

MOCK TEST PAPER – 2
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING
SUGGESTED ANSWERS/HINTS

1. (a) (i) Journal Entries

			₹ in lakhs	
(a)	Plant and Machinery A/c	Dr.	45	
	Cenvat credit receivable on capital goods A/c	Dr.	5	
	To Bank A/c or Creditors A/c			50
	(Being capitalization of plant and machinery)			
(b)	Excise duty A/c	Dr.	2.5	
	To Cenvat credit receivable on capital goods A/c			2.5
	(Being excise duty set off available to the extent of 50% in the first year of acquisition of capital asset)			

- (ii) Value of plant to be recorded in Fixed Asset Register: As per Guidance Note on "Accounting Treatment for CENVAT", fixed assets have to be capitalised net of refundable amounts.

The plant and machinery will be recorded at ₹ 45 lakhs (₹ 50 lakhs - ₹ 5 lakhs) in the fixed asset register.

- (b) As per para 2(d) of AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Sabka Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Sabka Bank should comply with those RBI Guidelines/Norms. Therefore, though sabka bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.
- (c) Following will be the treatment in the given cases:
- (a) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognize the profit of ₹ 10 lakhs (i.e. 50 – 40) in its books.
- (b) When fair value is ₹ 60 lakhs then also profit of ₹ 10 lakhs should be immediately recognized by A Ltd.

- (c) When fair value of leased machinery is ` 45 lakhs & sales price is ` 38 lakhs, then loss of ` 2 lakhs (40 – 38) to be immediately recognized by A Ltd. in its books provided loss is not compensated by future lease payment.
- (d) When fair value is ` 40 lakhs & sales price is ` 50 lakhs then, profit of ` 10 lakhs is to be deferred and amortized over the lease period.
- (e) When fair value is ` 46 lakhs & sales price is ` 50 lakhs, profit of ` 6 lakhs (46 - 40) to be immediately recognized in its books and balance profit of ` 4 lakhs (50-46) is to be amortised/deferred over lease period.
- (d) (i) As per para 44 of AS 26 "Intangible Assets," an intangible asset arising from development phase should be recognised as intangible asset (i.e. capitalised), if the criteria mentioned in the standard is complied with. In the given situation, the expenditure relating to the development phase consists of following:

		`
(i)	Other coding costs after establishment of technological feasibility	48,000
(ii)	Other testing costs after establishment of technological feasibility	40,000
(iii)	Cost of producing product masters for training manual	<u>30,000</u>
	Total costs relating to development phase.	<u>1,18,000</u>

As this expenditure has been incurred after establishment of technical feasibility, it is logical to presume that it complies with recognition criteria laid down for the purpose. Therefore, an amount of ` 1,18,000 should be capitalised as software cost subject to amortisation.

- (ii) As per para 41 of the standard, amount incurred during "Research Phase" should be expensed off. Therefore, ` 46,000 (i.e. ` 26,000 + 20,000) should be shown as expenditure during the financial year 2012-2013.

2. In the books of Hari Narayan Ltd. (Amalgamated Company)

Journal Entries

Particulars		Debit	Credit
		`	`
1. Business Purchase A/c	Dr.	25,12,000	
To Liquidators of Hari Ltd.			11,52,000
To Liquidators of Narayan Ltd.			13,60,000
(Being purchase of business of Hari Ltd. and Narayan Ltd.)			

2. Plant & Machinery A/c	Dr.	12,80,000	
Debtors A/c	Dr.	1,52,000	
Inventories A/c	Dr.	1,00,000	
Cash and Bank A/c	Dr.	1,08,000	
To Creditors A/c			1,20,000
To General reserve A/c (8,80,000 – 5,12,000)			3,68,000
To Business Purchase A/c			11,52,000
(Being assets and liabilities of Hari Ltd. taken over)			
3. Plant & Machinery A/c	Dr.	17,00,000	
Debtors A/c	Dr.	1,25,000	
Inventories A/c	Dr.	1,35,000	
Cash and Bank A/c	Dr.	1,00,000	
To Debentureholders A/c (5,00,000 – 5%)			4,75,000
To Creditors A/c			2,25,000
To Business Purchase A/c			13,60,000
(Being assets and liabilities of Narayan Ltd. taken over)			
4. Liquidator of Hari Ltd. A/c	Dr.	11,52,000	
To Equity share capital A/c			9,60,000
To Securities Premium A/c			1,92,000
(Being equity shares issued at 20% premium to shareholders of Hari Ltd.)			
5. Liquidators of Narayan Ltd. A/c	Dr.	13,60,000	
To Equity share capital A/c			8,60,000
To 15% Preference share capital A/c			5,00,000
(Being issue of shares to discharge purchase consideration)			
6. Debentureholders of Narayan Ltd. A/c	Dr.	4,75,000	
To Debentures A/c			4,75,000
(Being own debentures issued against debentures of Narayan Ltd.)			

