



PAPER – 1: ADVANCED ACCOUNTING



QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

- (a) How much revenue should be recognised by the Company as on March 31, 2024:
- (i) ₹ 2,25,000
 - (ii) ₹ 2,17,500
 - (iii) ₹ 2,00,000
 - (iv) ₹ 2,30,000
- (b) How much revenue should be recognised by the Company in the financial year 2024-25:
- (i) ₹ 5000

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- (ii) ₹ 2,20,000
- (iii) ₹ 10,000
- (iv) ₹ 2,40,000
- (c) What will be the accounting for trade discount:
 - (i) The same will be recognised separately in the profit and loss.
 - (ii) The trade discounts are deducted in determining the revenue.
 - (iii) Trade discount will be recognised after one year, when the warranty will be over.
 - (iv) Trade discount will be recognised after installation is complete.
- (d) Is the Company required to do any accounting for 1 year warranty provided by it:
 - (i) No accounting treatment is required till some warranty claim is actually received by the Company.
 - (ii) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.
 - (iii) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.
 - (iv) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

General MCQs

2. As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following:
 - (a) Secondary Packing material required for transporting and forwarding the material.
 - (b) Spare parts, servicing equipment and standby equipment

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- (c) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.
- (d) Publicity material

Part II - Descriptive Questions**Applicability of Accounting Standards**

3. Kirti Ltd. is in the business of manufacturing computers. During the year ended 31st March, 2024, the company manufactured 550 computers. It has the policy of valuing finished stock of goods at a standard cost of ₹ 1.8 lakh per computer. The details of the costs are as under:

	(₹ in lakh)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (including interest of ₹ 100 lakh)	290

Compute the value cost per computer for the purpose of closing stock.

AS 3

4. Purse 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.
- (i) Loans and Advances given to the following and interest earned on them:
 - (1) to suppliers
 - (2) to employees
 - (3) to its subsidiaries companies
 - (ii) Investment made in subsidiary Wallet Ltd. and dividend received
 - (iii) Dividend paid for the year

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- (iv) Insurance claim received against loss of property, plant and equipment by fire.

Discuss in the context of AS 3 'Cash Flow Statement'.

AS 4

5. For five companies whose financial year ended on 31st March, 2023, the financial statements were approved by their approving authority on 15th June, 2023.

During 2023-2024, the following material events took place:

- a. A Ltd. sold a major property which was included in the balance sheet at ₹ 1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of ₹ 2,50,000.
- b. On 30th April, 2023, a 100% subsidiary of B Ltd. declared a dividend of ₹ 3,00,000 in respect of its own shares for the year ended on 31st March, 2023.
- c. On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to ₹ 2.5 million.
- d. On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for which there would be no corresponding recovery from the customer.
- e. A fire, on 2nd April, 2023, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company.

You are required to state with reasons, how each of the above items numbered (a) to (e) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2023.

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6. Explain whether the following will constitute a change in accounting policy or not as per AS 5:
- Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
 - 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.

AS 7

7. Mehta Ltd. has undertaken bridge construction contract wherein, bridge will be constructed in 3 years. The details of the contracts are as follows:
- Initial contract revenue ₹ 900 crore
 - Initial contract cost ₹ 800 crore

	Years		
	I	II	III
	₹ in crore	₹ in crore	₹ in crore
Estimated contract cost	805		
Increase in contract revenue	-	20	
Estimated additional increase cost	-	15	
Contract cost incurred upto	161	584	820

At the end of year II, cost incurred includes ₹ 10 crore, for material stored at the sites to be used in year III to complete the project.

State the amount of revenue, expenses and profit to be recognized in the Statement of Profit and Loss in these three years.

AS 9

8. When will the revenue be recognized in the case of inter divisional transfers?

REVISION TEST PAPER**INTERMEDIATE EXAMINATION****AS 11**

9. (a) Alfa Ltd. purchased an item of property, plant and equipment for US \$ 50 lakh on 01.04.2023 and the same was fully financed by the foreign currency loan [i.e. US \$] repayment in five equal instalments annually. (Exchange rate at the time of purchase was 1 US \$ = ₹ 60). As on 31.03.2024 the first instalment was paid when 1 US \$ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold. Alfa Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss and its treatment and depreciation.

