

## PAPER – 1: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

Answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumption(s) may be made by the candidates.

### Question 1

- (a) GHI Limited obtained a loan for ₹ 70 lakhs on 15<sup>th</sup> April, 2010 from JKL Bank, to be utilized as under:

|                               | ₹ in lakhs |
|-------------------------------|------------|
| Construction of Factory shed  | 25         |
| Purchase of Machinery         | 20         |
| Working capital               | 15         |
| Advance for purchase of Truck | 10         |

In March 2011, construction of the factory shed was completed and machinery, which was ready for its intended use, was installed. Delivery of Truck was received in the next financial year. Total interest of ₹ 9,10,000 was charged by the bank for the financial year ending 31-03-2011.

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

- (b) In April, 2010, A Limited issued 18,00,000 Equity shares of ₹ 10 each, ₹ 5 per share was called up on that date which was paid by all the shareholders. The remaining ₹ 5 was called up on 1-9-2010. All the Shareholders (except one having 3,60,000 shares) paid the sum in September 2010. The net profit for the year ended 31-3-2011 is ₹ 33 lakhs after dividend on preference shares and dividend distribution tax of ₹ 6.60 lakhs.

Compute the basic EPS for the year ended 31<sup>st</sup> March, 2011 as per AS 20.

- (c) Moon Limited sold goods worth ₹ 6,50,000 to M/s Star and Company. M/s Star and Company asked for trade discount of ₹ 53,000 which was agreed by Moon Limited. The sales was effected and goods were dispatched. After receiving, goods worth ₹ 67,000 was found defective, which was returned immediately by M/s Star and Company. It made the payments of ₹ 5,30,000 to Moon Limited. Accountant of the company booked the sales for ₹ 5,30,000. Discuss the accounting treatment given by the accountant with reference to Accounting Standard 9.
- (d) Base Limited is showing an intangible asset at ₹ 85 lakhs as on 1-4-2011. This asset was acquired for ₹ 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a

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*period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard. (5 x 4 = 20 Marks)*

**Answer**

**(a) Treatment of Interest (Borrowing cost) as per AS 16 'Borrowing Costs'**

| S. No. | Particulars                                 | Nature                 | Interest to be capitalized                   | Interest to be charged to P & L A/c          |
|--------|---------------------------------------------|------------------------|----------------------------------------------|----------------------------------------------|
|        |                                             |                        | ₹                                            | ₹                                            |
| (i)    | Construction of Factory Shed (Refer Note 1) | Qualifying Asset       | $9,10,000 \times \frac{25}{70} = ₹ 3,25,000$ |                                              |
| (ii)   | Purchase of Machinery (Refer Note 2)        | Not a Qualifying Asset |                                              | $9,10,000 \times \frac{20}{70} = ₹ 2,60,000$ |
| (iii)  | Working Capital                             | Not a Qualifying Asset |                                              | $9,10,000 \times \frac{15}{70} = ₹ 1,95,000$ |
| (iv)   | Advance for Purchase of Truck               | Not a Qualifying Asset |                                              | $9,10,000 \times \frac{10}{70} = ₹ 1,30,000$ |
| Total  |                                             |                        | <u>₹ 3,25,000</u>                            | <u>₹ 5,85,000</u>                            |

**Notes:**

- It is assumed that construction of a factory shed was completed on 31<sup>st</sup> March, 2011.
- It is assumed that the machinery was ready for its intended use at the time of its acquisition.

**As per AS 16, assets have been defined as 'qualifying asset' and 'non-qualifying asset'.**

- Qualifying asset** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale; whereas,
- Non-qualifying asset** is an asset which is ready for its intended use or sale at the time of its acquisition.

**(b) Basic Earnings per share (EPS) =**

$$= \frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}} = \frac{33,00,000}{13,20,000 \text{ Shares (as per working note)}} = ₹ 2.5 \text{ per share}$$

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**Working Note:**

**Calculation of weighted average number of equity shares**

As per para 19 of AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

| Date         | No. of equity shares | Amount paid per share | Weighted average no. of equity shares                     |
|--------------|----------------------|-----------------------|-----------------------------------------------------------|
|              | ₹                    | ₹                     | ₹                                                         |
| 1.4.2010     | 18,00,000            | 5                     | $18,00,000 \times 5/10 \times 5/12 = 3,75,000$            |
| 1.9.2010     | 14,40,000            | 10                    | $14,40,000 \times 7/12 = 8,40,000$                        |
| 1.9.2010     | 3,60,000             | 5                     | $3,60,000 \times 5/10 \times 7/12 = \underline{1,05,000}$ |
| Total shares |                      |                       | <u>13,20,000</u>                                          |

- (c) As per para 4 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods etc. However, as per illustrative appendix of AS 9, trade discounts and volume rebates given should be deducted in determining revenue.

Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is effected and goods are dispatched. Accordingly, Moon Ltd. should record the sales at ₹ 5,97,000 (i.e. ₹ 6,50,000 – ₹ 53,000) and goods returned worth ₹ 67,000 is to be recorded in the form of sales return. Therefore, the contention of the accountant to book the sales for ₹ 5,30,000 is not correct.

- (d) As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use.

Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, Base Limited would be required to restate the carrying amount of intangible

asset as on 1.4.2011 at ₹ 112 lakhs less ₹ 33.6 lakhs  $\frac{\text{₹} 12 \text{ lakhs}}{\text{₹} 10 \text{ years}} \times 3 \text{ years} = ₹ 78.4 \text{ lakhs}$ .

The difference of ₹ 6.6 lakhs i.e. (₹ 85 lakhs – ₹ 78.4 lakhs) will be adjusted against the

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opening balance of revenue reserve. The carrying amount of ₹ 78.4 lakhs would be amortized over remaining 7 years by ₹11.2 lakhs per year.

