

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

1. (a) Paragraph 21 of Accounting Standard 6 on Depreciation Accounting says, "Depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise."

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective recomputation should be adjusted in the profit and loss account in the year such change is effected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disclosed. In the question given, the surplus arising out of retrospective recomputation of depreciation as per the straight line method is ₹ 12.23 lakhs (₹ 32.23 lakhs – ₹ 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

- (b) In case of tax free companies, no deferred tax liability is recognised in respect of timing differences that originate and reverse in the tax holiday period. Deferred tax liability (or asset) is created in respect of timing difference that originate in a tax holiday period but are expected to reverse after the tax holiday period. For this purpose, adjustments are done in accordance with the FIFO method. Of the ₹ 100 million, ₹ 40 million will reverse in the tax holiday period. Therefore, deferred tax liability will be created on ₹ 60 million at the tax rate of 35%, i.e., ₹ 21 million. In the second year, the entire ₹ 200 million will reverse only after the tax holiday period; therefore, deferred tax charge in the profit and loss account will be ₹ 70 million ($200 \times 35\%$) and deferred tax liability in the balance sheet will be ₹ 91 million ($70 + 21$).
- (c) The estimated payment of the annual tax on ₹ 400 lakhs of earnings for the current year would be ₹ 120 lakhs $\{(\text{₹ } 400 \text{ lakhs} - \text{₹ } 100 \text{ lakhs}) \times 40\%\}$. Considering the loss carry forward, the estimated average annual effective income-tax rate would be 30% $\{(\text{₹ } 120 \text{ lakhs} / \text{₹ } 400 \text{ lakhs}) \times 100\}$. This average annual effective income-tax rate would be applied to earnings of each quarter. Accordingly, tax expense would be as follows:

(Amount in ₹ lakhs)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense	30	30	30	30	120

(d) (i) Present value of residual value = ₹40,000 × 0.7513 = ₹30,052

Present value of lease payments = ₹3,00,000 – ₹30,052 = ₹2,69,948.

The present value of lease payments being 89.98% $\frac{2,69,948}{3,00,000} \times 100$ of the fair value, i.e. being a substantial portion thereof, the lease constitutes a finance lease.

(ii) Calculation of unearned finance income

	₹
Gross investment in the lease [(₹1,08,552 × 3) + ₹40,000]	3,65,656
Less: Cost of the equipment	<u>3,00,000</u>
Unearned finance income	<u>65,656</u>

Note: - In the above solution, annual lease payment has been determined on the basis that the present value of lease payments plus residual value is equal to the fair value (cost) of the asset.

2.

Balance Sheet of Bat Ltd.

as at 30th September, 2011

Liabilities	Amount (₹)	Assets		Amount (₹)
SHARE CAPITAL		FIXED ASSETS		
1,09,600 Equity shares of ₹10 each	10,96,000	Building	2,00,000	
10% Preference shares	2,00,000	Less: Depreciation	<u>5,000</u>	
(Of the above shares, 29,600 equity shares and all preference shares are allotted as fully paid-up for			1,95,000	
		Add: Taken over	<u>1,07,500</u>	3,02,500
		Machinery	5,00,000	
		Less: Depreciation	<u>37,500</u>	
			4,62,500	

$$* \text{ Annual lease payments} = \frac{\text{₹ } 2,69,948}{2.4868} = \text{₹ } 1,08,552 \text{ (approx.)}$$

consideration other than cash)		Add: Taken over	<u>3,07,500</u>	7,70,000
RESERVES AND SURPLUS		Furniture	1,00,000	
Capital Reserve	1,000	Less: Depreciation	<u>5,000</u>	
Securities Premium Account	1,48,000		95,000	
General Reserve	2,50,000	Add: Taken over	<u>63,000</u>	1,58,000
Profit and Loss Account	1,91,500	INVESTMENTS		
CURRENT LIABILITIES AND PROVISIONS		CURRENT ASSETS,		
Sundry Creditors	3,90,000	LOANS AND ADVANCES		
		Stock		2,70,000
		Sundry Debtors		6,30,000
		Cash and Bank		<u>1,46,000</u>
	<u>22,76,500</u>			<u>22,76,500</u>