AS 12

10. Energy Ltd. has acquired a generator on 1.4.2023 for ₹ 100 lakh. On 2.4.2023, it applied to Indian Renewal Energy Development Authority (IREDA) for a subsidy. The subsidy was granted in June, 2024 after the accounts for 2023-2024 were finalized. The company has not accounted for the subsidy for the year ended 31.3.2024.

State

- (i) Is this a prior period item?
- (ii) How should the subsidy be accounted in the accounting year 2024-2025?

AS 13

11. A company is engaged in the business of refining, transportation and marketing of petroleum products. During the financial year ended 31st March, 2024, the company acquired controlling interest from Government of India in another public sector undertaking @ ₹ 1,551 per share as against the book value of ₹ 192.58 per share and market value of ₹ 876 per share as on 18th February, 2024.

Thus, the strategic premium of ₹ 675 per share has been paid considering various tangible and intangible factors.

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The above investment in the shares of the acquired company has been considered as long term strategic investment and, therefore, has been accounted for at cost, i.e. at ₹ 1,551 per share in the financial statements. No provision for diminution in value has been made in the books of account.

As per the requirement of Schedule III to the Companies Act, 2013, the aggregate market value of the quoted shares has been properly reflected in the financial statements.

On 28th March, 2024, the acquired shares were quoted at ₹ 880 per share on BSE and the current market price as on 18th July was around ₹ 300.

Considering the tangible and intangible benefits the Management is of the view that there is no permanent diminution in the value of the strategic investment in the acquired company, as the same has been considered as a long-term investment. Therefore, there is no need for provision for diminution in the value of the shares of the acquired company.

Required:

- (i) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13.
- (ii) If any provision for diminution in the value is to be made, whether such provision should be charged to the profit and loss account or whether same can be considered as deferred expenditure and amortised over a period of 5 years. Whether it is open for the company to charge off such diminution in the value in the books of account instead of creating provision.
- (iii) Whether the premium paid for strategic benefits for investment described in facts of the case, can be accounted for separately in the books of account keeping in view that AS 13 specifies that long term investments should be recorded at cost and there is no specific provision in the standard in respect of accounting for premium paid for strategic benefits.

REVISION TEST PAPER**INTERMEDIATE EXAMINATION****AS 16**

12. Loyal Ltd. has undertaken a project for expansion of capacity as per the following details:

	Plan (₹)	Actual (₹)
October, 2023	5,00,000	4,00,000
November, 2023	6,50,000	7,95,000
December, 2023	20,00,000	-
January, 2024	2,00,000	50,000
February, 2024	9,00,000	2,00,000
March, 2024	10,00,000	12,00,000

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had ₹ 20 lakh overdraft up to 31st December, surplus cash in January and again overdraft of ₹ 14 lakh from 1.2.2024 and ₹ 30 lakh from 1.3.2024. The company had a strike during December and hence could not continue the work during said period. However, the substantial administrative work related to the project was continued. Onsite work was again commenced on 1st January and all the work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month.

Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure.

AS 17

13. Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

AS 20

14. The following information is available in respect of High-end Ltd. for the accounting year 2022-2023 and 2023-2024:

Net profit for		₹
Year	2022-2023	22,00,000
Year	2023-2024	30,00,000

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Number of shares outstanding prior to right issue 10,00,000 shares.

Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right issue price ₹ 25

: Last date to exercise right 31st July, 2023.

Fair value of one equity share immediately prior to exercise of rights on 31.07.2023 is ₹ 32.

You are required to compute, as per AS 20:

- (i) Basic earnings per share for the year 2022-2023.
- (ii) Restated basic earnings per share for the year 2022-2023 for right issue.
- (iii) Basic earnings per share for the year 2023-2024.

AS 23

15. Hill Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. Sun Ltd. acquired 15% shares in Hill Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of Hill Ltd. These debentures will be converted at par into equity shares of Hill Ltd. after 3 years. State whether, as per AS 23, Hill Ltd. is an Associate of Sun Ltd. or not with reasons?

