PAPER – 1: ADVANCED ACCOUNTING

QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).

   The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.

   What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

   (a) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.

   (b) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

   (c) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.

   (d) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

2. A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

   As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:

   (a) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.

   (b) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.

   (c) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.

   (d) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

General MCQs

3. Most by-products as well as scrap or waste materials, by their nature, are immaterial. Thus, these are measured at:

   (a) Cost

   (b) Cost or Net Realisable Value whichever is lower

   (c) Nil

   (d) Net realisable value

Part II - Descriptive Questions

Applicability of Accounting Standards

AS 1 “Disclosure of Accounting Policies”

4. What do you mean by 'Accrual' in reference to AS-1? Also, specify any three reasons for 'Accrual Basis of Accounting'.

AS 2 “Valuation of Inventories”

5. From the following information provided by LMN Ltd. for the year 2024, you are required to compute the closing inventory:

Raw Material A

Closing balance: 700 units

	₹ per unit
Cost price including GST	280
ITC available	25
Freight inward	35
Handling charges	20
Replacement cost	200

Finished Goods B

Closing balance: 1,800 units

	₹ per unit
Material consumed	280
Direct labour	80
Direct overhead	40

Total fixed overhead for the year was ₹ 3,60,000 on a normal capacity of 36,000 units, while actual production has been 30,000 units.

Calculate the value of closing stock when:

(i) Net Realisable Value of Finished Goods B is 500 per unit

(ii) Net Realisable Value of Finished Goods B is 380 per unit

AS 3 "Cash Flow Statements"

6. From the following data of Vishnu Ltd. prepare cash flow statement from Operating activities using direct method as per AS 3:

	31.03.2024 (₹)	31.03.2023 (₹)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500

Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

Summary of Statement of Profit and Loss	**₹**	**₹**
Sales	85,50,000	
Less: Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	1,10,000	1,30,000
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	(18,000)	(16,18,000)
Net Profit before tax and extraordinary income		14,62,000
Income Tax		(95,000)
Net Profit		13,67,000

Additional information:

(1) Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.

(2) Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

AS 4 "Contingencies and Events Occurring After the Balance Sheet Date"

7. Smart Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March, 2024 are to be approved by the approving authority on 30th June 2024. During the first quarter of 2024-2025, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Smart Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31st March, 2024. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2024, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15th April, 2024. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) The company has entered into a sale agreement on 30th March, 2024 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2024 when conveyance and possession get completed.

(iv) The company has received, during the year 2022-2023, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15th June, 2024 due to violation of some of the conditions of grant during the year 2023-2024.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2024.

AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"

8. The Accountant of Heera Ltd. 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, 2024. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) 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.

(ii) 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 ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(iii) During the year ended 31st March, 2024, there was change in cost formula in measuring the cost of inventories.

AS 7 "Construction Contracts"

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

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

(ii) On 1st December, 2023, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2024, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2024 as per provisions of AS-7?

AS 9 "Revenue Recognition"

10. Given below are the following informations of B.S. Ltd.

(i) Goods of ₹ 50,000 were sold on 18-03-2024 but at the request of the buyer these were delivered on 15-04-2024.

(ii) On 13-01-2024 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2024.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01-12-2023. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2024 and no approval or disapproval received for the remaining goods till 31-03-2024.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2024 in above cases in the context of AS-9.

AS 10 "Property, Plant and Equipment"

11. 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 ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

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

    Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

AS 11 "The Effects of Changes in Foreign Exchange Rates"

12. Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2023, it borrowed US $1 million from International Funding Agency, USA when exchange rate was 1 $ = ₹ 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 ₹ 30,00,000.

    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 capitalized 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, 2024 is 1 US $ = ₹ 62. Assume that on 31st March, 2024, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2023.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2024. If yes, then calculate the depreciation amount on machineries as on 31st March, 2024.

AS 12 "Accounting for Government Grants"

13. XYZ Limited has set-up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 75 crore received ₹ 15 crore as subsidy from the Government in January 2024. The company wants to treat this receipt as an item of revenue and thereby reduce the losses for the year ended on 31st March, 2024.

Keeping in view the relevant Accounting Standard, examine whether this action is justified or not?