**Question 2**

XYZ Limited was incorporated for taking over the business of Y from 1<sup>st</sup> April, 2010. The following is the Balance Sheet of Y on 31<sup>st</sup> March, 2010:

| Liabilities | ₹         | Assets              | ₹         |
|-------------|-----------|---------------------|-----------|
| Capital     | 10,08,000 | Land and Building   | 16,00,000 |
| Loans       | 12,00,000 | Plant and Machinery | 2,80,000  |
| Creditors   | 7,12,000  | Furniture           | 2,00,000  |
|             |           | Sundry Debtors      | 8,40,000  |
|             | 29,20,000 |                     | 29,20,000 |

The company takes over the business with fixed assets and loans on the following terms:

- (a) The fixed assets should be depreciated @10%.
- (b) The value of Goodwill is estimated at ₹8,00,000.

The company realized ₹ 8,00,000 from Sundry debtors as the agent of the vendor in full settlement and discharged all the trade creditors by paying ₹ 6,80,000 for a commission of 3% on the amount collected and 2% on the amount paid.

(Commission is treated as pre-incorporation profit)

The lenders accepted 10% preference shares of ₹100 each in discharge of their loan. After realization of debts and discharge of the liabilities, the total amount due to the vendor was settled by payment of ₹ 54,400 in cash and the balance in shares of fully paid equity shares of ₹10 each.

You are required to:

- (i) Compute purchase consideration.
- (ii) Pass Journal Entries in the books of XYZ Limited after taking over the business of Y.
- (iii) Prepare the Balance Sheet of the company as on 1<sup>st</sup> April, 2010. (16 Marks)

**Answer**

**(i) Computation of Purchase Consideration**

| Particulars            | Amount (₹) |
|------------------------|------------|
| Assets taken over by Y |            |
| Land and Building      | 16,00,000  |
| Plant and Machinery    | 2,80,000   |

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|                          |                    |
|--------------------------|--------------------|
| Furniture                | <u>2,00,000</u>    |
|                          | 20,80,000          |
| Less: Depreciation @ 10% | <u>(2,08,000)</u>  |
|                          | 18,72,000          |
| Add: Goodwill            | <u>8,00,000</u>    |
|                          | 26,72,000          |
| Less: Loan               | <u>(12,00,000)</u> |
| Purchase consideration   | <u>14,72,000</u>   |

(ii)

**In the books of XYZ Limited**

**Journal Entries (after taking over the business of Y)**

| Date   | Particulars                                                                                                                                                                                                                                               | Dr. ₹                                         | Cr. ₹                  |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------|
| 1.4.10 | Business Purchase A/c Dr.<br>To Y<br>(Being purchase consideration due for taking over the business of Y)                                                                                                                                                 | 14,72,000                                     | 14,72,000              |
|        | Land and Building A/c (16,00,000 – 1,60,000) Dr.<br>Plant and Machinery A/c (2,80,000 – 28,000) Dr.<br>Furniture A/c (2,00,000 – 20,000) Dr.<br>Goodwill A/c Dr.<br>To Loans A/c<br>To Business Purchase A/c<br>(Being assets and liabilities taken over) | 14,40,000<br>2,52,000<br>1,80,000<br>8,00,000 | 12,00,000<br>14,72,000 |
|        | Vendor's Debtors Dr.<br>To Vendor's Suspense A/c<br>(Being Vendor's debtors to be collected on behalf of Y)                                                                                                                                               | 8,40,000                                      | 8,40,000               |
|        | Vendor's Suspense A/c Dr.<br>To Vendor's Creditors<br>(Being Vendor's creditors to be paid off on behalf of Y)                                                                                                                                            | 7,12,000                                      | 7,12,000               |
|        | Bank A/c Dr.<br>Vendor's Suspense A/c Dr.                                                                                                                                                                                                                 | 8,00,000<br>40,000                            |                        |

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|                                                                                                                                                                  |           |           |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|----------|
| To Vendor's Debtors A/c<br>(Being Vendor's debtors collected at loss)                                                                                            |           |           | 8,40,000 |
| Vendor's Creditors A/c Dr.                                                                                                                                       | 7,12,000  |           |          |
| To Bank A/c                                                                                                                                                      |           | 6,80,000  |          |
| To Vendor's Suspense A/c                                                                                                                                         |           | 32,000    |          |
| (Being profit on payment to Vendor's creditors)                                                                                                                  |           |           |          |
| Vendor's Suspense A/c Dr.                                                                                                                                        | 37,600    |           |          |
| To Commission A/c                                                                                                                                                |           | 37,600    |          |
| (Being the commission @ 3% on Vendor's Debtors collected and 2% on payment to Vendor's Creditors)                                                                |           |           |          |
| Vendor's Suspense A/c Dr.                                                                                                                                        | 82,400    |           |          |
| To Y                                                                                                                                                             |           | 82,400    |          |
| (Being transfer of the net balance of vendor's suspense account after realization of debtors and payment to creditors, to Y)                                     |           |           |          |
| Y Dr.                                                                                                                                                            | 15,54,400 |           |          |
| To Equity share capital A/c                                                                                                                                      |           | 15,00,000 |          |
| To Bank A/c                                                                                                                                                      |           | 54,400    |          |
| (Being allotment of 1,50,000 equity shares of Rs. 10 each as fully paid up and payment of cash as agreed in discharge of total amount due to Y)                  |           |           |          |
| Loan A/c Dr.                                                                                                                                                     | 12,00,000 |           |          |
| To 10% Preference share capital A/c                                                                                                                              |           | 12,00,000 |          |
| (Being issue of 12,000 10% preference shares for discharge of loan)                                                                                              |           |           |          |
| Commission A/c Dr.                                                                                                                                               | 37,600    |           |          |
| To Capital Reserve A/c                                                                                                                                           |           | 37,600    |          |
| (Being commission earned on settlement of vendor's debtors and creditors is treated as pre-incorporation profit which is transferred to capital reserve account) |           |           |          |