AS 24

16. Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.
- (i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

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- (ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?
- (iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

AS 28

17. A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

Whether it will be a cash-generating unit as per AS 28?

AS 29

18. A company incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors,

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etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.
2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

- (i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29.
- (ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

Buy back of Securities

19. Purpose Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Branch Accounting

20. From the following particulars relating to Pune branch for the year ending December 31, 2024, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2024		10,000

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Branch Debtors on January 1, 2024		4,000
Branch Debtors on Dec. 31, 2024		4,900
Petty cash at branch on January 1, 2024		500
Furniture at branch on January 1, 2024		2,000
Prepaid fire insurance premium on January 1, 2024		150
Salaries outstanding at branch on January 1, 2024		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2025	<u>600</u>	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31, 2024		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

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SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.	Hints
1. (a)	(ii)
(b)	(i)
(c)	(ii)
(d)	(ii)
2.	(c)

Descriptive Answers

3. As per para 9 of AS 2 'Valuation of Inventories', for inclusion in the cost of inventory, allocation of fixed production overheads is based on the normal capacity of the production facilities.

In this, case finished stock has been valued at a standard cost of ₹ 1.8 lakh per computer which incidentally synchronizes with the value computed on the basis of absorption costing as under:

		(₹ in lakh)
Materials		400
Direct Labour		250
Variable production overheads		150
Fixed production overheads	290	
Less: Interest	(100)	190
Total cost		990

Number of computers produced = 550 computers (Assumed to be normal production)

Cost per computer ₹ 990 lakh / 550 computers = ₹ 1.80 lakh

4. **Treatment as per AS 3 'Cash Flow Statement'**

- (i) Loans and advances given and interest earned
 (1) to suppliers Cash flows from operating activities

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- (2) to employees Cash flows from operating activities
- (3) to its subsidiary companies Cash flows from investing activities
- (ii) Investment made in subsidiary company and dividend received
Cash flows from investing activities
- (iii) Dividend paid for the year Cash flows from financing activities
- (iv) Insurance claim received against loss of property, plant and equipment by fire.
5. Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2023 and the profit on sale of property ₹ 1,50,000 would be treated as an extraordinary item.
(b)	B Ltd.	The declaration of dividend on 30 th April, 2023 of ₹ 3,00,000 would be treated as a non-adjusting event in the financial statements of 2022-2023. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared and not before that.
(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate financial

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		statement/additional statement for the attention of the members in general meeting.
(e)	E Ltd.	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

6. As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.
- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
 - (ii) Similarly, the adoption of a new accounting policy of paying pension to retired employees is a policy for events or transactions which did not occur previously. Hence, it will not be treated as a change in an accounting policy.

7. Statement showing analysis of the contract details

(₹ in crore)				
		Year I	Year II	Year III
(a)	Initial revenue agreed	900	900	900
(b)	Increase in contract revenue	-	20	20
(c)	Total Contract Value	900	920	920
(d)	Contract cost incurred upto the date of reporting	161	574	820

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			(excluding ₹ 10* crore of material stored)	
(e)	Estimated cost to complete	644	246	-
(f)	Total estimated contract	805	820(805+15)	820
(g)	Stage of Completion	20%	70%	100%
	[(d/f) x 100]	(161/805 x 100)	(574/820 x 100)	(820/820 x 100)

* Note: 10 crore, for material stored at the sites to be used in its 1st year. i.e. in IInd year it is already included so it will be deducted in II year only.

