PAPER – 1: ADVANCED ACCOUNTING

QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipment/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

   - The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
   - Railways sends an order for a defined quantity.
   - The Company manufactures the required quantity and informs Railways for carrying out the inspection.
   - Railways representatives visit the Company's factory and inspect the components and mark each component with a quality check sticker.
   - Goods once inspected by Railways are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
   - The Company raises an invoice once it dispatches the goods.

   The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provides evidence of conditions that existed at the end of the reporting period?

i. Nationalisation or privatization by government

ii. Out of court settlement of a legal claim

iii. Rights issue of equity shares

iv. Strike by workforce

v. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.

RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was ₹ 1,000. The entire quantity of waste was on stock at the end of the financial year.

i. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?

   (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

   (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

   (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.

(d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

ii. In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts?

(a) ₹ 47,00,000.

(b) ₹ 50,00,000.

(c) ₹ 49,50,000.

(d) ₹ 49,47,368.

iii. Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.

(a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.

(b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.

(c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.

(d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

General MCQs

2. Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned

₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise?

(a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore

(b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh.

(c) Interest paid less income on temporary investment i.e. ₹ 76 lakh

(d) Nothing will be capitalized

Part II - Descriptive Questions

Introduction to Accounting Standards

3. What do you mean by Carve outs/ins in Ind AS? Explain

Framework for Preparation and Presentation of Financial Statements

4. Shiva started a business on 1st April 2022 with ₹ 15,00,000 represented by 80,000 units of ₹ 25 each. During the financial year ending on 31st March, 2023, he sold the entire stock for ₹ 35 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shiva in the year 2022-23 if Financial Capital is maintained at historical cost.

Applicability of Accounting Standards

5. Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II and Level III Level IV entities for the purpose of compliance of Accounting Standards in India.

   (a) Rama Textiles whose turnover (excluding other income) exceeds ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

   (b) Star Industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

   (c) Newman Industries is having borrowings (including public deposits) less than rupees fifty lakh at any time during the immediately preceding accounting year.

(d) SS Finance is a financial institution carrying its business in India since last 10 years.

(e) DD Finance, holding company of SS Finance. (Entity mentioned at Point (v) above)

(f) Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.

AS 3 "Cash Flow Statements"

6. From the following particulars calculate cash flows from Operating activities:

Particulars	₹
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional Information:

	31. 3. 22 ₹	**31. 3. 23** ₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepare Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

AS 18 "Related Party Disclosures"

7. (i) A Ltd. enters into an agreement with Mr. Bhola for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Bhola, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Bhola does not have any voting power in A Limited.

   (ii) Shri Manoj a relative of key management personnel received remuneration of ₹ 3,50,000 for his services in the company for the period from 1st April, 2022 to 30th June, 2022. On 1st July, 2022, he left the service.

   You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2023 for the purposes of AS 18 'Related Party Disclosures'.

AS 24 "Discontinuing Operations"

8. 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 to the commercial vehicles 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 has planned that 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. These plans have not been approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. 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.

AS 13 "Accounting for Investments"

9. ABC Ltd. holds 2,000, 15% Debentures of ₹ 100 each in XYZ Ltd. as on April 1, 2022 at a cost of ₹ 2,50,000.

   Interest is payable on June, 30 and December, 31 each year.

Following are the details of 15% Debentures purchased and sold during the year 2022-23.

Particulars
On May 1, 2022, 1,000 debentures are purchased cum-interest at ₹ 1,05,000.
On November 1, 2022, 1200 debentures are sold ex-interest at ₹ 1,28,200.
On November 30, 2022, 500 debentures are purchased ex-interest at ₹ 54,500.
On December 31, 2022, 900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on March 31, 2023 at cost, using FIFO Method.

AS 16 "Borrowing Costs"

10. H Ltd. began the construction of a new building on 1st April 2022. It obtained a special loan of ₹ 6,00,000 on 1st April 2022 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2022 were as follows:

Amount in ₹	Rate of Interest
30,00,000	14%
54,00,000	16%

The expenditure incurred on the building project was as per detail given below:

	Amount in ₹
1st May, 2022	12,00,000
1st July, 2022	15,00,000
1st October, 2022	27,00,000
1st March, 2023	7,20,000

The building was completed by 31st March 2023.

Following the provisions of Accounting Standard 16, you are required to calculate the amount of interest to be capitalized and also give one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

AS 19 "Leases"

11. Sooraj 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 Sooraj Limited is not sure about the treatment of these lease rentals and seeks your advice. (Use annuity factor at @ 15% for 3 years as 2.28)

AS 14 "Accounting for Amalgamations"

12. Naresh Ltd. had the following transactions during the financial year 2022-2023:

    (i) Naresh Ltd. acquired the running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2022. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

    (ii) Naresh Ltd. had taken a franchise on July 2022 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2022-2023.