Working Notes:

1. Ascertainment of Cash and Bank Balances as on 30th September, 2011

Balance Sheets as at 30th September, 2011

Liabilities	Bat Ltd. (₹)	Ball Ltd. (₹)	Assets	Bat Ltd. (₹)	Ball Ltd. (₹)
Equity Share Capital	8,00,000	3,00,000	Building**	1,95,000	97,500
10% Preference Share Capital	-	2,00,000	Machinery**	4,62,500	2,77,500
General reserve	2,50,000	70,000	Furniture**	95,000	57,000
Profit and Loss Account*	1,91,500	89,000	Investment	60,000	-
Creditors	1,80,000	2,10,000	Stock	1,20,000	1,50,000
			Debtors	3,80,000	2,50,000
			Cash and Bank	1,09,000	37,000
			(Bal. fig.)		
	<u>14,21,500</u>	<u>8,69,000</u>		<u>14,21,500</u>	<u>8,69,000</u>

*Balance of Profit and Loss Account on 30th September, 2011.

	<i>Bat Ltd.</i>	<i>Ball Ltd.</i>
	(₹)	(₹)
Net profit (for the first half)	1,02,500	54,000
Balance brought forward	<u>2,00,000</u>	<u>1,00,000</u>
	3,02,500	1,54,000
Less: Dividend on Equity Share Capital paid	<u>1,20,000</u>	<u>45,000</u>
	1,82,500	1,09,000
Less: Dividend on Preference Share Capital paid	<u>-</u>	<u>20,000</u>
	1,82,500	89,000
Add: Dividend received $\frac{₹1}{₹5} \times 45,000 = ₹9,000$	<u>9,000</u>	<u>-</u>
	<u>1,91,500</u>	<u>89,000</u>

**Fixed Assets on 30th September, 2011 (Before absorption)

	<i>Bat Ltd.</i>	<i>Ball Ltd.</i>
	(₹)	(₹)
(1) Building		
As on 1.4.2011	2,00,000	1,00,000
Less: Depreciation (5% p.a.)	<u>5,000</u>	<u>2,500</u>
	<u>1,95,000</u>	<u>97,500</u>
(2) Machinery		
As on 1.4.2011	5,00,000	3,00,000
Less: Depreciation (15% p.a.)	<u>37,500</u>	<u>22,500</u>
	<u>4,62,500</u>	<u>2,77,500</u>
(3) Furniture		
As on 1.4.2011	1,00,000	60,000
Less: Depreciation (10% p.a.)	<u>5,000</u>	<u>3,000</u>
	<u>95,000</u>	<u>57,000</u>

2. Calculation of Shares Allotted

Assets taken over:		₹
Goodwill		50,000

Building	1,00,000	
Add: 10%	<u>10,000</u>	
	1,10,000	
Less: Depreciation	<u>2,500</u>	
		1,07,500
Machinery	3,00,000	
Add: 10%	<u>30,000</u>	
	3,30,000	
Less: Depreciation	<u>22,500</u>	
		3,07,500
Furniture	60,000	
Add: 10%	<u>6,000</u>	
	66,000	
Less: Depreciation	<u>3,000</u>	
		63,000
Stock		1,50,000
Debtors		2,50,000
Cash and Bank		<u>37,000</u>
		9,65,000
Less: Liabilities taken over:		
Creditors		<u>2,10,000</u>
Net assets taken over		7,55,000
Less: Allotment of 10% Preference Shares to preference shareholders of Ball Ltd.		<u>2,00,000</u>
		5,55,000
Less: Belonging to Bat Ltd.***		1,11,000
₹1 85	5,55,000	
		<u>4,44,000</u>
Payable to other Equity Shareholders		
Number of equity shares of ₹10 each to		

be Issued (valued at ₹15 each)	4,44,000	
	15	
	= 29,600	

[*** 6,000 shares out of 30,000 shares of Ball Ltd. are already with Bat Ltd.]