Balance Sheet of Hari Narayan Ltd. after amalgamation

Particulars	Note No.	
I. Equity and Liabilities		

1.	(1) Shareholder's Funds		
	(a) Share Capital	1	23,20,000
	(b) Reserves and Surplus	2	5,60,000
	(2) Non-current Liabilities		
	Long-term borrowings	3	4,75,000
	(3) Current Liabilities		
	Trade payables		3,45,000
	Total		37,00,000
	II. Assets		
	(1) Non-current assets		
	Fixed assets		
	Tangible assets	4	29,80,000
	(2) Current assets		
	(a) Inventories		2,35,000
	(b) Trade receivables		2,77,000
	(c) Cash and cash equivalents		2,08,000
	Total		37,00,000

Notes to Accounts

		₹
1.	Share Capital	
	Equity shares of ₹ 10 each	18,20,000
	Preference shares of ₹ 10 each	<u>5,00,000</u>
		<u>23,20,000</u>
2.	Reserves and surplus	
	General Reserve	3,68,000
	Securities Premium	<u>1,92,000</u>
		<u>5,60,000</u>
3.	Long-term Borrowings	
	Secured Debentures	<u>4,75,000</u>
4.	Tangible Assets	
	Plant and Machinery	<u>29,80,000</u>

Working Note:

Computation of Purchase Consideration

- A. For Hari Ltd., the Payment Method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interests method.

Number of shares to be issued by Hari Narayan Ltd. for Hari Ltd.'s shareholders = $64,000 \times \frac{3}{2} = 96,000$ shares.

Since, the issue price is ` 12 per share, the Purchase Consideration is  $96,000 \times 12 = \text{` } 11,52,000$.

- B. For Narayan Ltd., the Net Assets Method is applied for determining the Purchase Consideration. Since, the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

Particulars	
Assets taken over:	
Plant & Machinery (20,00,000 less 15%)	17,00,000
Debtors	1,25,000
Inventory (1,50,000 less 10%)	1,35,000
Cash	<u>1,00,000</u>
Total Assets	20,60,000
Less: Liabilities	
Creditors	(2,25,000)
Secured Debentures	<u>(4,75,000)</u>
Net Purchase Consideration	<u>13,60,000</u>
Discharge:	
Preference Shareholders (7,50,000 x 2/3)	5,00,000
Equity Shareholders (bal. fig.) (13,60,000-5,00,000)	<u>8,60,000</u>
	<u>13,60,000</u>

3. Consolidated Balance Sheet of Evil Ltd. with its subsidiary Devil Ltd. as on 31st March, 2013

	Notes No.	
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000

(b) Reserves and Surplus	2	1,93,000
(2) Minority interest (W.N. 5)		1,23,500
(3) Current Liabilities		
Trade payables	3	1,70,000
Total		10,86,500
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	6,28,000
Intangible assets	5	50,000
(2) Current assets		
(a) Inventories	6	2,13,500
(b) Trade receivables	7	1,30,000
(c) Cash and cash equivalents	8	65,000
Total		10,86,500

Contingent Liability – Bills discounted by Evil Ltd. is ` 5,000.