    (iii) On 20th August, 2022, Naresh Ltd, incurred costs of ₹ 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.

    Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2023.

AS 15 "Employee Benefits"

13. Hello Limited belongs to the manufacturing industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 12 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 4 lakhs instead of ₹ 10 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

AS 4 "Contingencies and Events occurring after the balance sheet date"

14. Surya Limited follows the financial year from April to March. It has provided the following information.

    (i) A suit against the Company's Advertisement was filed by a party on 5th April, 2023, claiming damages of ₹ 5 lakhs.

    (ii) Company sends a proposal to sell an immovable property for ₹ 45 lakhs in March 2023. The book value of the property is ₹ 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2023.

    Keeping in view the provisions of AS-4, you are required to state with reasons whether the above events are to be treated as Contingencies, Adjusting Events or Non-Adjusting Events occurring after Balance Sheet date.

AS 7 "Construction Contracts"

15. The following data is provided for M/s. Raj Construction Co.

    (i) Contract Price - ₹ 85 lakhs

    (ii) Materials issued - ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused.at the end of the period.

    (iii) Labour Expenses for workers engaged at site - ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid)

(iv) Specific Contract Costs = ₹ 5 Lakhs

(v) Sub-Contract Costs for work executed - ₹ 7 Lakhs, Advances paid to Sub-Contractors - ₹ 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - ₹ 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

AS 9 "Revenue Recognition"

16. Following information of BS Products Ltd. is given:

(i) Goods of ₹ 2,00,000 sold to Den Ltd. on 20-03-2023 but at the request of the buyer these were delivered on 10-04-2023. ·

(ii) On 15-01-2023 goods of ₹ 3,00,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.

(iii) ₹ 4,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered as sold. Buyer sent approval for 75% goods upto 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

(iv) Apart from the above, BS Products Ltd. sells goods to dealers also. One of the conditions of sale is that interest is payable @ 2% p.m. for delayed payments by dealers. The percentage of interest recovery is only 10% i.e. ₹ 50,000 on such overdue outstanding due to various reasons. During the year 2022-23, the company wants to recognize the entire interest receivable of ₹ 60,000.

You are required to advise the accountant of BS 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 31-03-2023.

AS 21 "Consolidated Financial Statements"

17. Zoom Ltd. acquired 70% shares of Star Ltd. @ ₹ 30 per share. Following is the extract of Balance Sheet of Star Ltd.:

	₹
15,00,000 Equity Shares of ₹ 10 each	1,50,00,000
15% Debentures	15,00,000
Trade Payables	82,50,000
Property, Plant and Equipment	1,05,00,000
Investments	67,50,000
Current Assets	1,02,00,000
Loans and Advances	33,00,000

On the same day Star Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 90,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements.

Preparation of Financial Statements of Companies

18. Aqua Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following ledger balances as on 31st March, 2023:

	₹		₹
Inventory 1.4.2022	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500		
Purchases	12,32,500	Calls in Arrear @ ₹ 2 per share	10,000

Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Business Expenses	56,000	Trade Payables	2,40,500
Wages	14,79,000	Sales	36,17,000
Freehold Land	7,30,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement Expenses	15,000	Bad debts	25,500
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2023 was ₹ 7,05,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,500.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide ₹ 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer ₹ 10,000 to reserves.

You are required to prepare a Statement of Profit & Loss for the year ended 31st March, 2023 and Balance Sheet as at that date.

Buy back of Securities

19. Mukti Ltd. (a non-listed company) provide the following information as on 31.3.2023:

	(₹)
Land and Building	21,50,000
Plant & Machinery	15,00,000

Non-current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital:1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2023 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2023, the company achieved the target of buy back. On 1st May, 2023 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

Accounting for Reconstruction of companies

20. As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

    1. The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of ₹ 50 each), the following-

       (a) 15,000 Fully paid equity shares of ₹ 10 each;

       (b) 12% fully paid preference shares to the extent of 2/5 of total equity shares;

(c) To pay them ₹ 50,000 and transfer the remaining to the reconstruction account.

2. 8% Preference share capital - ₹ 3,00,000

   To write down the value of preference shares to ₹ 50 (original face value ₹ 100).

3. 14% debentures of the nominal value of ₹ 2,00,000 along with accrued interest ₹ 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme.

SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

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

Descriptive Answers

3. Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

4.