3. Ascertainment of Goodwill / Capital Reserve

		₹.
(A) Net Assets taken over		7,55,000
(B) Preference shares allotted	2,00,000	
Payable to other equity shareholders	4,44,000	
Cost of investments	<u>60,000</u>	<u>7,04,000</u>
(C) Capital Reserve [(A) – (B)]		51,000
(D) Goodwill taken over		50,000
(E) Final figure of Capital Reserve [(C) – (D)]		1,000

3. (a)

Young Ltd.

Value Added Statement

for the year ended 31st March, 2011

	₹ in lakhs	₹ in lakhs	%
Sales		206.42	
Less: Cost of bought in material and services:			
Production and operational expenses	150.57		
Administration expenses	3.92		
Interest on working capital loans	<u>2.30</u>	<u>156.79</u>	
Value Added by manufacturing and trading activities		49.63	
Add: Other income		<u>10.20</u>	
Total Value Added		<u>59.83</u>	
Application of Value Added:			
To Pay Employees:			
Salaries, Wages, Bonus and other benefits		12.80	21.39
To Pay Directors:			
Salaries and Commission		2.20	3.68
To Pay Government:			
Cess and Local Taxes	3.20		

Income Tax	<u>3.00</u>	6.20	10.36
To Pay Providers of Capital:			
Interest on Debentures	1.80		
Interest on Fixed Loans	3.90		
Dividend	<u>3.00</u>	8.70	14.54
To Provide for Maintenance and Expansion of the company:			
Depreciation	5.69		
General Reserve (24.30 – 0.46)	23.84		
Retained profit (1.75 – 1.35)	<u>0.40</u>		
		<u>29.93</u>	<u>50.03</u>
		<u>59.83</u>	<u>100.00</u>

Reconciliation Between Total Value Added and Profit Before Taxation:

	(₹ in lakhs)	(₹ in lakhs)
Profit before tax		30.24
Add back:		
Depreciation	5.69	
Salaries, Wages, Bonus and other benefits	12.80	
Directors' Remuneration	2.20	
Cess and Local Taxes	3.20	
Interest on Debentures	1.80	
Interest on Fixed Loans	<u>3.90</u>	<u>29.59</u>
Total Value Added		<u>59.83</u>

(b) If net is settled in cash

			₹	₹
(i)	1.2.2011	No entry is required because fair value of derivative is zero and no cash is paid or received.		
(ii)	31.12.2011	Forward Contract (Asset) A/c Dr. To Profit and Loss A/c (Gain recorded due to increase in fair value of the forward contract)	6,300	6,300
(iii)	31.01.2012	Profit and Loss A/c Dr.	4,300	

(iv)	To Forward Contract (Asset) A/c (Loss recorded due to decrease in fair value of the forward contract)			4,300
	Cash A/c	Dr.	2,000	
	To Forward Contract (Asset) A/c (Being forward contract settled in cash)			2,000

If net is settled by delivery of shares

First three entries will be same. Entry no. (iv) will change as under:

	Equity A/c	Dr.	2,000	
	To Forward Contract (Asset) A/c (Being forward contract settled by delivery of shares)			2,000

**4. Consolidated Balance Sheet of P Ltd.
and its subsidiaries Q Ltd. and R Ltd.
as at 31st March, 2011**

(₹ in lakhs)					
Liabilities		Amount	Assets	Amount	
Share capital		300.00	Fixed Assets		
Minority Interest			P Ltd.	130.00	
Q Ltd.	63.08		Q Ltd.	150.00	
R Ltd.	<u>16.22</u>	79.30	R Ltd.	<u>100.00</u>	
Capital Reserve		13.40		380.00	
Other Reserves		81.60	Less: Unrealised profit	<u>7.80</u>	372.20
Profit and Loss Account		56.90	Stock		
Bills Payables			P Ltd.	50.00	
P Ltd.	10.00		Q Ltd.	20.00	
Q Ltd.	<u>5.00</u>		R Ltd.	<u>20.00</u>	
	15.00			90.00	
Less: Mutual indebtedness	<u>2.00</u>	13.00			
Creditors			Less: Unrealised profit	<u>1.00</u>	89.00
P Ltd.	30.00				