Statement showing amount of revenue, expenses and profit to be recognized in the Statement of Profit and Loss in three years

(₹ in crore)

	<i>Upto reporting date</i>	<i>Recognised in the prior year</i>	<i>Recognized in the current year</i>
Year I			
Revenue (900 x 20/100)	180	-	180
Expenses	<u>161</u>	<u>-</u>	<u>161</u>
Profit	<u>19</u>	<u>-</u>	<u>19</u>
Year II			
Revenue (920 x 70/100)	644	180	464
Expenses (820 x 70/100)	<u>574</u>	<u>161</u>	<u>413</u>
Profit	<u>70</u>	<u>19</u>	<u>51</u>
Year III			
Revenue	920	644	276
Expenses	<u>820</u>	<u>574</u>	<u>246</u>
Profit	<u>100</u>	<u>70</u>	<u>30</u>

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8. The Accounting Standard Board of ICAI has come up with an announcement in the earlier years wherein it clarified that the inter-divisional transfers/sales are not revenue as per AS 9 "Revenue Recognition". According to it, in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole. Therefore, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers. Hence, no revenue is recognized in the case of inter-divisional transfers.
9. Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Alfa Ltd. has exercised the option and it is long term foreign currency monetary item.

Thus, the entire exchange loss due to variation of ₹ 20 lakh on 31.03.2023 on payment of US \$ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

Foreign currency loan (in ₹) = (50 lakh \$ x ₹ 60) = ₹ 3,000 lakh

Exchange loss on outstanding loan on 31.03.2024 = ₹ 40 lakh US \$ x (62.00-60.00) = ₹ 80 lakh.

So, ₹ 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to ₹ 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by ₹ 100 lakh.

Total depreciation to be provided for the year 2023 - 2024 = 20% of (₹ 3,000 lakh + 100 lakh) = ₹ 620 lakh.

10. (i) Whether a subsidy applied is to be classified as prior period item as per AS 5, depends upon whether the company has committed an error in 2023-2024 by not recognising the subsidy?

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The answer is in para 13 of AS 12 "Accounting for Government Grants" which permits recognition of grant only when there is reasonable assurance that -

- (i) the enterprise will comply with the conditions attached to them and
- (ii) the subsidy will be received.

Mere making of an application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Since, the subsidy was granted in June, 2024 after approval of accounts, non-recognition of grant in 2023-2024 will not be considered as an error. Hence, this is not a prior period item. Therefore, the company was right in not recognizing the grant.

Further, AS 4 requires adjustment of events occurring after the balance sheet date only upto the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the accounts in the year 2023-2024.

- (ii) The subsidy should be deducted from the cost of the generator. The revised unamortised amount of generator should be written off over the remaining useful life.

Alternatively, the same may be treated as 'deferred income' and allocated over the remaining useful life in the proportion in which depreciation is charged.

- 11.** (i) The accounting treatment 'at cost' under the head 'Long Term Investment' in the separate financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment.
- (ii) The provision for diminution in the value of investment should be a charge to the profit and loss statement. As per the requirements of AS 13, the diminution in the value of investment can neither be accounted for as deferred revenue expenditure nor it can be written off in the statement of profit and loss.

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- (iii) The long-term investments should be carried at cost as per the requirements of AS 13. The amount paid over and above the market price should be treated as cost and cannot be accounted for separately.

12.

Loyal Ltd.

Month	Actual Expenditure (₹)	Interest on outstanding amount @ 15% p.a.	Interest capitalized (₹)	Outstanding amount	Cumulative amount (₹)
	1		2	3	
October, 2023	4,00,000	$4,00,000 \times 15\% \times 1/12$	5,000	4,05,000	4,05,000
November, 2023	7,95,000	$(4,05,000 + 7,95,000) \times 15\% \times 1/12$	15,000	$(4,05,000 + 7,95,000 + 15,000)$	12,15,000
December, 2023	-	$(12,15,000) \times 15\% \times 1/12$	15,188	$12,15,000 + 15,188$	12,30,188
January, 2024	50,000		-	$12,30,188 + 50,000$	12,80,188
February, 2024	2,00,000	$14,00,000 \times 15\% \times 1/12$	17,500	$12,80,188 + 2,00,000 + 17,500$	14,97,688
March, 2024	<u>12,00,000</u>	$(14,97,688 + 12,00,000) \times 15\% \times 1/12$	<u>33,721</u>	$14,97,688 + 12,00,000 + 33,721$	27,31,409
	<u>26,45,000</u>		<u>86,409</u>		

Note:

- As per para 18 of AS 16, 'Borrowing Cost', capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Therefore, the interest for that period i.e. for the month of December has also been capitalized.
- During January, the company did not incur any interest as there was surplus cash in January. Therefore, no amount should be capitalized during January as per para 14(b) of AS 16.