AS 13 "Accounting for Investments"

14. Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of ₹ 100 each) of Exe Ltd. held as current assets:

1.4.2023	Opening balance - 12,500 debentures, cost ₹ 12,25,000
1.6.2023	Purchased 9,000 debentures@ ₹ 98 each ex-interest
1.11.2023	Purchased 12,000 debentures @ ₹ 115 each cum interest
31.1.2024	Sold 13,500 debentures@ ₹ 110 each cum-interest
31.3.2024	Market value of debentures @ ₹ 115 each

Due dates of interest are 30th June and 31st December.

Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2024. Show investment account as it would appear in his books assuming FIFO method is followed.

AS 14 "Accounting for Amalgamations"

15. The Summarized Balance Sheets of Gyan Ltd. And Kiran Ltd. as on 31st March 2024 are given below:

	Gyan Ltd. (₹ in lakhs)	Kiran Ltd. (₹ in lakhs)
Liabilities		
Share capital		
Equity share capital of ₹10 each fully paid-up	650	600
10% Preference shares of ₹ 100 each fully paid-up	150	200
Reserves and Surplus		
General Reserve	-	360
Profit and Loss Account	(260)	
Non-Current Liabilities		
12% Debentures	75	100
Loans from Bank	40	-
Current Liabilities		
Bank overdraft	15	-
Trade payables	95	105
Dividend payable	-	60
	765	1,425
Assets		
Non-Current Assets		
PPE	700	900
Investments	-	250
Current Assets		
Trade receivables	65	135
Cash at bank	-	140
	765	1,425

Gyan Ltd. has acquired the business of Kiran Ltd. as on 31 March 2024 as per following scheme of merger:

(1) Banks agreed to waive-off 50% loan of Gyan Ltd.

(2) Gyan Ltd. will reduce its shares to ₹ 2 per share and then consolidate 5 such shares into one share of ₹ 10 (new share).

(3) Gyan Ltd. will issue 2 equity shares (new) for 3 equity shares of Kiran Ltd. The new shares are to be issued @ ₹ 20 each having a face value of ₹ 10 per share.

(4) Preference shareholders of Kiran Ltd. will be paid off by issuing equivalent number of 10% Preference shares of Gyan Ltd. of ₹ 100 each at a price of ₹ 105 per share.

(5) Dividend of Kiran Ltd. will be paid after merger to the shareholders of Kiran Ltd.

(6) Trade payables of Gyan Ltd. include ₹ 50 lakhs payable to Kiran Ltd.

Pass necessary Journal entries in the books of Gyan Ltd. and prepare Balance Sheet after merger.

AS 16 "Borrowing Costs"

16 U Limited has obtained a term loan of ₹ 620 lacs for a complete renovation and moderrnisation of its Factory on 1st April, 2023. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 2024. An expenditure of ₹ 510 lacs was incurred on installation of Plant and Machinery, ₹ 54 lacs has been advanced to suppliers for additional assets which were also received and installed before 30th April, 2024 (additional asset has taken substantial period of time in its installation) and the balance loan of ₹ 56 lacs has been used for working capital purposes.

The company has paid total interest of ₹ 68.20 lacs during financial year 2023-2024on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts.

AS 18 "Related Party Disclosures"

17. SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the

company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited"?

AS 19 "Leases"

18. Sun Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sun Limited is not sure about the treatment of these lease rentals and seeks your advice. (use annuity factor at @ 15% for 3 years as 3.36)

AS 20 "Earnings Per Share"

19. The following information relates to XYZ Limited for the year ended 31st March, 2024:

Net Profit for the year after tax:	₹ 37,50,000
Number of Equity Shares of ₹ 10 each outstanding:	₹ 5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	**Nos.**
8% Convertible Debentures of ₹ 100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

AS 29 "Provisions, Contingent Liabilities and Contingent Assets"

20. Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2023 and needs your expert advice on the following issues:

(i) The company has its plants at 3 different locations. It has to shut down one of its plants due to internal reasons. The said plant site is under a rental agreement till 31.3.2024. The rent per month is ₹ 80,000. If the company cancels the agreement, it has to pay a penal amount equal to six month's rent. The company also has an option to sub-let the site at a rent of ₹ 45,000 per month.

(ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.

(iii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% of the value is to be paid. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed for the compensation.

Give your answers based on relevant Accounting standard.

SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.	Hints
1.	**(d)**
2.	**(c)**
3.	**(d)**

Descriptive Answers

4. The term “Accrual” has been explained in the AS 1 on Disclosure of Accounting Policies, as “Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate”

Reasons for Accrual Basis of Accounting

1. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.
2. Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.
3. The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.
4. Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in the future.
5. Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.