Notes to Accounts

		`	`
1.	Share Capital		
	Equity shares of ` 10 each, fully paid up		6,00,000
2.	Reserves and surplus		
	Capital reserve (W.N.3)	33,750	
	General reserve	60,000	
	Profit and loss account (W.N. 6)	99,250	1,93,000
3.	Trade Payables		
	Sundry creditors		
	Evil Ltd.	1,00,000	
	Devil Ltd.	<u>70,000</u>	
		1,70,000	
	Less: Mutual indebtedness	<u>(10,000)</u>	1,60,000
	Bills payable		
	Devil Ltd.	<u>10,000</u>	1,70,000
4.	Tangible Assets		

	Land and buildings			
	Evil Ltd.	1,00,000		
	Devil Ltd.	<u>1,00,000</u>	2,00,000	
	Plant and machinery			
	Evil Ltd.	2,00,000		
	Devil Ltd.	1,80,000		
	Add: Upward revaluation	<u>50,000</u>		
		2,30,000		
	Less: Excess Depreciation on upward revaluation	<u>(2,000)</u> <u>2,28,000</u>	<u>4,28,000</u>	6,28,000
5.	Intangible Assets			
	Evil Ltd.		10,000	
	Devil Ltd.		<u>40,000</u>	50,000
6.	Inventories			
	Evil Ltd.		1,17,500	
	Devil Ltd.		<u>1,00,000</u>	
			2,17,500	
	Less: Unrealised profit		<u>(4,000)</u>	2,13,500
7.	Trade receivables			
	Sundry debtors			
	Evil Ltd.		50,000	
	Devil Ltd.		<u>90,000</u>	
			1,40,000	
	Less: Mutual indebtedness		<u>(10,000)</u>	1,30,000
8.	Cash and cash equivalents			
	Bank Balances			
	Evil Ltd.		45,000	
	Devil Ltd.		<u>20,000</u>	65,000

Working Notes:

1. Analysis of Reserves and Profits of Devil Ltd. as on 31.03.2013

		Pre-acquisition profit upto 1.10.2012 (Capital profits)	Post-acquisition profits (2.10.2012 – 31.3.2013) Profit and loss account
General reserve as on 31.3.2013		50,000	
Profit and loss account as on 31.3.2013	1,00,000		

Less: Opening Balance 60,000			
Less: Dividend for 2011-12 (out of pre-acquisition profits) (30,000)	<u>30,000</u>	30,000	
Profit earned during the year	70,000	35,000	35,000
Upward revaluation of plant and machinery as on 1.10.2012 (W.N.2)		50,000	
Excess depreciation (for 6 months) due to upward revaluation (W.N.2)			<u>(2,000)</u>
Total		<u>1,65,000</u>	<u>33,000</u>
Minority Interest (25%)		41,250	8,250
Share of Evil Ltd. (75%)		<u>1,23,750</u>	<u>24,750</u>

2. Revaluation of Plant & Machinery of Devil Ltd. and its book value as on 31.3.2013

Depreciation during the year = Opening Balance less Closing Balance = 2,00,000 – 1,80,000 = ₹ 20,000

Depreciation rate = (20,000/2,00,000) x 100 = 10%

(a) Computation of Revaluation Gain / Loss	₹
Revalued Amount on 01.10.2012 (date of acquisition)	2,40,000
Less: Book Value on 01.10.2012 (date of acquisition)	
Value on 01.04.2012 ₹ 2,00,000	
Less: Depreciation for 6 months at 10% (₹ 10,000)	<u>1,90,000</u>
Revaluation Gain i.e. Capital Profit	<u>50,000</u>

(b) Computation of Depreciation on Revaluation Gain / Loss	₹
Depreciation on Revalued Plant for 6 months = ₹ 2,40,000 × 6/12 × 10%	12,000
Less: Depreciation already provided on ₹ 2,00,000 × 6/12 × 10%	<u>(10,000)</u>
Revenue Loss	<u>2,000</u>

3. Calculation of cost of control

	₹
Share capital in Devil Ltd.	2,25,000

Add: Capital profit		<u>1,23,750</u>
		3,48,750
Less: Cost of Investments	3,37,500	
Less: Pre-acquisition dividend received for 2011-12	<u>(22,500)</u>	<u>(3,15,000)</u>
Capital Reserve		<u>33,750</u>

4. Calculation of minority interest [25%]

Share capital	75,000
Capital (pre-acquisition) profits [W.N.1]	41,250
Revenue (post-acquisition) profits - Profit and loss [W.N.1]	<u>8,250</u>
	1,24,500
Less: Unrealised profit	<u>(1,000)</u>
	<u>1,23,500</u>

5. Stock reserve (plant and machinery)

$$\text{Unrealised profit} = \left(\frac{16,000 \times 1/3}{4/3} \right) = ₹ 4,000$$

To be adjusted from minority interest and consolidated profit and loss account in the ratio of 25:75.