Particulars	**Financial Capital Maintenance at Historical Cost (₹)**
Closing equity (₹ 35 x 80,000 units)	28,00,000 represented by cash
Opening equity	80,000 units x ₹ 25 = 20,00,000
Permissible drawings to keep Capital intact	8,00,000 (28,00,000 – 20,00,000)

5. (a) Level III Entity – Rama textiles, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(b) Level III Entity – Star industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(c) Level IV Entity– Newman Industries is having borrowings (including public deposits) of less than rupees fifty lakhs at any time during the immediately preceding accounting year.

(d) Level I Entity – SS is a financial institution carrying its business in India since last 10 years.

(e) Level I Entity – DD finance, holding company of SS finance (Entity mentioned in point (d) above).

(f) Level I Entity – Reliable co-operative banks carrying on banking business for the last 15 years.

6. **Calculation of Cash Flow from Operating Activities**

Particulars	**Amount ₹**
Retained earnings	17,000
Add: Depreciation	4,000
Add: Loss on sale of Machinery	3,000

Add: Premium Payable on redeemable Preference Shares	2,000
Add: Dividend paid	8,000
Add: Interim dividend paid during the year	10,000
Add: provision for tax made during the current year	7,000
Less: Refund of tax	(1,000)
Less: Profit on Sale of Investment	(10,000)
Operating Profit before Working Capital Changes	40,000
Add: Decrease in Prepaid Expenses	1,000
Less: Increase in Trade receivable	(2,000)
Add: Increase in Trade Payable	8,000
Less: Decrease in Outstanding Expenses	(400)
Cash generated from (Net of refund) operation	46,600
Less: Income tax paid (4,000 – 1,000)	(3,000)
Net Cash flow operating activities	43,600

7. **(i)** Mr. Bhola will not be considered as a related party of A Ltd. in view of provisions of AS 18 "Related Party Disclosures" 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 are related parties".

In the given case, in the absence of share ownership, Mr. Bhola would not be considered to exercise significant influence on A Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr Bhola does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

(ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Manoj, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2023 as he received remuneration for his services in the company for the period from 1^{st} April, 2022 to 30^{th} June, 2022.

8. Mere gradual phasing out is not considered as discontinuing operation as defined under 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, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment, i.e. the commercial vehicle production line in a new factory has not started.

9. In the Books of ABC Ltd

15% Debentures (Investment) Account

Particulars		Face Value	Interest	Principal	Particulars		Face Value	Interest	Principal
		₹	₹	₹			₹	₹	₹
1.4.22	To Balance b/d	2,00,000	7,500	2,50,000	30.6.22	By Bank A/c		22,500	
					1.11.22	By Bank A/c	1,20,000	6,000	1,28,200
1.5.22	To Bank A/c	1,00,000	5,000	1,00,000	1.11.22	By P&L A/c			21,800
					31.12.22	By Bank A/c	90,000	6,750	1,11,250
30.11.22	To Bank A/c	50,000	3,125	54,500	31.12.22	By Bank A/c		10,500	
31.12.22	To P&L A/c			1,250	31.3.23	By Balance c/d	1,40,000	5,250	1,44,500
31.3.23	To P&L A/c (Transfer)		35,375						
		3,50,000	51,000	4,05,750			3,50,000	51,000	4,05,750

1. Loss on sale of debentures on 1.11.22

   Cost = 2,50,000/2,000X 1,200 = ₹ 1,50,000

   Sale proceeds = ₹ 1,28,200

   Loss = ₹ 1,50,000 less ₹ 1,28,200 = ₹ 21,800

2. Profit on sale of debentures on 31.12.22

   Cost = 2,50,000/2,000X 800 + 1,00,000/1,000X 100 = ₹ 1,10,000 (1,00,000+10,000)

   Sale proceeds = ₹ 1,11,250

   Loss = ₹ 1,11,250 less ₹ 1,10,000 = ₹ 1,250

3.