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**(iii) Balance Sheet of XYZ Limited  
as on 1<sup>st</sup> April, 2010**

| <i>Liabilities</i>                                                                                  | ₹                | <i>Assets</i>                       | ₹                |
|-----------------------------------------------------------------------------------------------------|------------------|-------------------------------------|------------------|
| Share Capital:                                                                                      |                  | Fixed Assets:                       |                  |
| 1,50,000 Equity shares of ₹ 10 each fully paid up                                                   | 15,00,000        | Goodwill                            | 8,00,000         |
| 12,000, 10% Preference shares of ₹ 100 each fully paid up                                           | 12,00,000        | Land and Building                   | 14,40,000        |
| (All the equity and preference shares have been issued to vendor for consideration other than cash) |                  | Plant and Machinery                 | 2,52,000         |
| Reserves and Surplus:                                                                               |                  | Furniture                           | 1,80,000         |
| Capital Reserve                                                                                     | <u>37,600</u>    | Current Assets, Loans and Advances: |                  |
|                                                                                                     | <u>27,37,600</u> | Cash balance (refer W.N.)           | 65,600           |
|                                                                                                     |                  |                                     | <u>27,37,600</u> |

**Working Note:**

**Cash balance of XYZ Ltd.**

|                                       | ₹               |
|---------------------------------------|-----------------|
| Cash collected from vendor's debtors  | 8,00,000        |
| Less: Cash paid to vendor's creditors | (6,80,000)      |
| Less: Cash paid to Y                  | <u>(54,400)</u> |
|                                       | <u>65,600</u>   |

**Question 3**

*The following is the Balance Sheet of M/s Neel and Company as on 31<sup>st</sup> March, 2009:*

| <i>Liabilities</i> | ₹               | <i>Assets</i>            | ₹               |
|--------------------|-----------------|--------------------------|-----------------|
| Capital            | 1,92,000        | Building                 | 1,30,000        |
| Loan               | 60,000          | Furniture                | 20,000          |
| Creditors          | 1,24,000        | Motor car (for business) | 36,000          |
|                    |                 | Stock                    | 80,000          |
|                    |                 | Debtors                  | 68,000          |
|                    |                 | Cash in hand             | 8,000           |
|                    |                 | Cash at bank             | <u>34,000</u>   |
|                    | <u>3,76,000</u> |                          | <u>3,76,000</u> |

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A riot occurred on the night of 31<sup>st</sup> March, 2010 in which all books and records were lost. The cashier had absconded with the available cash. The following information is available:

- (i) The sales for the year ended 31<sup>st</sup> March, 2010 were 20% higher than the previous year's sales. Firm always sells the goods at cost plus 25%; 20% of the total sales for the year ended 31<sup>st</sup> March, 2010 were for cash. There were no cash purchases.
- (ii) On 1<sup>st</sup> April, 2009, the stock level was raised to ₹ 1,20,000 and stock was maintained at this new level all throughout the year.
- (iii) Collections from Debtors amounted to ₹ 5,60,000 of which ₹ 1,40,000 was received in cash. Business expenses amounted to ₹ 80,000 of which ₹ 20,000 was outstanding on 31<sup>st</sup> March, 2010 and ₹ 24,000 was paid by cheque.
- (iv) Analysis of the pass book revealed the following for the year ended 31-3-2010:

|                          | ₹        |
|--------------------------|----------|
| Payment to creditors     | 5,50,000 |
| Personal Drawings        | 30,000   |
| Cash deposited into bank | 2,86,000 |
| Cash withdrawn from bank | 48,000   |

- (v) Gross profit as per last year's audited accounts was ₹ 1,20,000.
- (vi) Provide depreciation on Building and Furniture @ 5% and Motor Car @ 20%.
- (vii) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2010 and the Balance Sheet as on date. (16 Marks)

**Answer**

**Trading and Profit & Loss Account of M/s Neel & Co.  
for the year ended on 31<sup>st</sup> March, 2010**

| Particulars                                               | Amount ₹        | Particulars          | Amount ₹        |
|-----------------------------------------------------------|-----------------|----------------------|-----------------|
| To Opening Stock A/c                                      | 80,000          | By Sales A/c (W.N.2) | 7,20,000        |
| To Purchases A/c (W.N.6)                                  | 6,16,000        | By Closing stock     | 1,20,000        |
| To Gross Profit c/d (W.N.4)                               | <u>1,44,000</u> |                      |                 |
|                                                           | <u>8,40,000</u> |                      | <u>8,40,000</u> |
| To Business Expenses A/c                                  | 80,000          | By Gross Profit b/d  | 1,44,000        |
| To Depreciation on<br>Building                      6,500 |                 |                      |                 |

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|               |              |                 |                 |
|---------------|--------------|-----------------|-----------------|
| Furniture     | 1,000        |                 |                 |
| Motor car     | <u>7,200</u> | 14,700          |                 |
| To Net Profit |              | <u>49,300</u>   |                 |
|               |              | <u>1,44,000</u> | <u>1,44,000</u> |

**Balance Sheet as at 31<sup>st</sup> March, 2010**

| <i>Liabilities</i>                   | ₹               | <i>Assets</i>                                                          | ₹               |
|--------------------------------------|-----------------|------------------------------------------------------------------------|-----------------|
| Capital Account                      |                 | Building 1,30,000                                                      |                 |
| Opening Balance 1,92,000             |                 | Less: Depreciation <u>6,500</u>                                        | 1,23,500        |
| Add: Net Profit <u>49,300</u>        |                 | Furniture 20,000                                                       |                 |
| 2,41,300                             |                 | Less: Depreciation <u>1,000</u>                                        | 19,000          |
| Less: Drawings <u>(30,000)</u>       | 2,11,300        | Motor Car 36,000                                                       |                 |
| Loan 60,000                          | 60,000          | Less: Depreciation <u>7,200</u>                                        | 28,800          |
| Sundry Creditors (W.N.8) 1,90,000    | 1,90,000        | Stock in trade 1,20,000                                                | 1,20,000        |
| Outstanding business expenses 20,000 | 20,000          | Sundry Debtors (W.N.7) 84,000                                          | 84,000          |
|                                      |                 | Cash at Bank (W.N.9) 88,000                                            | 88,000          |
|                                      |                 | Sundry Advance (Amount recoverable from cashier) (W.N.9) <u>18,000</u> | <u>18,000</u>   |
|                                      | <u>4,81,300</u> |                                                                        | <u>4,81,300</u> |