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3. During February, actual overdraft (borrowings) was ₹ 14 lakh only. Hence, interest of ₹ 17,500 on ₹ 14,00,000 has been calculated even though actual expenditure on project exceed ₹ 14 lakh.
13. The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.
14. **Computation of basic earnings per share**

	2022-2023 (₹)	2023-2024 (₹)
EPS for the year 2022-2023 as originally reported		
= Net profit for the year attributable to equity shareholders / weighted average number of equity shares outstanding during the year	2.20	
= ₹ 22,00,000 / 10,00,000 shares		
EPS for the year 2022-2023 restated for the right issue = ₹ 22,00,000 / (10,00,000 x 1.04)	2.12	
EPS for the year 2023-2024 (including effect of right issue)		
= ₹ 30,00,000 / {(10,00,000 x 1.04 x 4/12) + (12,00,000 x 8/12)}		2.62

Working Notes:

1. Computation of theoretical ex-rights fair value per share = (fair value of all outstanding shares immediately prior to exercise of rights + Total value received from exercise of rights) / (number of shares outstanding prior to exercise + number of shares issued on the exercise)

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$$= (\text{₹ } 32 \times 10,00,000 + \text{₹ } 25 \times 2,00,000) / (10,00,000 + 2,00,000)$$

$$= \text{₹ } 30.83$$

2. Computation of adjustment factor

= Fair value per share prior to exercise of rights / Theoretical ex-right value per share

$$= \text{₹ } 32 / \text{₹ } 30.83$$

$$= 1.04 \text{ (approx.)}$$

- 15.** As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words, the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, Sun Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in Hill Ltd. However, the current outstanding securities with voting rights in Hill Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of Sun Ltd. on Hill Ltd. Hence, Hill Ltd. is not an associate of Sun Ltd.

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Working Note:**Calculation of percentage of holding of shares after conversion**

	₹
Current holding is 15% i.e. 7,500 shares of ₹ 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of ₹ 100 each	<u>5,00,000</u>
	<u>12,50,000</u>

Total share capital of Hill Ltd. after conversion of debentures into equity shares will be = ₹ 50,00,000 + ₹ 5,00,000 = ₹ 55,00,000

Percentage of holding = ₹ (12,50,000/55,00,000) × 100 = 22.7% approx.

- 16.** Mere gradual phasing out is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operations'.

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

- (1) Gradual or evolutionary phasing out of a product line or class of service;
- (2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (3) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (4) Closing of a facility to achieve productivity improvements or other cost savings.

In view of the above the answers are:

- (i) No, the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.
- (ii) No, the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some

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transfer proposal were passed through a resolution to the new factory, closure road map and new segment starting roadmap are missing. Hence, AS 24 will not be applicable.

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

- 17.** It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

- 18** (i) Para 14 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

From the above, it is clear that in the contingencies considered by the company, neither a present obligation exists as a result of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognised for such contingencies under the facts and circumstances of the case.

- (ii) "Provision" is the amount retained by the way of providing for any known liability. Since the contingencies stipulated by the company are not known at the balance sheet date, the provision in this regard cannot be created. Therefore, the provision so created by the company shall be treated as a 'Reserve'.

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19. Journal Entries in the books of Purpose Ltd.

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c	Dr.	16,00,000	

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General reserve A/c	32,00,000	
To Premium payable on buyback A/c		48,00,000
(Being premium on buyback charged from securities premium and general reserve)		

Working Notes:**1. Calculation of amount used from General Reserve Account**

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)	(10,00,000)
Less: Utilization of Securities Premium Account	<u>(16,00,000)</u>
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹ 10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹ 10)	<u>(10,00,000)</u>
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

20.

Pune Branch Account

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Particulars		₹	Particulars		₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	<u>1,000</u>	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	<u>600</u>	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		<u>1,81,600</u>			<u>1,81,600</u>

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received from the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less: Spent by the branch	<u>850</u>
Closing balance	<u>650</u>