sun Limited leased a machine to Moon Limited on the following terms: **[M19 (O) – 5M]**

	Amount
Fair value at inception of lease	50,00,000
Lease term	4 Years
Lease rental per annum	16,00,000
Guaranteed residual value	3,00,000

Expected residual value	4,50,000
Implicit Interest rate	15%

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

Calculate the value of the lase liability and ascertain unearned finance income as per As-19

2. Jaya Ltd. Took a machine on lease from Deluxe Ltd., the fair value being Rs.11,50,000. **[M19 (N) – 5M]**

Economic life of the machine as well as lease term is 4 years .At the end of each year, lessee pays RS.3,50,000 to lessor. jaya Ltd. has guaranteed a residual value of RS.70,000 on expiry of the lease to deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only RS.25,000. The implicit rate of return is 10% p.a.and present value factors at 10% are: 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year Respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

3. A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. Compute the following: **[N18 (O) – 5M]**

i) Annual Lease Rent

ii) Lease Rent income to be recognized in each operating year and

iii) Depreciation for 3 years of lease.

4. A Ltd. sold JCB having WDV of Rs. 20 lakhs to B Ltd. for Rs. 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if **[M18 (N) – 5M]**

i) Sale price of Rs. 24 lakhs is equal to fair value.

ii) Fair value is Rs. 20 lakhs and sale price is Rs. 24 lakhs.

iii) Fair value is Rs. 22 lakhs and sale price is Rs. 25 lakhs.

iv) Fair value is Rs. 25 lakhs and sale price is Rs. 18 lakhs.

v) Fair value is Rs. 18 lakhs and sale price is Rs. 19 lakhs.

5. Ram Ltd. sold a machine having WDV of Rs. 125 lakhs to Shyam Ltd. for Rs. 150 lakhs and the same machine was leased back by Shyam Ltd. to Ram Ltd. under Operating lease system: **[M18 (O) – 5M]**

Comment according to relevant Accounting Standard if:

i) Sale price of Rs. 150 lakhs. is equal to fair value.

ii) Fair value is Rs. 125 lakhs and Sale price is Rs. 112.50 lakhs.

iii) Fair value is Rs. 137.50 lakhs and Sale price is Rs. 155 lakhs.

iv) Fair value is Rs. 112.50 lakhs and Sale price is Rs. 120 lakhs.

6. ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being Rs. 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays Rs. 3,50,000. The lessee has guaranteed a residual value of Rs. 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be Rs. 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year. **[M17 (O) – 5M]**

7. Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is Rs. 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will retune the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is Rs. 50,000. IRR of investment is 10% and present value of annuity factory of Rs. 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of Rs. 1 due at the end of 3rd year at 10% IRR is 0.7513. **[N15 (O) – 5M]**

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

8. A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are Rs. 7,00,000. The amount will be paid in 4 equal installments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is Rs. 70,000. The IRR of the investment is 10%. The present value of annuity factor of Rs. 1 due at the end of 4th year at 10% IRR is 3.169. The present value of Rs. 1 due at the end of 4th year at 10% rate of interest is 0.683. **[N14 (O) – 5M]**

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

PART 2: DESCRIPTIVE QUESTIONS

9. State any four situations when a lease would be classified as Finance Lease. **[M15 (O) – 4M]**

AS-20: EARNINGS PER SHARE

PART 1: PROBLEMS

1. Net profit for FY 2016-17 Rs. 30,00,000 **[M19 (O) – 5M]**

Net profit for FY 2017-18 Rs. 50,00,000

No. of shares outstanding prior to rights issue Rs. 20,00,000 shares

Rights issue price Rs 20/-

Last day to exercise rights 1st June, 2017.

Right issue is one new share for each five equity share outstanding (i.e. 40,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2017 was Rs. 26.00
Compute Basic earnings per share for FY 2016-17, FY 2017-18 and Restated EPS for FY 2016-17.