Q Ltd.	10.00		Debtors		
R Ltd.	<u>10.00</u>		P Ltd.	70.00	
	50.00		Q Ltd.	10.00	
Less: Mutual indebtedness	<u>5.00</u>	45.00	R Ltd.	<u>20.00</u>	
				100.00	
Current Account Balances			Less: Mutual indebtedness	<u>5.00</u>	95.00
P Ltd.	50.00		Cash and Bank Balances		60.00
R Ltd.	<u>15.00</u>		Bills Receivables		
	65.00		Q Ltd.	10.00	
Less: Mutual indebtedness (10+ 30)	<u>40.00</u>	25.00	R Ltd.	<u>20.00</u>	
Proposed Dividend		30.00		30.00	
			Less: Mutual indebtedness	<u>2.00</u>	28.00
		<u>644.20</u>			<u>644.20</u>

Working Notes:

(₹ in lakhs)				
(1)	Analysis of Profits of R Ltd.	Capital Profit	Revenue Reserve	Revenue profit
	Reserves on 1.7.2010	10.00		
	Profit and Loss A/c on 1.7.2010	16.00		
	Increase in Reserves		20.00	
	Increase in Profit			<u>24.00</u>
		26.00	20.00	24.00
	Less: Minority Interest (10%)	<u>2.60</u>	<u>2.00</u>	<u>2.40</u>
		<u>23.40</u>	<u>18.00</u>	<u>21.60</u>
	Share of P Ltd.	7.80	6.00	7.20
	Share of Q Ltd.	15.60	12.00	14.40
(2)	Analysis of Profits of Q Ltd.			
	Reserves on 1.7.2010	20.00		
	Profit and Loss A/c on 1.7.2010	30.00		

	Increase in Reserves		20.00	
	Increase in Profit	<u>50.00</u>	<u>20.00</u>	<u>20.00</u>
	Share in R Ltd.	<u>50.00</u>	<u>12.00</u>	<u>14.40</u>
			32.00	34.40
	Less: Minority Interest (20%)	<u>10.00</u>	<u>6.40</u>	<u>6.88</u>
	Share of P Ltd.	<u>40.00</u>	<u>25.60</u>	<u>27.52</u>
(3)	Cost of Control			
	Investments in Q Ltd.			180.00
	Investments in R Ltd.			<u>120.00</u>
				300.00
	Less: Paid up value of investments			
	in Q Ltd.	160.00		
	in R Ltd.	<u>90.00</u>	250.00	
	Capital Profit			
	in Q Ltd.	40.00		
	in R Ltd.	<u>23.40</u>	<u>63.40</u>	<u>313.40</u>
	Capital Reserve			<u>13.40</u>
(4)	Minority Interest	Q Ltd.	R Ltd.	
	Share Capital	40.00	10.00	
	Capital Profit	10.00	2.60	
	Revenue Reserves	6.40	2.00	
	Revenue Profits	<u>6.88</u>	<u>2.40</u>	
		63.28	17.00	
	Less: Unrealised profit on stock (20% of 1)	.20		
	Unrealised profit on equipment			
	(10% of 7.8)	<u> </u>	<u>.78</u>	
		<u>63.08</u>	<u>16.22</u>	

(5)	Unrealised Profit on sale of equipment	(₹ in lakhs)
	Cost	24.00
	Profit	<u>8.00</u>
	Selling Price	<u>32.00</u>

	Unrealised profit = $8 - (8 \times \frac{10}{100} \times \frac{3}{12}) = 8.00 - 0.20 = 7.80$	
(6)	Profit and Loss Account – P Ltd.	(₹ in lakhs)
	Balance	60.00
	Less: Proposed Dividend	<u>30.00</u>
		30.00
	Share in Q Ltd.	27.52
	Share in R Ltd.	<u>7.20</u>
		64.72
	Less: Unrealised profit on equipment (90% of 7.8)	<u>7.02</u>
		57.70
	Less: Unrealised profit on stock $\frac{25}{125} \times 80\% = \frac{2}{5}$	<u>.80</u>
		<u>56.90</u>
(7)	Reserves – P Ltd.	(₹ in lakhs)
	P Ltd.	50.00
	Share in Q Ltd.	25.60
	Share in R Ltd.	<u>6.00</u>
		<u>81.60</u>