Calculation of closing balance:	Units		₹
Debentures in hand remained in hand at 1.4.23			
Purchased on 1st May, 22	900	1,00,000 x 9/10	90,000
Purchased on 30th Nov. 22	500	54,500	54,500
	1,400		1,44,500

10. Interest amount to be capitalized

		₹
Specific borrowings (₹ 6,00,000 x 12%)	=	72,000
Non-specific borrowings		
[₹ 30,35,000 (₹ 36,35,000 – ₹ 6,00,000) x 15.29%*]	=	4,64,052
Amount of interest to be capitalized	=	5,36,052

Journal Entry for capitalizing cost and borrowing cost

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2023	Building account (Cost of building ₹ 61,20,000 + borrowing cost ₹ 5,36,052)	Dr.	66,56,052	
	To Bank account			66,56,052
	(Being amount of cost of building and borrowing cost thereon capitalized)			

Working notes:

(i) Computation of average accumulated expenses

		₹
₹ 12,00,000 x 11 / 12	=	11,00,000
₹ 15,00,000 x 9 / 12	=	11,25,000

₹ 27,00,000 x 6 / 12	=	13,50,000
₹ 7,20,000 x 1 / 12	=	60,000
61,20,000		36,35,000

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

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
30,00,000	14%	=	4,20,000
54,00,000	16%	=	8,64,000
84,00,000			12,84,000
Weighted average rate of interest $\left(\frac{12,84,000}{84,00,000} \times 100\right)$		=	15.29%* (Rounded off)

11. 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)	2.28
Present Value of minimum lease payments (₹ 3 lakhs each year)	₹ 6.84 lakhs

Thus, the present value of minimum lease payments is ₹ 6.84 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, the lease term should be for a 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, a lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of

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

profit and loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

12. **Naresh Ltd.**

Balance Sheet (Extract relating to intangible asset) as on 31st March 2023

	Note No.	₹
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)

	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

13. According to AS 15 (Revised 2005) 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, a surplus amount of ₹ 12 lakhs is required to be credited to the profit and loss statement of the current year.

14. Accordingly, the treatment as per AS 4 "Events Occurring After the Balance Sheet Date" is:

(i) Suit filed against the company is a contingent liability, but it was not existing as on date of balance sheet date as the suit was filed on 5th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. However, it may be disclosed with the nature of contingency, being a contingent liability.

This event does not pertain to conditions on the balance sheet date. Hence, it will have no effect on the financial statement and will be a non-adjusting event.

(ii) In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2023. There was just a proposal before 31st March, 2023 and hence sale cannot be shown in the financial statements for the year ended 31st March, 2023.

Sale of immovable property is an event occurring after the balance sheet date is a non-adjusting event.

15. Computation of contract cost

	₹ Lakh	**₹ Lakh**
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		7
Cost incurred (till date)		45
Add: further cost to be incurred		35
Total contract cost		80

Percentage of completion = Cost incurred till date/Estimated total cost

= ₹ 45,00,000/₹ 80,00,000

= 56.25%

Contract revenue and costs to be recognized

Contract revenue (₹ 85,00,000x56.25%) = ₹ 47,81,250

Contract costs = ₹ 45,00,000

16. **(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. BS Products Ltd. should recognize the entire sale of ₹ 2,00,000 for the year ended 31st March, 2023.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹2,40,000 (80% of ₹ 3,00,000). In the case of consignment sale revenue should not be recognized until the goods are sold to a third party.

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 to ₹ 4,00,000 as the time period for rejecting the goods had expired.

Case (iv)

As per the standard, "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, interest should be recognized only if the ultimate collection is certain and the company expects to realize interest for the delayed payments for ₹ 50,000 only. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is certain only to the extent of this amount and not ₹ 60,000. Therefore, the interest income of ₹ 50,000 should be recognized in the books for the year ended 31st March, 2023.

Thus, total revenue amounting ₹ 8,90,000 (2,00,000 + 2,40,000 + 4,00,000 + 50,000) will be recognized for the year ended 31st March, 2023 in the books of BS Products Ltd.

17. As per para 13 of AS 21 any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements.

Since dividend is declared by Star Ltd. on the date of acquisition itself, it would be out of the divisible profits of Star Ltd. existing on the date of acquisition i.e., pre-acquisition profits from the perspective of Zoom Ltd. Accordingly, as per para 12 of AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

Calculation of Goodwill or Capital Reserve	₹	₹
Cost of Investment in Star Ltd. (70% stake):		
15,00,000 Equity Shares x 70% x ₹ 30 per share	3,15,00,000	
Less: Pre-acquisition dividend: 10,50,000 shares x ₹ 2	(21,00,000)	2,94,00,000
Less: Share of Zoom Ltd. in Net Assets of Star Ltd (W.N)		(1,55,40,000)
Goodwill on Date of Acquisition		1,38,60,000

Working Note:

Calculation of net asset	₹	₹
Assets		
Property, Plant and Equipment	1,05,00,000	

Less: Value written off (₹ 105 lakhs x 10%)	(10,50,000)	
	94,50,000	
Investments at Market Value	90,00,000	
Current Assets	1,02,00,000	
Loans and Advances	33,00,000	3,19,50,000
Less: Liabilities		
Trade Payables	82,50,000	
15% Debentures	15,00,000	(97,50,000)
Net Assets of Star Ltd.		2,22,00,000
Share of Zoom Ltd. in Net Assets of Star Ltd.: 70%		1,55,40,000

Note: In the absence of information about the reserves, it is presumed that the given extract of the Balance Sheet of Star Ltd. is after considering the effects of the dividend declared on the date of acquisition.