**Working Notes:**

- Last year's total sales =  $\frac{\text{Gross Profit}}{25} \times (100 + 25)$   
= ₹1,20,000 × 125/25 = ₹ 6,00,000
- Current year's total sales = ₹ 6,00,000 + (100+20)%  
= ₹ 7,20,000
- Current year's - credit sales = ₹ 7,20,000 × 80% = ₹ 5,76,000  
- cash sales = ₹ 7,20,000 × 20% = ₹ 1,44,000
- Gross profit for the current year = ₹ 7,20,000 × 25/125 = ₹ 1,44,000
- Cost of goods sold = Sales – Gross Profit  
= ₹ 7,20,000 – ₹ 1,44,000 = ₹ 5,76,000
- Purchases = Cost of goods sold + Closing stock – Opening stock  
= ₹ 5,76,000 + ₹ 1,20,000 – ₹ 80,000 = ₹ 6,16,000.

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7.

**Debtors A/c**

| <i>Particulars</i>      | <i>Amount<br/>₹</i> | <i>Particulars</i>                       | <i>Amount<br/>₹</i> |
|-------------------------|---------------------|------------------------------------------|---------------------|
| To Balance b/d          | 68,000              | By Bank A/c<br>(₹ 5,60,000 – ₹ 1,40,000) | 4,20,000            |
| To Credit Sales (W.N.3) | 5,76,000            | By Cash A/c                              | 1,40,000            |
|                         |                     | By Balance c/d (bal.fig.)                | <u>84,000</u>       |
|                         | <u>6,44,000</u>     |                                          | <u>6,44,000</u>     |

8.

**Creditors A/c**

| <i>Particulars</i>        | <i>Amount<br/>₹</i> | <i>Particulars</i>       | <i>Amount<br/>₹</i> |
|---------------------------|---------------------|--------------------------|---------------------|
| To Bank A/c               | 5,50,000            | By Balance b/d           | 1,24,000            |
| To Balance c/d (bal.fig.) | <u>1,90,000</u>     | By Purchases A/c (W.N.6) | <u>6,16,000</u>     |
|                           | <u>7,40,000</u>     |                          | <u>7,40,000</u>     |

9.

**Cash and Bank Balance**

| <i>Particulars</i>      | <i>Cash<br/>₹</i> | <i>Bank<br/>₹</i> | <i>Particulars</i>                                                     | <i>Cash<br/>₹</i> | <i>Bank<br/>₹</i> |
|-------------------------|-------------------|-------------------|------------------------------------------------------------------------|-------------------|-------------------|
| To Balance b/d          | 8,000             | 34,000            | By Business<br>Expense A/c                                             | 36,000            | 24,000            |
| To Sales A/c            | 1,44,000          | -                 | By Drawings A/c                                                        | -                 | 30,000            |
| To Sundry Debtors       | 1,40,000          | 4,20,000          | By Sundry<br>Creditors A/c                                             | -                 | 5,50,000          |
| To Cash A/c<br>(Contra) | -                 | 2,86,000          | By Bank A/c<br>(Contra)                                                | 2,86,000          | -                 |
| To Bank A/c<br>(Contra) | 48,000            | -                 | By Cash A/c<br>(Contra)                                                | -                 | 48,000            |
|                         |                   |                   | By Sundry<br>Advance<br>(Defalcation of<br>cash balance)<br>(bal.fig.) | 18,000            | -                 |
|                         |                   |                   | By Balance c/d<br>(bal.fig.)                                           | -                 | <u>88,000</u>     |
|                         | <u>3,40,000</u>   | <u>7,40,000</u>   |                                                                        | <u>3,40,000</u>   | <u>7,40,000</u>   |

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**Question 4**

- (a) From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Hamara Bank Limited' for the year ending 31<sup>st</sup> March, 2010:

|                                 | ₹ in lakhs |                    | ₹ in lakhs |
|---------------------------------|------------|--------------------|------------|
| Interest and discount           | 4,430      | Interest expended  | 1,360      |
| Other Income                    | 125        | Operating Expenses | 1,331      |
| Interest accrued on Investments | 10         |                    |            |

**Additional Information:**

|                                                                           | ₹ in lakhs |
|---------------------------------------------------------------------------|------------|
| (i) Rebate on bills discounted to be provided for                         | 15         |
| (ii) Classifications of Advances:                                         |            |
| Standard Assets                                                           | 2,500      |
| Sub-Standard Assets                                                       | 560        |
| Doubtful Assets not covered by security                                   | 255        |
| Doubtful Assets covered by security                                       |            |
| For 1 year                                                                | 25         |
| For 2 years                                                               | 50         |
| For 3 years                                                               | 100        |
| For 4 years                                                               | 75         |
| Loss Assets                                                               | 100        |
| (iii) Make tax provisions @ 35% of the profit.                            |            |
| (iv) Profit and Loss Account (Cr.) brought forward from the previous year | 40         |

(8 Marks)

- (b) From the following transactions, draw up an account current by means of product up to 31<sup>st</sup> December, 2010 to be rendered by X to Y and give the amount of interest charging @ 8% per annum.

| Date<br>2010 | Particulars         | Amounts (₹ in thousands) |
|--------------|---------------------|--------------------------|
| July 01      | Balance owing by Y  | 600                      |
| July 15      | Goods sold to Y     | 900                      |
| Aug. 21      | Goods bought from Y | 700                      |

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|         |                                                                        |     |
|---------|------------------------------------------------------------------------|-----|
| Aug. 23 | Cash received from Y                                                   | 450 |
| Oct. 23 | Y accepted X's bill at 3 months                                        | 300 |
| Nov.01  | Goods bought from Y                                                    | 950 |
| Dec.03  | Accepted a bill drawn by Y at 3 months (due date of bill is on Sunday) | 400 |

On 31<sup>st</sup> December, 2010, X and Y settled their account after considering the interest factor. Show the cash amount received or paid by X on that date. (8 Marks)

**Answer**

**(a) Calculation of Provisions and Contingencies**

(i) Provision on Non-Performing Assets\*

|                                         |        |                | ₹ in lakhs |
|-----------------------------------------|--------|----------------|------------|
| Particulars                             | Amount | % of Provision | Provision  |
| Standard Assets                         | 2,500  | 0.4            | 10         |
| Sub-standard Assets                     | 560    | 10             | 56         |
| Doubtful Assets not covered by security | 255    | 100            | 255        |
| Doubtful Assets covered by security:    |        |                |            |
| For 1 Year                              | 25     | 20             | 5          |
| For 2 Years                             | 50     | 30             | 15         |
| For 3 Years                             | 100    | 30             | 30         |
| For 4 Years                             | 75     | 100            | 75         |
| Loss Assets                             | 100    | 100            | 100        |
|                                         | 3,665  |                | 546        |

Note: It is assumed that all sub standards assets are fully secured.