5. (i) When Net Realisable Value of Finished Goods B is ₹500 per unit

Value of Closing Stock:

Valuation Base	Method	Qty.	Rate (₹)	Amount (₹)
Raw Material A	Cost	700	310	2,17,000
Finished Goods B	Cost	1,800	410	7,38,000
Total Value of Closing Stock				9,55,000

(ii) When Net Realisable Value of Finished Goods B is ₹ 380 per unit

Since NRV of finished goods B is less than its cost (₹ 410, as per W.N.), raw material A is to be valued at replacement cost, and finished goods B is to be valued at NRV.

Value of Closing Stock:

Valuation Base	Basis	Qty.	Rate (₹)	Amount (₹)
Raw Material A	Replacement Cost	700	200	1,40,000
Finished Goods B	Net Realisable Value	1,800	380	6,84,000
Total Value of Closing Stock				**8,24,000**

Working Note:

Statement Showing Calculation of Cost of Raw Material A and Finished Goods B

Raw Material A

	Amount (₹)
Cost Price (280 - 25)	255
Add: Freight Inward	35
Add: Handling Charges	20
Total Cost	**310**

Finished Goods B

	Amount (₹)
Materials Consumed	280
Direct Labour	80
Variable Overheads	40
Fixed Overheads (₹3,60,000 / 36,000 units)	10
Total Cost	**410**

6. **Cash Flow Statement from operating activities of Vishnu Ltd. for the year ended 31 March 2024 (Direct Method)**

Particulars	₹	₹
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000

Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)
		13,06,000
Adjustment for extraordinary items (fire insurance claim)		1,10,000
Net Cash Flow from Operating Activities		14,16,000

Working Notes:

1. Calculation of total purchases

Cost of Sales = Opening stock + Purchases – Closing Stock

₹ 56,00,000 = ₹ 1,65,000 + Purchases – ₹ 1,20,000

Purchases = ₹ 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

	₹		₹
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
To Balance c/d	1,95,000	By Purchases (W.N. 1)	55,55,000
	57,70,000		57,70,000

3. Calculation of cash received from Customers

Trade Receivables

	₹		₹
To Balance b/d	1,88,000	By Bank A/c (balancing figure)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	87,38,000		87,38,000

4. **Calculation of tax paid during the year in cash**

Provision for tax

	₹		₹
To Bank A/c (balancing figure)	1,12,000	By Balance b/d	65,000
To Balance c/d	48,000	By Profit and Loss A/c	95,000
	1,60,000		1,60,000

7. Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate.

In the given case, financial statements are approved by the approving authority on 30th June 2024.

On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31st March 2024:

(i) Since on 31st March 2024, Smart Ltd.was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2024 will be considered as an adjusting event. Hence, Smart Ltd.needs to adjust the amounts recognized in its financial statements w.r.t. net realisable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be 50 machines x ₹ 4,000 = ₹ 2,00,000.

(ii) A fire took place after the balance sheet date i.e. during 2024-2025 financial year. Hence, corresponding financials of 2023-2024 financial year should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.

(iii) Since the transfer of risk and reward and sale was complete in the month of May, 2024 when conveyance and possession got complete, no revenue should be recognised with respect to it in the financial statements of 2023-2024. However, a disclosure for the same should be given by the entity.

(iv) Since the notice has been received after 31 March but before 30 June 2024 (approval date), the said grant shall be adjusted in the financial statements for financial year 2023-2024 because the violation of the conditions took place in the financial year 2023-2024 and the company must be aware of it.

8. (i) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(ii) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(iii) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

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

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

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

(ii)

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

= (32.50/47.60)×100 = 68.28%

Proportion of total contract value recognised as revenue for the year ended 31st March, 2024 per AS 7 (Revised)

= Contract price x percentage of completion

= ₹ 45 lakh x 68.28% = ₹ 30.73 lakhs.

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

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

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 2024.

Case (ii): In case of consignment sale revenue should not be recognized until the goods are sold to a third party.20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,00,000 (80% of ₹ 1,25,000).

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,00,000 as the time period for rejecting the goods had expired.

Thus, total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000 + 1,00,000) will be recognized for the year ended 31st March, 2024 in the books of B.S. Ltd.

11. Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		₹
Purchase Price	Given (₹ 158,34,000 x 100/ 112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x 3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

12. As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount ₹

Cost of the asset in $		1 million
Exchange rate on 1st April, 2023		₹ 63 = 1$
Cost of the asset in ₹	(1 million x ₹ 63)	63 million
Less: Exchange differences as on 31st March, 2024 (63-62) x $ 1 million	(Gain)	(1 million)
		62 million
Less: Depreciation for 2023-2024	(62 million - 3 million)/ 10 years	(5.90 million)
		56.10 million

13. (i) As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus, it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs.

The correct treatment is to credit the subsidy to Capital Reserve. Therefore, the accounting treatment followed by the company is not proper.

14. Investment Account of Mr. Harsh for the year ending on 31-3-2024

(Scrip: 10% Debentures of Exe Limited)

(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
1.4.23	To Balance b/d	12,50,000	31,250	12,25,000	30.6.23	By Bank 21,500 x 100 x 10% x 1/2	-	1,07,500	-
1.6.23	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.24	By Bank 33,500 x 100 x 10% x 1/2		1,67,500	
1.11.23	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.24	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.24	To Profit & Loss A/c (W.N.3)			1,34,920	31.3.24	By Balance c/d (W.N.4)	20,00,000	50,000 -	21,45,640
31.3.24	To Profit & Loss A/c (Bal. fig.)		2,27,500						
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes:

1. Purchase of debentures on 1.6.23

Interest element = 9,000 x 100 x 10% x 5/12 = ₹ 37,500

Investment element = (9,000 x 98) + [1% (9,000 x 98)] = ₹ 8,90,820

2. Purchase of debentures on 1.11.2023

Interest element = 12,000 x 100 x 10% x 4/12 = ₹ 40,000

Investment element = 12,000 X 115 X 101% less 40,000 = ₹ 13,53,800

3. Profit on sale of debentures as on 31.1.24

	₹
Sales price of debentures (13,500 x ₹ 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000/9,00,000)]	(13,23,980)
Profit on sale	1,34,920

4. Valuation of closing balance as on 31.3.2024

Market value of 20,000 Debentures at ₹ 115 = ₹ 23,00,000

Cost of

8,000 Debentures	=	8,90,820/ 9,000 X 8,000 = 7,91,840
12,000 Debentures	=	13,53,800
Total		21,45,640

Value at the end is ₹ 21,45,640, i.e., which is less than market value of ₹ 23,00,000.

15. Journal Entries in the books of Gyan Ltd.

Date		(₹ in lakhs)	
2024		**Dr.**	**Cr.**
31 March	Loan from bank A/c (40 x 50%) Dr.	20	
	To Reconstruction A/c		20
	(Being loan from bank waived off to the extent of 50%)		
	Equity share capital A/c (₹ 10) Dr.	650	
	To Equity share capital A/c (₹ 2) $\left(\frac{650}{10}\times 2\right)$		130

	To Reconstruction A/c (650 –130) (Being Equity share of ₹ 10 each reduced to ₹ 2 each)		520
	Equity share capital A/c (₹ 2) Dr. To Equity share capital A/c (₹ 10 each) (Being 5 Equity shares of ₹ 2 each consolidated to one share of ₹ 10 each)	130	 130
	Reconstruction A/c (20 + 520) Dr. To Profit and loss A/c (loss) To Capital reserve A/c (Being debit balance of P/L A/c set off against reconstruction account and balance transferred to capital reserve account)	540	 260 280
	Business purchase A/c Dr. To Liquidator of Kiran Ltd. (Being purchase of business of Kiran Ltd.)	1010	 1010
	PPE A/c Dr. Investment A/c Dr. Trade receivables A/c Dr. Cash at bank A/c Dr. To Trade payables A/c To Dividend payable A/c To 12% Debenture A/c To Business purchase A/c To General Reserves A/c (Being assets, liabilities and reserves taken over under pooling of interest method)	900 250 135 140	 105 60 100 1010 150
	Liquidator of Kiran Ltd. A/c Dr. To Equity share capital A/c To 10% Preference share capital To Securities Premium [(40 x 10) + (2 x 5)] (Being payment made to liquidators of Kiran Ltd. by allotment of 40 lakh @ ₹ 10 new equity shares and 2 lakh preference shares @ ₹ 105)	1010	 400 200 410

	Trade payables A/c Dr. To Trade receivables A/c (Being mutual owing cancelled)	50	50
	Dividend Payable A/c Dr. To Bank A/c (Being dividend paid off)	60	60