2. From the following information given by Sampark Ltd., Calculate Basis EPS and Diluted EPS as per AS 20: **[N18 (N) – 5M]**

Particulars	Amount
Net Profit for the current year	2,50,00,000
No. of Equity Shares Outstanding	50,00,000
No. of 12% convertible debentures of Rs. 100 each	50,000
Each debenture is convertible into 8 Equity Shares	
Interest expense for the current year	6,00,000
Tax saving relating to interest expense (30%)	1,80,000

3. As at 1st April, 2016 a company had 6,00,000 equity shares of Rs. 10 each (Rs. 5 paid up by all shareholders). On 1st September, 2016 the remaining Rs. 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2017 was Rs. 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to Rs. 3,40,000. **[M18 (N) – 5M]**

Compute Basic EPS for the year ended 31st March, 2017 as per Accounting Standard 20 "Earnings Per Share".

4. From the following information compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2017: **[N17 (O) – 5M]**

Net Profit for the year after tax: Rs. 75,00,000

Number of Equity Shares of Rs. 10 each outstanding: Rs. 10,00,000

Convertible Debentures Issued by the Company

Particulars	Nos.
8% Convertible Debentures of Rs. 100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

Rate of Income Tax: 30%.

5. "While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS. Also calculate the diluted EPS from the following information: **[N16 (O) – 5M]**

Net Profit for the current year (After Tax)	Rs. 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of Rs. 100 each	1,00,000
(Each Debenture is compulsorily & fully convertible into 10 equity shares)	
Debenture interest expense for the current year	Rs. 5,00,000
Assume applicable Income Tax rate @ 30%	

6. What do you mean by "Weighted average number of equity shares outstanding during the period" and why is it required to be calculated? Compute weighted average number of equity shares in the following case: **[N15 (O) – 4M]**

Date	Particulars	No. of shares
1st April, 2014	Balance of Equity Share	5,00,000
30th June, 2014	Balance Shares issued for cash	1,00,000
15th January, 2015	Equity Shares bought back	50,000
31st March, 2015	Balance of Equity Shares	5,50,000

7. M/s. A Ltd. had 8,00,000 Equity Shares outstanding on 1st April, 2013. The Company earned a profit of Rs. 20,00,000 during the year 2013-14. The average fair value per share during 2013-14 was Rs. 40. The Company has given Share Option to its employees of 1,00,000 Equity Shares at option price of Rs. 20. Calculate Basic EPS and Diluted EPS. **[M15 (O) – 5M]**

8. In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered: **[N14 (O) – 4M]**

i) Equity Shares issued in exchange of cash,

ii) Equity Shares issued as a result of conversion of a debt instrument,

iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,

iv) Equity Shares issued for rendering of services to the enterprise,

v) Equity Shares issued in lieu of interest and/or principal of another financial instrument,

vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

Also define Potential Equity Share.

AS-22: ACCOUNTING FOR TAXES ON INCOME

PART 1: DESCRIPTIVE QUESTIONS

1. Write short note on timing difference and permanent difference as per AS22 **[M19 (N) – 5M]**

2. How is Minimum Alternative Tax (MAT) to be presented in the financial statements? **[M18 (N) – 5M]**

PART 2: PROBLEMS

3. Rohit Ltd. has provided the following information: **[M18 (N) – 5M]**

Particulars	Amount
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortised preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

AS-24: DISCONTINUING OPERATIONS

PART 1: DESCRIPTIVE QUESTIONS

1. What are the initial disclosure requirements of AS 24 for discontinuing operations? **[N18 (N) – 5M]**

AS-26: INTANGIBLE ASSETS

PART 1: PROBLEMS

1. During 2016-17, an enterprise incurred costs to develop produce a routine low risk computer software product, as follows: **[M19 (O) – 5M]**

Particular	Rs
Completion of detailed program and design (Phase I)	50,000
Coding and Testing (Phase 2)	40,000
Other Coding Costs(Phase 3&4)	63,000
Testing costs (Phase 3&4)	18,000
Product masters for training materials9Phase 5)	19,500
Packing the product (1,500) (Phase 6)	16,500

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

2. RC Ltd. is showing an intangible asset at Rs. 72 lakhs as on 31-3-18. This asset was acquired for Rs. 120 lakhs as on 01-04-12 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis. **[N18 (O) – 5M]**

Comment on the accounting treatment of asset with reference to AS- 26 and also give the necessary rectification journal entry.