(ii) Calculation of Provision for tax = 35% of [Total Income – Total Expenditure (excluding tax)]

$$= 35\% \text{ of } [(4,425+125) - (1,360+1,331+546)] = ₹ 459.55 \text{ lakhs}$$

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

$$= 546 + 459.55 = ₹ 1,005.55 \text{ lakhs}$$

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\* RBI vide its notification no. DBOD.No.BP.BC.94/21.04.048/2011-12 dated 18<sup>th</sup> May, 2011 has increased the provisioning rates for secured sub-standard assets from 10% to 15%, for secured doubtful assets upto 1 year from 20% to 25% and for secured doubtful assets of 1 year to 3 years the provisioning rate has been increased from 30% to 40%.

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Hamara Bank Limited

Profit and Loss Account for the year ended 31<sup>st</sup> March, 2010

| Particulars                                   | Schedule No. | ₹ in lakhs |
|-----------------------------------------------|--------------|------------|
| <b>I Income</b>                               | 13           |            |
| Interest Earned                               |              | 4,425      |
| Other Income                                  |              | 125        |
|                                               |              | 4,550      |
| <b>II Expenditures</b>                        |              |            |
| Interest Expended                             |              | 1,360      |
| Operating Expenses                            |              | 1,331      |
| Provisions & Contingencies                    |              | 1,005.55   |
|                                               |              | 3,696.55   |
| <b>III Profit/Loss</b>                        |              |            |
| Net Profit/Loss for the year                  |              | 853.45     |
| Profit/Loss brought forward                   |              | 40         |
|                                               |              | 893.45     |
| <b>IV Appropriations</b>                      |              |            |
| Transfer to Statutory Reserve @ 25% of 853.45 |              | 213.36     |
| Transfer to Other Reserves                    |              | -          |
| Balance carried over to Balance Sheet         |              | 680.09     |
|                                               |              | 893.45     |
| <b>Schedule 13 – Interest earned</b>          |              |            |
| <b>I Interest &amp; Discount (4,430 – 15)</b> |              | 4,415      |
| <b>II Income on Investments</b>               |              | 10         |
|                                               |              | 4,425      |

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(b)

Y in Account Current with X

For the period from 1<sup>st</sup> July, 2010 to 31<sup>st</sup> December, 2010

| Date         | Due Date | Particulars                                          | Days upto 31 <sup>st</sup> Dec. | Amt. (₹ in 000s) | Product         | Date         | Due date | Particulars           | Days upto 31 <sup>st</sup> Dec. | Amt (₹ in 000s) | Product         |
|--------------|----------|------------------------------------------------------|---------------------------------|------------------|-----------------|--------------|----------|-----------------------|---------------------------------|-----------------|-----------------|
| 2010 July 01 | July 01  | To Balance b/d                                       | 184                             | 600              | 1,10,400        | 2010 Aug. 21 | Aug. 21  | By Purchases A/c      | 132                             | 700             | 92,400          |
| July 15      | July 15  | To Sales A/c                                         | 169                             | 900              | 1,52,100        | Aug. 23      | Aug. 23  | By Cash A/c           | 130                             | 450             | 58,500          |
| Dec. 03      | Mar. 05  | To Bills Payable                                     | (64)                            | 400              | (25,600)        | Oct. 23      | Jan. 25  | By Bills Receivable   | (25)                            | 300             | (7,500)         |
|              |          |                                                      |                                 |                  |                 | Nov. 01      | Nov. 01  | By Purchases A/c      | 60                              | 950             | 57,000          |
| Dec. 31      | Dec. 31  | To Interest $\frac{36,500 \times 8}{365 \times 100}$ |                                 | 8                |                 |              | Dec. 31  | By Balance of Product |                                 |                 | 36,500          |
| Dec. 31      | Dec. 31  | To Cash A/c                                          |                                 | 492              |                 |              |          |                       |                                 |                 |                 |
|              |          |                                                      |                                 | <u>2,400</u>     | <u>2,36,900</u> |              |          |                       |                                 | <u>2,400</u>    | <u>2,36,900</u> |

**PAPER – 1 : ADVANCED ACCOUNTING**

**Question 5**

- (a) Jaipur Electric Company Limited rebuilt and re-equipped a part of their power house at the cost of ₹ 85 lakhs. The part of the old power house thus superseded originally costed ₹ 50 lakhs, but if erected at the present time would cost 40% more. ₹ 3 lakhs is realized from the sale of old materials. Old materials worth ₹ 6 lakhs are used in the reconstruction and are included in the cost of ₹ 85 lakhs mentioned above.