Balance Sheet of Gyan Ltd. (and reduced) after merger as on 31.3.2024

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	880
(b) Reserves and Surplus	2	840
(2) Non-Current Liabilities		
Long-term borrowings	3	195
(3) Current Liabilities		
(a) Trade Payables	4	150
(b) Borrowings	5	15
Total		2,080
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	1,600
(b) Investment	7	250
(2) Current assets		
(a) Trade receivables	8	150
(b) Cash and cash equivalents	9	80
Total		2,080

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	50 lakhs (13 lakh + 40 lakh) Equity shares of 10 each fully paid	530	
	(Out of the above, 40 lakh shares have been issued for consideration other than cash)		
	3.5 lakhs (1.5 + 2) 10% Preference share of ₹ 100 each fully paid (Out of which 2 lakhs shares have been issued for consideration other than cash)	350	880
2.	Reserves and Surplus		
	Capital reserve	280	
	Securities Premium	410	
	General reserve	150	840
3.	Non-current Borrowings		
	12% Debentures (75 + 100)	175	
	Loan from bank (40 - 20)	20	195
4.	Trade Payables (95+105-50)		150
5	Current Borrowings		
	Bank overdraft		15
6.	Property, plant and equipment (700 + 900)		1,600
7.	Investment		250
8.	Trade Receivables (65 + 135 – 50)		150
9.	Cash and cash equivalents		
	Cash at Bank (140 - 60)		80

Working Note:

Calculation of purchase consideration

	Shares
2 shares of Gyan Ltd. will be issued in exchange of every 3 shares of Kiran Ltd. (i.e. 40,00,000 equity shares of Gyan Ltd will be issued against 60,00,000 equity shares of Kiran Ltd.) (60 lakhs x 2/3)	40,00,000
	₹ in lakhs
Payment to equity shareholders (40 lakhs x ₹ 20)	800
Payment to preference shareholders (2 lakhs x ₹ 105)	210
Total Purchase consideration	1,010

16 **Borrowing Cost:** As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

Qualifying Asset: A qualifying asset is an asset that necessarily takes a substantial period of time (ordinarily, a period of twelve months unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case) to get ready for its intended use or sale.

When construction of asset completed on 30th April, 2024

The treatment for total borrowing cost of ₹ 68.20 lakhs will be as follows:

Purpose	**Nature**	**Interest to be capitalised** ***₹ in lakhs***	**Interest to be charged to profit and loss account** ***₹ in lakhs***
Modernisation and renovation of plant and machinery	Qualifying asset	[68.20 x (510/620)] = 56.10	
Advance to	Assumed as	[68.20 x (54/620)] = 5.94	

suppliers for additional assets	Qualifying asset (Refer Note)		
Working Capital	Not a qualifying asset		[68.20 x (56/620)] = 6.16
		62.04	6.16

17. Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

18. As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment• amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

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

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

• In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

another systematic basis is more representative of the time pattern of the user's benefit.

19. Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 37,50,000 / 5,00,000 = ₹ 7.50 per share

Computation of diluted earnings per shar $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	₹
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of ₹ 4,00,000)	(1,20,000)
Adjusted net profit for the current year	40,30,000

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 5,55,000 shares (5,00,000 + 55,000)

Diluted earnings per share = 40,30,000/ 5,55,000 = ₹ 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

20. (i) As per AS 29, an 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract is the lower of net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

In the given case, Saharsh Ltd. is required to pay:

In case of cancellation of agreement:

= ₹ 80,000 x 6 months = ₹ 4,80,000

In case of continuance of agreement (in case of sub-let):

Net of rent paid over rent collected from sub-tenant (₹ 80,000 -45,000) x 12 = ₹ 4,20,000.

Lower of the above is to be provided for i.e. ₹ 4,20,000 is to be provided for.

(ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2023-2024.

(iii)

Loss due to accident	₹ 30,00,000
Insurance claim receivable by company = ₹ 30,00,000 x 90% =	₹ 27,00,000
Loss to be recognised in the books for 2023-2024	₹ 3,00,000
Insurance claim receivable to be recorded in the books	₹ 27,00,000
Compensation claim by dealer against company to be provided for in the books = ₹ 30,00,000 x 15%=	₹ 4,50,000*

***Note:** Alternatively, the compensation @ 15% can be computed on the whole contract amount of ₹ 1 crore. In such a situation, the compensation should be ₹ 15,00,000 (1 crore x 15%).