18. **Balance Sheet of Aqua Ltd. as at 31st March, 2023**

		Particulars	Note No.	(₹)
I	**Equity and Liabilities**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,82,000
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	61,500
		(c) Short-Term Provisions	4	1,35,000
		Total		28,09,000

II	**ASSETS**			
	(1)	**Non-Current Assets**		
		(a) Property, Plant and Equipment	5	16,97,500
	(2)	**Current Assets**		
		(a) Inventories		7,05,000
		(b) Trade Receivables	6	3,75,500
		(c) Cash and Cash Equivalents	7	31,000
		Total		28,09,000

Statement of Profit and Loss of Aqua Ltd.

for the year ended 31st March, 2023

	Particulars	**Note No.**	**(₹)**
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		36,53,500
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	4,24,500
	Total Expenses		32,03,500
V	**Profit before Tax (III-IV)**		4,50,000
VI	**Tax Expenses @ 30%**		(1,35,000)
VII	**Profit for the period**		3,15,000

Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
(Call unpaid ₹10,000)	19,90,000

2. Reserves and Surplus

General Reserve		10,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	(10,000)	3,72,000
		3,82,000

3. Other Current Liabilities

Outstanding Expenses [25,000+36,500]	61,500

4. Short-term Provisions

Provision for Tax	1,35,000

5. Property, Plant and Equipment

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	7,30,000		-	7,30,000
Plant &	7,50,000	5%	37,500	7,12,500

Machinery				
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	1,50,000	20%	30,000	1,20,000
	17,80,000		82,500	16,97,500

6. Trade Receivables

Trade receivables	4,00,500
Less: Provision for doubtful debts	(25,000)
	3,75,500

7. Cash & Cash Equivalent

Cash Balance	11,000
Bank Balance in current A/c	20,000
	31,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	25,000
	15,04,000

10. Other Expenses

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000

Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	25,500
Provision for Doubtful Debts	25,000
	4,24,500

19. **In the books of Mukti Ltd.**

Journal Entries

Date	Particulars	Dr.	Cr.
2023		₹	₹
April 21	Bank A/c Dr.	2,50,000	
	To Investment A/c		2,00,000
	To Profit on sale of investment		50,000
	(Being investment sold on profit)		
April 25	Equity share capital A/c Dr.	1,50,000	
	Securities premium A/c Dr.	75,000	
	To Equity shares buy back A/c		2,25,000
	(Being the amount due to equity shareholders on buy back)		
	Equity shares buy back A/c Dr.	2,25,000	
	To Bank A/c		2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)		
	General Reserve A/c OR P&L A/c Dr.	1,50,000	
	To Capital redemption reserve A/c		1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free		

	reserves to capital redemption reserve account as per the law)		
May 1	Capital redemption reserve A/c Dr.	1,06,250	
	To Bonus to equity shareholder A/c (W.N.1)		1,06,250
	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus to equity shareholder A/c Dr.	1,06,250	
	To Equity share capital A/c		1,06,250
	(Being issue of one bonus equity share for every ten equity shares held)		

Working Note:

Amount of bonus shares = $\left[(1,00,000 - 15,000) \times \frac{1}{8}\right] \times 10$

= ₹ 1,06,250

20. **Journal entries in the books of Getting better Co.**

Date	Particulars		Dr.	Cr.
			₹	₹
	Share capital A/c (₹50)	Dr.	5,00,000	
	To Share capital A/c (₹10)			1,50,000
	To 12% Preference share capital A/c			2,00,000
	To Bank A/c			50,000
	To Reconstruction A/c			1,00,000
	(Being 15,000 equity shares of ₹ 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)			

	Preference Share capital A/c (₹ 100) To Preference share capital A/c (₹ 50) To Reconstruction A/c (Being the preference share capital reduced and forfeited as per reconstruction scheme)	Dr.	3,00,000	 1,50,000 1,50,000
	14% Debenture A/c Interest accrued on Debentures A/c To Bank A/c To Reconstruction A/c (Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)	Dr. Dr.	2,00,000 56,000	 64,000 1,92,000
	Reconstruction A/c To Capital Reserve A/c (Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)	Dr.	4,42,000	 4,42,000