Give necessary Journal Entries for recording the above transactions in the books of the company, indicating the allocations between amount to be capitalized and amount to be written off to Revenue Account. (8 Marks)

- (b) From the following information, prepare Cash Flow Statement of Amex Limited for the year ended 31<sup>st</sup> March, 2010 by using indirect method:

**Balance Sheets as on**

|                             | 31.3.2009  |           | 31.3.2010  |           |
|-----------------------------|------------|-----------|------------|-----------|
| Liabilities                 |            | ₹         |            | ₹         |
| Share Capital               |            | 5,00,000  |            | 6,00,000  |
| Reserves                    |            | 1,50,000  |            | 1,80,000  |
| Profit and Loss Account     |            | 40,000    |            | 65,000    |
| Debentures                  |            | 3,00,000  |            | 2,50,000  |
| Creditors for goods         |            | 1,70,000  |            | 1,60,000  |
| Provision for Income Tax    |            | 60,000    |            | 80,000    |
|                             |            | 12,20,000 |            | 13,35,000 |
| Assets                      |            |           |            |           |
| Gross Block                 | 10,00,000  |           | 11,20,000  |           |
| Less: Depreciation          | (3,70,000) |           | (4,60,000) |           |
| Net Block                   |            | 6,30,000  |            | 6,60,000  |
| Stock in trade              |            | 2,40,000  |            | 3,70,000  |
| Book Debts                  |            | 2,50,000  |            | 2,30,000  |
| Cash in hand and at bank    |            | 80,000    |            | 60,000    |
| Miscellaneous Expenditure   |            |           |            |           |
| Discount on issue of shares |            | 10,000    |            | 7,500     |
| Preliminary Expenses        |            | 10,000    |            | 7,500     |
|                             |            | 12,20,000 |            | 13,35,000 |

**PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011**

*Profit and Loss Appropriation Account for the year ended 31<sup>st</sup> March, 2010*

| <i>Particulars</i>                             | <i>Debit<br/>(₹)</i> | <i>Particulars</i>                    | <i>Credit<br/>(₹)</i> |
|------------------------------------------------|----------------------|---------------------------------------|-----------------------|
| <i>To Transfer to Reserves</i>                 | <i>30,000</i>        | <i>By Balance b/d</i>                 | <i>40,000</i>         |
| <i>To Interim dividend paid</i>                | <i>80,000</i>        | <i>By Net Profit for current year</i> | <i>1,35,000</i>       |
| <i>To Balance carried to<br/>Balance Sheet</i> | <i>65,000</i>        |                                       |                       |
|                                                | <i>1,75,000</i>      |                                       | <i>1,75,000</i>       |

(8 Marks)

**Answer**

**(a)**

**Jaipur Electric Company**

**Journal Entries**

|    |                                                                                                                                                | <i>₹ in lakhs</i> |            |
|----|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------|
|    |                                                                                                                                                | <i>Dr.</i>        | <i>Cr.</i> |
| 1. | Power House A/c Dr.<br>To Replacement A/c<br>To Bank A/c<br>(Being the additional cost incurred and old materials utilized in new power house) | 15                | 6<br>9     |
| 2. | Replacement A/c Dr.<br>To Bank A/c<br>(Being the current cost of replacement)                                                                  | 70                | 70         |
| 3. | Bank A/c Dr.<br>To Replacement A/c<br>(Being amount realised from the sale of materials of old power house)                                    | 3                 | 3          |
| 4. | Revenue A/c Dr.<br>To Replacement A/c<br>(Being transfer of balance of Replacement account to Revenue A/c)                                     | 61                | 61         |

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**Working Notes:**

|                                               |   |  |      |
|-----------------------------------------------|---|--|------|
| (i) <b>Current Replacement Cost</b>           |   |  |      |
| Original Cost of Power-House                  |   |  | 50   |
| Add: Increase in cost @ 40%                   |   |  | 20   |
| Current Replacement Cost                      |   |  | 70   |
| (ii) <b>Amount Charged to Revenue Account</b> |   |  |      |
| Current Replacement Cost                      |   |  | 70   |
| Less: Sale of Old Materials                   | 3 |  |      |
| Materials Re-used                             | 6 |  | (9)  |
| Amount charged to Revenue A/c                 |   |  | 61   |
| (iii) <b>Amount to be Capitalised</b>         |   |  |      |
| Cost of New Power-House                       |   |  | 85   |
| Less: Current Replacement Cost                |   |  | (70) |
| Amount to be capitalised                      |   |  | 15   |
| Less: Materials Re-used                       |   |  | (6)  |
| Cash amount to be capitalised                 |   |  | 9    |

(b)

**AMEX LTD.**

**Cash Flow Statement for the year ended 31<sup>st</sup> March, 2010**

|                                                 | ₹          | ₹          | ₹ |
|-------------------------------------------------|------------|------------|---|
| (i) <b>Cash flow from Operating Activities</b>  |            |            |   |
| Net Profit before tax                           |            | 1,35,000   |   |
| Add back:                                       |            |            |   |
| Depreciation (4,60,000 – 3,70,000)              | 90,000     |            |   |
| Discount on issue of shares written off         | 2,500      |            |   |
| Preliminary expenses written off                | 2,500      |            |   |
| Provision for tax                               | 80,000     | 1,75,000   |   |
| Operating Profit before working capital changes |            | 3,10,000   |   |
| Less: Increase in stock                         | (1,30,000) |            |   |
| Decrease in creditors                           | (10,000)   | (1,40,000) |   |

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|                                                  |            |            |
|--------------------------------------------------|------------|------------|
|                                                  | 1,70,000   |            |
| Add: Decrease in book debts                      | 20,000     |            |
| Cash generated from Operations                   | 1,90,000   |            |
| Less: Income tax paid                            | (60,000)   |            |
| Net cash generated from Operating Activities     |            | 1,30,000   |
| (ii) <b>Cash flow from Investing Activities</b>  |            |            |
| Fixed Assets purchased                           | (1,20,000) |            |
| Net cash used in Investing Activities            |            | (1,20,000) |
| (iii) <b>Cash flow from Financing Activities</b> |            |            |
| Issue of shares                                  | 1,00,000   |            |
| Redemption of Debentures                         | (50,000)   |            |
| Interim Dividend paid                            | (80,000)   |            |
| Net cash used in Financing Activities            |            | (30,000)   |
| <b>Net decrease in cash</b>                      |            | (20,000)   |
| Opening balance of cash and cash equivalents     |            | 80,000     |
| Closing balance of cash and cash equivalents     |            | 60,000     |