5. (a) Calculation of provision required on advances as on 31st March, 2011

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	8,400	0.25	21
Sub-standard assets	670	10	67
Secured portions of doubtful debts (More than three years)	220	50	110
Unsecured portions of doubtful debts	50	100	50
Loss assets	24	100	<u>24</u>
			<u>272</u>

(b)

Journal Entries

<i>Date</i>	<i>Particulars</i>		<i>₹</i>	<i>₹</i>
31.3.2012	Employees compensation expenses A/c Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of ₹ 30 each, amortised on straight line basis over vesting years-Refer W.N.)		14,25,000	14,25,000
31.3.2012	Profit and Loss Account Dr. To Employees compensation expenses A/c (Being compensation expense charged to Profit & Loss A/c)		14,25,000	14,25,000
31.3.2013	Employees compensation expenses A/c Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)		3,95,000	3,95,000
31.3.2013	Profit and Loss Account Dr. To Employees compensation expenses A/c (Being compensation expense charged to Profit & Loss A/c)		3,95,000	3,95,000
30.3.2014	Employees compensation expenses A/c Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)		8,05,000	8,05,000
30.3.2014	Bank A/c (85,000 X ₹ 20) Dr. ESOS outstanding A/c [(26,25,000/ 87,500) x 85,000] Dr. To Equity share capital A/c (85,000 x 10) To Securities premium A/c (85,000 x ₹ 40) (Being 85,000 options exercised at an exercise price of ₹ 50 each)		17,00,000 25,50,000	8,50,000 34,00,000

Profit and Loss A/c	Dr.	8,05,000	
To Employees compensation expenses A/c			8,05,000
(Being compensation expenses charged to Profit & Loss A/c)			
ESOS outstanding A/c	Dr.	75,000	
To General Reserve A/c			75,000
(Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)			

Working Note:

Statement showing compensation expenses to be recognised

Particulars	Year 1 (31.3.2012)	Year 2 (31.3.2013)	Year 3 (31.3.2014)
Expected vesting period (at the end of the year)	2nd year	3rd year	3rd year
Number of options expected to vest	95,000 options	91,000 options	87,500 options
Total compensation expenses accrued @ 30 (i.e. 50-20)	<u>₹28,50,000</u>	<u>₹27,30,000</u>	<u>₹26,25,000</u>
Compensation expenses of the year	28,50,000 x 1/2 = ₹ 14,25,000	27,30,000 x 2/3 = ₹ 18,20,000	₹26,25,000
Compensation expenses recognized previously	<u>Nil</u>	<u>₹14,25,000</u>	<u>₹18,20,000</u>
Compensation expenses to be recognized for the year	<u>₹14,25,000</u>	<u>₹3,95,000</u>	<u>₹8,05,000</u>

6. (i) Capital Employed on 31.12.2011

	₹	₹
Machinery		2,30,000
Factory Shed		3,00,000
Vehicles		60,000
Furniture (25,000+7,290)		32,290
		6,22,290

Add: 20%		1,24,458
		7,46,748
Trade Investments		16,000
Stock in Trade		2,10,000
Sundry Debtors		3,50,000
Cash at Bank		50,000
		13,72,748
Less: Bank Loan	1,00,000	
Sundry Creditors	<u>2,70,000</u>	<u>3,70,000</u>
		<u>10,02,748</u>

(ii) Average profits for the last three years

	2009 ₹	2010 ₹	2011 ₹
Reported Profit (taking the figures given in the question as profit after tax)	1,90,000	2,00,000	2,10,000
Add: Furniture purchased charged to revenue (net of tax)	<u>5,000</u>	<u>-</u>	<u>-</u>
	1,95,000	2,00,000	2,10,000
Less: Depreciation on furniture purchased (net of tax)	<u>500</u>	<u>450</u>	<u>405</u>
	1,94,500	1,99,550	2,09,595
Less: Dividend on non-trading investments less tax	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
	<u>1,90,500</u>	<u>1,95,550</u>	<u>2,05,595</u>
Average Profit			<u>1,97,215</u>