6. Consolidated profit and loss account as on 31.3.2013

Profit and loss account balance of Evil Ltd. as on 31.3.2013	1,00,000
Less: Pre-acquisition dividend wrongly credited	<u>(22,500)</u>
Add: Share in post-acquisition profit and loss account of Devil Ltd. (W.N.1)	24,750
Less: Unrealised profit	<u>(3,000)</u>
	<u>99,250</u>

Note: Unrealized profits on closing stock have been eliminated to the extent of holding company's share in Profit and Loss Account and balance adjusted in Minority Interest as it relates to upstream transaction.

4.

Sparkle Ltd.

Value Added Statement
For the year ended 31st December, 2012

	(` in thousands)	(` in thousands)	% thousands
Sales		6,240	
Less: Cost of bought in material and services:			
Production and operational expenses `(4,320 – 8 – 620)	3,692		
Administration expenses `(180 – 5)	175		
Interest on bank overdraft	109		
Interest on working capital loan	20		
Excise duties (Refer to working note)	180		
Other/miscellaneous charges `(444 – 180)	<u>264</u>	<u>(4,440)</u>	
Value added by manufacturing and trading activities		1,800	
Add: Other income		<u>55</u>	
Total Value Added		<u>1,855</u>	
Application of Value Added:			
To Pay Employees :			
Salaries to Administrative staff		620	33.42
To Pay Directors:			
Salaries and Commission		5	0.27
To Pay Government:			
Local Tax	8		
Income Tax	<u>55</u>	63	3.40
To Pay Providers of Capital :			
Interest on Fixed Loan	51		
Dividend	<u>160</u>	211	11.37
To Provide for Maintenance and Expansion of the Company:			
Depreciation	16		
Fixed Assets Replacement Reserve	400		
Retained Profit (600 – 60)	<u>540</u>	<u>956</u>	<u>51.54</u>
		<u>1,855</u>	<u>100.00</u>

Reconciliation between Total Value Added and Profit Before Taxation:

	(` in thousands)	(` in thousands)
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Profit before Tax		1,155
Add back:		
Depreciation	16	
Salaries to Administrative Staff	620	
Director's Remuneration	5	
Interest on Fixed Loan	51	
Local Tax	<u>8</u>	<u>700</u>
Total Value Added		<u>1,855</u>

Working Note:

Calculation of Excise Duty

		(` in thousands)
Interest and other charges		624
Less : Interest on bank overdraft	109	
Interest on loan from ICICI	51	
Interest on loan from IFCI	<u>20</u>	<u>(180)</u>
Excise duties and other/miscellaneous charges		<u>444</u>

Assuming that these miscellaneous charges have been considered in arriving at Value Added (in the first part of Value Added Statement), the excise duty will be computed as follows;

Let excise duty be x; thus miscellaneous/ other charges = ` 444 - x

Thus, $x = 1/10 \times [` 6,240 - \{ 3692 + ` 175 + ` 109 + ` 20 + x + (` 444 - x) \}]$

$$= 1/10 \times [` 6240 - ` 4440] = ` 180$$

Other/ miscellaneous charges = ` 444 - ` 180 = ` 264

The above solution is given accordingly.

Alternatively, if other/miscellaneous charges are taken as any type of application of Value Added (i.e, to be taken in the application part), then excise duty (x) will be computed as follows:

$$x = 1/10 \times [` 6240 - (3692 + 175 + 109 + 20 + x)]$$

$$x = 1/10 \times [` 2244 - x]$$

$$11x = ` 2244$$

$$x = ` 204$$

Thus, total value added will be ` 2040 + ` 55 (other income) = ` 2095

Accordingly, application part will be prepared, taking miscellaneous charges ` ('000) 240 [i.e. `444 - `204] as the application of value added.