**Question 6**

- (a) *N Limited has retail branch at Noida. Goods are sold to customers at cost plus 100%. The wholesale price is cost plus 80%. Goods are invoiced to Noida at wholesale price. From the following particulars, find out the profit made by the Head Office and Noida Branch for the year ended 31<sup>st</sup> March, 2010 using invoice method.*

|                                         | Head Office<br>₹ | Noida<br>₹ |
|-----------------------------------------|------------------|------------|
| Stock on April 1, 2009                  | 50,000           | ---        |
| Purchases                               | 3,00,000         | ---        |
| Goods sent to branch (at invoice value) | 1,08,000         | ---        |
| Sales                                   | 3,06,000         | 1,00,000   |
| Expenses                                | 90,000           | 4,000      |

*Sales at Head Office are made only on wholesale basis and sales at branch are made only to customers. Stock at branch is valued at invoice price.*

*(8 Marks)*

- (b) *Rising Sun Limited came up with an issue of 25,00,000 Equity shares of ₹ 10 each at par. 4,00,000 shares were issued to the promoters and balance offered to the public. Issue was underwritten by three underwriters A & Co., B & Co., and C & Co., equally,*

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with firm underwriting of 1,00,000 shares each. Subscription totalled 17,26,000 shares, including the marked forms which were as under:

|         |                 |
|---------|-----------------|
| A & Co. | 5,18,000 Shares |
| B & Co. | 5,50,000 Shares |
| C & Co. | 4,72,000 Shares |

The underwriters had applied for the number of shares covered by firm underwriting. The amount payable on application and allotment were ₹ 3 & ₹ 2 respectively. The agreed commission is 3%.

You are required to calculate:

- (i) The liability of each underwriter.
- (ii) The amount payable and/or receivable by the underwriter. (8 Marks)

**Answer**

**(a) Trading Account for the year ended 31<sup>st</sup> March, 2010**

| Particulars                        | Head Office | Noida Branch | Particulars                   | Head Office | Noida Branch |
|------------------------------------|-------------|--------------|-------------------------------|-------------|--------------|
|                                    | ₹           | ₹            |                               | ₹           | ₹            |
| To Opening Stock                   | 50,000      | -            | By Sales                      | 3,06,000    | 1,00,000     |
| To Purchases                       | 3,00,000    | -            | By Goods sent to Branch       | 1,08,000    | -            |
| To Goods received from Head Office | -           | 1,08,000     | By Closing Stock (refer W.N.) | 1,20,000    | 18,000       |
| To Gross Profit                    | 1,84,000    | 10,000       |                               |             |              |
|                                    | 5,34,000    | 1,18,000     |                               | 5,34,000    | 1,18,000     |

**Profit and Loss A/c for the year ended 31<sup>st</sup> March, 2010**

|                                 | ₹      | ₹     |                 | ₹        | ₹      |
|---------------------------------|--------|-------|-----------------|----------|--------|
| To Expenses                     | 90,000 | 4,000 | By Gross Profit | 1,84,000 | 10,000 |
| To Stock Reserve against Branch |        |       |                 |          |        |

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|                                |         |        |  |                |
|--------------------------------|---------|--------|--|----------------|
| $\frac{18,000 \times 80}{180}$ | 8,000   | -      |  |                |
| To Net Profit                  | 86,000  | 6,000  |  |                |
|                                | 184,000 | 10,000 |  | 184,000 10,000 |

**Working Note:**

**Calculation of Closing Stock**

| Particulars                                        | Head Office | Noida Branch |
|----------------------------------------------------|-------------|--------------|
|                                                    | ₹           | ₹            |
| Opening Stock                                      | 50,000      | -            |
| Goods purchased or Received from Head Office       | 3,00,000    | 1,08,000     |
|                                                    | 3,50,000    | 1,08,000     |
| Less: Cost of Goods sold or sent to Branch:        |             |              |
| Head Office $(3,06,000 + 1,08,000) \times 100/180$ | (2,30,000)  |              |
| Branch $1,00,000 \times \frac{180}{200}$           |             | (90,000)     |
| Value of Closing Stock                             | 1,20,000    | 18,000       |

**(b) (i) Calculation of liability of underwriters**

|                                           | In shares  |            |            |             |
|-------------------------------------------|------------|------------|------------|-------------|
|                                           | A & Co.    | B & Co.    | C & Co.    | Total       |
| Gross Liability                           | 7,00,000   | 7,00,000   | 7,00,000   | 21,00,000   |
| Less: Firm Underwriting                   | (1,00,000) | (1,00,000) | (1,00,000) | (3,00,000)  |
|                                           | 6,00,000   | 6,00,000   | 6,00,000   | 18,00,000   |
| Less: Marked applications                 | (5,18,000) | (5,50,000) | (4,72,000) | (15,40,000) |
|                                           | 82,000     | 50,000     | 1,28,000   | 2,60,000    |
| Less: Unmarked applications               |            |            |            |             |
| 1/3 of (17,26,000-15,40,000)              | (62,000)   | (62,000)   | (62,000)   | (1,86,000)  |
|                                           | 20,000     | (12,000)   | 66,000     | 74,000      |
| Adjustment of B & Co.'s Surplus in 1:1    | (6,000)    | 12,000     | (6,000)    | -           |
| Liability excluding the firm underwriting | 14,000     | -          | 60,000     | 74,000      |
| Add: Firm Underwriting                    | 1,00,000   | 1,00,000   | 1,00,000   | 3,00,000    |
| Total liability                           | 1,14,000   | 1,00,000   | 1,60,000   | 3,74,000    |

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**(ii) Calculation of amount payable / receivable by the underwriters**

| Total liability (No. of shares)                            | 1,14,000      | 1,00,000        | 1,60,000        |
|------------------------------------------------------------|---------------|-----------------|-----------------|
|                                                            | ₹             | ₹               | ₹               |
| Amount payable @ ₹ 5 (i.e. 3+2) per share                  | 5,70,000      | 5,00,000        | 8,00,000        |
| Less: Amount paid on firm application @ ₹ 3 per share      | (3,00,000)    | (3,00,000)      | (3,00,000)      |
| Balance payable                                            | 2,70,000      | 2,00,000        | 5,00,000        |
| Underwriting commission receivable<br>(7,00,000 x 10 x 3%) | (2,10,000)    | (2,10,000)      | (2,10,000)      |
| Amount payable / (receivable)                              | <u>60,000</u> | <u>(10,000)</u> | <u>2,90,000</u> |