(iii) Calculation of Super Profits

	₹
Capital employed	<u>10,02,748</u>
Average profit	1,97,215
Normal profit @ 15% on capital employed	<u>1,50,412</u>
Super profit	<u>46,803</u>
Goodwill at four years' purchase	<u>1,87,212</u>

Valuation of Equity Shares	₹
Value of Net Tangible Assets [Refer (i)]	10,02,748
Add: Goodwill [Refer (iii)]	1,87,212
Add: Non-trade investments	80,000
Add: Notional Calls	<u>10,000</u>
	12,79,960
Less: Preference Share Capital	<u>2,00,000</u>
	<u>10,79,960</u>
No. of shares	50,000
Intrinsic value of fully paid share	₹ 21.60
Intrinsic value of partly paid share (₹ 21.60- ₹ 2.00)	₹ 19.60

7. (a) The actual return on pension plan assets

	Amount (₹)
Fair market value of plan assets (beginning of year)	7,00,000
Employer Contribution	1,00,000
Actual return on plan assets	<u>50,000</u>
	8,50,000
Benefit payments to retirees	<u>(40,000)</u>
Fair market value of plan assets (at the end of the year)	<u>8,10,000</u>

(b) Total funds raised by a Mutual Fund company = 17.5 x10 lakhs = 175 lakhs

(₹ in lakhs)

Opening bank balance (175-160-9)		6	
Add: Proceeds from sale of securities		125	
Add: Dividend received		<u>3</u>	
Less:			134
Cost of securities purchased	90		
Management expenses (₹ 5 lakhs x 3 months)	15		
Realised gains distributed	20		
[80% of (₹ 125 lakhs – ₹ 100 lakhs)]			
Dividend distributed (80% of ₹ 3 lakhs)	<u>2.40</u>		<u>(127.40)</u>
Closing Bank Balance			6.60
Closing Market value of portfolio			<u>175.00</u>

Closing Net Assets			<u>181.60</u>
No. of units (in lakhs)			10.00
Closing NAV = ₹ 181.60 lakhs divided by 10 lakh units	=		₹ 18.16 per unit

(c) Table showing Significant Differences & Similarities

	Indian Accounting Standards	IFRS / IAS	US GAAPs
Changes in accounting policy	In the year of change, the effect of change is included in income statement of that year and also the impact of change is disclosed.	Retrospective effect of the change in accounting policy is accounted. Also comparative figures are restated; where the effect of period(s) not presented is adjusted against opening retained earnings.	Similar to IFRS from the date of adoption of FAS 154.
Inventories	Carried at lower of cost and net realizable value. FIFO or weighted average method is used to determine cost. LIFO method is however, prohibited.	Carried at lower of cost and net realizable value. For cost determination, FIFO or weighted average method is used. LIFO basis of valuation is prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to IFRS; however, use of LIFO is permitted. Reversal of write-down is prohibited.

- (d) (i) Recoverable amount is higher of value in use ₹400 lakhs and net selling price ₹375 lakhs.

\ Recoverable amount = ₹400 lakhs

Impairment loss = Carried Amount – Recoverable amount

= ₹500 lakhs – ₹400 lakhs = ₹100 lakhs.

(ii) **Journal Entries**

	Particulars	Dr. Amount ₹ in lakhs	Cr. Amount ₹ in lakhs
(i)	Impairment loss account To Asset Account (Being the entry for accounting impairment loss)	Dr. 100	100
(ii)	Profit and loss account To Impairment loss (Being the entry to transfer impairment loss to profit and loss account)	Dr. 100	100

(iii) **Balance Sheet of Venus Ltd. as on 31.3.2011**

	₹ in lakhs
Asset less depreciation	500
Less: Impairment loss	<u>(100)</u>
	400

- (e) As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility / asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, ₹45,000 would be recorded as an expense (₹25,000 for completion of detailed program design and ₹20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (₹42,000 + ₹12,000 + ₹13,000) = ₹67,000.