5. (a) At the inception

Computation of fair value of Liability Component

	₹
Present value of 20 half yearly interest payments of ₹ 50, discounted @ 11% ($₹ 50 \times 11.9504$)	597
Present value of ₹ 1,000 due in ten years, discounted @ 11% compounded half yearly ($₹ 1,000 \times 0.343$)	<u>343</u>
Fair value of liability component	<u>940</u>

Computation of Equity Component

	₹
Issue proceeds from convertible debenture	1,000
Less: Fair value of liability component	<u>(940)</u>
Fair value of Equity Component	<u>60</u>

Journal Entries

	Debit (₹)	Credit (₹)
Cash/Bank A/c Dr.	1,000	
To Liability component		940
To Equity component		60
(Being issue of debentures recorded at fair values)		

At the time of repurchase

The repurchase price is allocated as follows:

	Carrying value (₹)	Fair Value (₹)	Difference (₹)
Liability component			
Present value of 10 remaining half-yearly interest payments of ₹ 50 discounted at 11% and 8% respectively	377	405	
Present value of ₹ 1,000 due in 5 years, discounted at 11% and 8% compounded half yearly, respectively	<u>593</u>	<u>680</u>	
	970	1085	115
Equity component	<u>60</u>	<u>615</u>	<u>555</u>

Total	<u>1,030</u>	<u>1,700</u>	<u>670</u>
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Journal Entries

		Debit (₹)	Credit (₹)
Liability Component	Dr.	970	
Debt settlement expenses	Dr.	115	
To Cash A/c			1085
(Being repurchase of the liability component)			
Equity component	Dr.	60	
Reserves and surplus	Dr.	555	
To Cash A/c			615
(Being cash paid for the equity component)			

(b) (a) NAV of the Fund on 1st April, 2013 = $\frac{\text{Net Assets}}{\text{No. of units of fund}}$

$$= \frac{₹ 98,500 + ₹ 1,20,65,000 + ₹ 13,22,000 + ₹ 3,37,45,000 + ₹ 3,88,500}{4,00,000 \text{ units}}$$

$$= \frac{₹ 4,76,19,000}{4,00,000 \text{ units}} = ₹ 119.0475$$

(b) The revised position of fund

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5000	19.70	98,500
Q Ltd.	25000	482.60	1,20,65,000
R Ltd.	(5,000+9,000) 14,000	264.40	37,01,600
S Ltd.	50,000	674.90	3,37,45,000
T Ltd.	15,000	25.90	3,88,500
Cash	[25,00,000 - (9,000 x 264.40)]		<u>1,20,400</u>
			<u>5,01,19,000</u>

(c) No. of units of fund = $4,00,000 + \frac{25,00,000}{119.0475} = 4,21,000 \text{ units}$

Calculation of the NAV of fund on 2nd April, 2013

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5,000	20.30	1,01,500
Q Ltd.	25,000	513.70	1,28,42,500

R Ltd.	14,000	290.80	40,71,200
S Ltd.	50,000	671.90	3,35,95,000
T Ltd.	15,000	44.20	6,63,000
Cash			<u>1,20,400</u>
			<u>5,13,93,600</u>

$$\text{NAV as on 2}^{\text{nd}} \text{ April 2013} = \frac{\text{₹ } 5,13,93,600}{4,21,000 \text{ units}} = \text{₹ } 122.075 \text{ per unit}$$

6. (a) 1. Computation of Future Maintainable Profits

Particulars	₹ in lakhs
Profit after tax for the year just ended	48,00,000
Add: Tax expense (Tax is 36%, So, PAT = 64%. Hence, Tax = 48,00,000 x 36/64)	<u>27,00,000</u>
Profit before tax for the year just ended	75,00,000
Add/(Less): Adjustments in respect of non-recurring items	
Subsidy income not receivable in future	(2,00,000)
Interest on term loan not payable in future, hence saved	8,00,000
Additional managerial remuneration	(6,00,000)
Loss on sale of fixed assets and investments (non-recurring)	<u>8,00,000</u>
Future maintainable profits before tax	83,00,000
Less: Tax expense at 34%	(28,22,000)
Future maintainable profits after tax equity earnings	54,78,000