**Question 7**

Answer any **four** questions:

- (a) A Limited company created a provision for bad and doubtful debts at 5% on debtors in preparing the financial statements for the year 2009-10. Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 10% on debtors as on 31-03-2010. The accounts are not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extraordinary item or prior period item?
- (b) What are the restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies?
- (c) In preparing the financial statements of Lotus Limited for the year ended 31<sup>st</sup> March, 2010 you come across the following information. State with reason, how you would deal with them in the financial statements?
  - (i) An unquoted long term investment is carried in the books at a cost of ₹5 lakhs. The published accounts of the unlisted company received in May 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹50,000.
  - (ii) The company invested ₹ 50 lakhs in April, 2010 in the acquisition of another company doing similar business, the negotiations for which had just started.
- (d) Enumerate the advantages of computerized accounting.
- (e) On 31<sup>st</sup> October, 2009, Bharat Construction Co. Ltd. undertook a contract to construct a Flyover for ₹ 215 crores. On 31<sup>st</sup> March, 2010, company found that its work certified is for ₹ 100 crores and work to be certified is for ₹ 35 crores. Prudent estimate of additional cost for completion was ₹ 90 crores. What amount should be charged to

**PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011**

*Revenue in the final accounts for the year ended 31<sup>st</sup> March, 2010 as per provisions of Accounting Standard 7 (revised). (4 x 4 = 16 Marks)*

**Answer**

- (a) As per para 21 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extra ordinary item.

In the given case, company created 5% provision for doubtful debts for the year 2009-10. Subsequently in 2010, the company revised the estimates based on the changed circumstances and wants to create 10% provision. As per AS 5 (Revised) this change in estimate is neither a prior period item nor an extra ordinary item.

However, as per para 27 of the standard, a change in accounting estimate which has material effect in the current period should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed and quantified.

- (b) As per the Banking Regulations Act 1949, a banking company cannot pay dividend on its shares until all its capitalized expenses including preliminary expenses, organization expenses, share selling commission, brokerage, amount of losses incurred by tangible assets and any other item of expenditure not represented by tangible assets are completely written off. However, as per the Act, it is permissible for a banking company to pay dividend on its shares without writing off:
- (i) The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized or otherwise accounted for as a loss.
  - (ii) The depreciation in the value of its investments in shares, debentures or bonds (other than approved securities) where adequate provision for such depreciation has been made to the satisfaction of its auditors; and
  - (iii) The bad debts where adequate provision for such bad debts has been made to the satisfaction of its auditors.
- (c) (i) As per para 17 of AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, diminution shall be made to recognize a decline, other than temporary, in the value of the investments. The standard also specifies that the indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Here the company is incurring cash losses with decline market share. Therefore, provision for diminution

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for ₹ 4.50 lakhs should be made in the financial statements for the year ended 31<sup>st</sup> March 2010.

- (ii) As per para 8.4 of AS 4 “Contingencies and Events Occurring after the Balance Sheet Date” Events occurring after the balance sheet date which do not affect the figures stated in the financial statements would not normally require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions.

The investment of ₹ 50 lakhs in April 2010 for acquisition of another company is under negotiation stage and is not finalized yet. On the other hand it is also not affecting the figures stated in the financial statements of 2009-10, hence the details regarding such negotiation and investment planning of ₹ 50 lakhs in April, 2010 in the acquisition of another company should be disclosed in the Director’s Report to enable users of financial statements to make proper evaluations and decision.

- (d) The following are the advantages of computerized accounting:

- (i) **Increased Accuracy:** In computerized accounting, the accuracy of the results or information is guaranteed to the extent of the accuracy of the data fed into it. A computer performs millions of operations every second without any error. Hence computer records are accurate and reliable.
- (ii) **High Speed:** A computer processes accounting information at a very high speed.
- (ii) **Storage and Memory:** A computer can store larger volumes of data in its memory unit. This helps in feeding the data only once and getting the required information by utilizing the same data over and again.
- (iii) **Quick Collection and Presentation of Accounts:** In computerized accounting, accounts are frequently updated so that it can prepare final accounts and other accounts as frequently as is needed by the user.
- (iv) **Neat and Clean records:** A computer provides neat and clean records. The output is always in a standardized format which makes it easier to locate a particular figure or item.
- (v) **Diligence:** A computer does not get tired and never feels fatigue even if it has to work for long hours. It can repeat the same job for any number of times, exactly in the same way and handle variety of jobs.
- (vi) **Reducing Monotony:** A computer can do all troublesome, voluminous and routing work within no time. This helps in reducing the monotony of the staff which helps them to take up non-routine jobs.
- (vii) **Versatility:** A computer can provide a variety of financial and statistical information which would otherwise be too difficult and expensive to produce within the required time scale.

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- (e) As per para 21 of AS 7 (Revised) 'Construction Contracts', when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.

Accordingly,

|                                                         | ₹ in crores |
|---------------------------------------------------------|-------------|
| Cost incurred till 31 <sup>st</sup> March 2010 (100+35) | 135         |
| Add: Prudent estimate of additional cost for completion | <u>90</u>   |
| Total estimated cost of construction                    | <u>225</u>  |

Percentage of total contract work in progress to total cost of construction

$$= \frac{\text{Cost incurred till 31st March, 2010}}{\text{Total estimated cost}} = \frac{135}{225} \times 100 = 60\%$$

Proportion of total contract value recognized as turnover (charged to revenue) as per AS 7 (Revised) = 60% of ₹ 215 crores = ₹ 129 crores.

**Note:** As per para 35 of the standard, when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Accordingly, the difference of ₹ 10 crores (i.e. Total estimated cost of construction ₹ 225 crores – Contract price ₹ 215 crores) should be expensed in the year 2009-2010.