3. A company acquired a patent at a cost of Rs. 160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at Rs. 16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be Rs. 50 lakhs, Rs. 30 lakhs, Rs. 60 lakhs, Rs. 70 lakhs and Rs. 40 lakhs. Find out the amortization cost of the patent for each of the years. **[M18 (N) – 5M]**

4. A company acquired patent right for Rs. 1200 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	1	2	3	4	5
Estimated future cash flows (Rs. in lakhs)	600	600	600	300	300

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be Rs. 150 lakhs. Determine the amortization under Accounting Standard 26. **[M18 (O) – 5M]**

5. Fast Ltd. acquired a patent at a cost of Rs. 40,00,000 for a period of five years and its product life-cycle is also five years. The company capitalized the cost and started amortising the asset at Rs. 5,00,000 per annum. After two 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 Rs. 18,00,000, Rs. 23,00,000, Rs. 22,00,000, Rs. 20,00,000 and Rs. 17,00,000. Find out the amortization cost of the patent for each of the years. **[M17 (O) – 5M]**

6. A Company with a turnover of Rs. 375 crores and an annual advertising budget of Rs. 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 37.5 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs. 3 crores incurred on extensive special initial advertisement campaign for the new product. **[N16 (O) – 5M]**

Is the procedure adopted by the Company correct?

7. M/s. Mahesh Ltd. is developing a new production process. During the Financial Year ended 31st March, 2013, the total expenditure incurred on the process was Rs.60 lacs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was Rs. 32 lacs. **[M15 (O) – 5M]**

Further expenditure incurred on the process for the Financial Year ending 31st March, 2014 was Rs. 90 lacs. As on 31-03-2014, the recoverable account of know-how embodied in the process is estimated to be Rs. 82 lacs. This includes estimates of future cash outflows and inflows:

You are required to work out:

i) What is the expenditure to be charged to Profit & Loss Account for the year ended1st March, 2013?

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

iii) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2014?

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

8. A company is showing an intangible asset at Rs. 88 lakhs as on 01.04.2013. This asset was acquired for Rs. 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant AS. **[N14 (O) – 5M]**

AS-29: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

PART 1: PROBLEMS

1. With reference to AS-29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates: **[N18 (O) – 5M]**

i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

ii) During 2016-17 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2017-18, the financial condition of Brew Ltd. deteriorates and at 31st Dec. 2017 it goes into Liquidation. (Balance Sheet date 31-3-17).

2. A Ltd. manufactures engineering goods, provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following the policy for making provision for warranties on the invoice amount, on the remaining balance warranty period: **[M18 (O) – 5M]**

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount
19th January, 2016	80,000
29th January, 2017	50,000
15th October, 2017	1,80,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2017 and 31st March, 2018. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2018.

3. Legal department of XYZ Limited provides that as on 31st March 2017, there were 25 law suits pending which have not been settled till the approval of accounts by the Board of Directors. The possible outcome of suits are follows: **[N17 (O) – 5M]**

Particulars	Probability	Loss (Rs.)
In respect of Seven cases (Win)	100%	
Next Twelve cases (Win)	60%	
Loss (Low damages)	30%	1,50,000
Loss (High damages)	10%	2,50,000
Remaining Six cases (Win)	50%	
Loss (Low damages)	35%	1,25,000
Loss (High damages)	15%	3,00,000

Outcome of each case is to be taken as a separate one. Ascertain the amount of contingent loss to be reported in the Financial Statement.

4. M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of Rs. 200 lacs.

[N16 (O) – 4M]

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

5. AB Ltd. is in the process of finalizing its account for the year ended 31st March, 2015. The company seeks your advice on the following: **[M16 (O) – 5M]**

i) The company's sale tax assessment for assessment year 2012-13 has been completed on 14th February, 2015 with a demand of Rs. 5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of Rs. 3.70 crore.

ii) The company has entered into a wage agreement in May 2015 whereby the labour union has accepted a revision in wage from June 2014. The agreement provides that the hike till May 2015 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September 2015.

WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of Rs. 1,000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company? **[N14 (O) – 5M]**

PART 2: DESCRIPTIVE QUESTIONS

6. With reference to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", define:

[M16 (O) – 4M]

i) A Provision

ii) A Liability

iii) A Contingent Asset

iv) Present Obligation

GUIDANCE NOTES

PART 1: PROBLEMS **[N18 (N) – 5M]**

Sagar Ltd. has issued convertible bonds for Rs. 65 crores which are due to mature on 30th September, 2018. While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bonds as per the requirements of Schedule-III to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

THE END