2. Computation of capitalization rate and value of business

Particulars	
(a) Profit after tax for the year just ended	₹ 48 lakhs
(b) Number of equity shares (₹ 100 lakhs / ₹ 50 per share)	2 lakhs
(e) Earnings per share (EPS) = PAT / Number of Equity Shares	₹ 24
(d) Market price per share on balance sheet date	₹ 120
(e) Price Earnings Ratio = MPS / EPS	5
(f) Capitalisation Rate = (1 / PE Ratio) x 100	20%

(g) Value of Business = Future Maintainable Profits / Capitalisation Rate = ` 54.78 Lakhs / 20%	` 273.90 lakhs
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(b) Intrinsic value of ESPP per share = ` 48 – ` 40 = ` 8

Number of share issued = 400 × 100 = 40,000

Fair value of ESPP = 40,000 × ` 8 = ` 3,20,000

Vesting period = One month

Expense recognised in 2011-12 = ` 3,20,000

Journal Entry

Date			`		
April 30, 2012	Bank A/c	Dr.	16,00,000		40,000 × ` 40
	Employees' Compensation A/c	Dr.	3,20,000		40,000 × ` 8
	To Share Capital			4,00,000	40,000 × ` 10
	To Securities Premium			15,20,000	40,000 × ` 38

7. (a) EVA = NOPAT - Weighted Average cost of Capital Employed

$$\text{WACC} = \frac{2,295.08}{2,439.52^*} \times 12.42\% + \frac{144.44}{2,439.52^*} \times 5.6\%$$

$$= 11.69\% + 0.33\% = 12.02\%$$

$$* 2,295.08 + 144.44 = ` 2,439.52 \text{ lakhs}$$

$$\text{NOPAT} = [\text{PBIT} - \text{Interest} - \text{Tax}] - \text{Interest (net of tax)}$$

	` in lakhs
PBIT	2,202.84
Less: Interest	<u>(13.48)</u>
	2,189.36
Less: Tax @ 40%	<u>(875.74)</u>
	1,313.62
Add: Interest (net of tax) [13.48 x (1 – .40)]	<u>8.09</u>
	<u>1,321.71</u>

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{CE}$$

$$= 1,321.71 \text{ lakhs} - (12.02\% \times 2,439.52 \text{ lakhs})$$

$$= 1,321.71 \text{ lakhs} - 293.23 \text{ lakhs} = ₹ 1,028.48 \text{ lakhs.}$$

(b) Calculation of total finance cost

Particulars	Amount (₹)
Issue cost	1,20,000
Interest (₹ 60,00,000 x 3.5% x 7)	14,70,000
Premium on redemption	<u>11,00,000</u>
Total finance cost	<u>26,90,000</u>

(c) Statement showing classification as per Non Banking Financing (Deposit, Accepting or Holding) Companies, Prudential Norms (Reserve Bank) Directions, 2007

	(₹ in lakhs)
<u>Standard Assets</u>	
86.00	
200 accounts overdue for a period for 3 months 40.00	
24 accounts overdue for a period by 8 months <u>24.00</u>	150.00
<u>Sub-Standard Assets</u>	
4 accounts identified as sub-standard asset for a period less than 18 months	14.00
<u>Doubtful Debts</u>	
6 accounts identified as sub-standard for a period more than 2 years	6.00
4 accounts identified as sub-standard for a period more than 3 years	20.00
<u>Loss Assets</u>	
1 account identified by management as loss asset	<u>10.00</u>
Total overdue	<u>200.00</u>

(d) As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Certain Ltd. should recognize loss amounting ₹ 5 crores for the year ended 31st December, 2012. The contract should be reviewed at the end of the each accounting period till completions for additional losses to be incurred, if any.

- (e) As per Revised Schedule VI, a liability shall be classified as current when it satisfies any of the following criteria:
- (a) it is expected to be settled in the company's normal operating cycle;
 - (b) it is held primarily for the purpose of being traded;
 - (c) it is due to be settled within twelve months after the reporting date; or
 - (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 1.4.2013 and 1.10.2013 will be shown under the head 'other current liabilities' as per criteria (c). Further, since the normal operating cycle of the business is 20 months, instalment due on 1.4.2014 will also be qualified as current liability as per criteria (a). Therefore, in the balance sheet as on 31.3.2013, ₹ 7,00,000 will be shown under the heading 'Long term Borrowings' and ₹ 3,00,000 (₹ 1,00,000 x 3 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.