

PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2018 EXAMINATION

A. Applicable for May, 2018 examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2017 will be applicable for May, 2018 Examination.

II. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013

As per the Amendment, under Chapter I, clause (40) of section 2, new exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for May, 2018 examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarises the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery	Inventories do not include spare	Now, inventories also do not

		spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)".	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.

AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in the Annexure. The Annexure is given at the end of Accounting Part II Suggested Answers.
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.

			investment property.	
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the

		aforesaid account are reversed.	longer required to be maintained, both the reserves and the aforesaid account are reversed.	Companies Act, 2013
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B. Not applicable for May, 2018 examination**Non-Applicability of Ind ASs for May, 2018 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for May, 2018 Examination.

PART – II: QUESTIONS AND ANSWERS**QUESTIONS****Financial Statements of Companies**

1. Kapil Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2017:

	₹		₹
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ ₹2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500

Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off ₹ 16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

Cash flow statement

2. On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method):

- (i) Total sales for the year were ₹ 398 crores out of which cash sales amounted to ₹ 262 crores.
- (ii) Receipts from credit customers during the year, totalled ₹ 134 crores.
- (iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2016 ₹ 84 crores

31.3.2017 ₹ 92 crores

- (iv) Suppliers of other consumables and services were paid ₹ 19 crores in cash.
- (v) Employees of the enterprises were paid 20 crores in cash.
- (vi) Fully paid preference shares of the face value of ₹ 32 crores were redeemed. Equity shares of the face value of ₹ 20 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of ₹ 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) ₹ 26 crores were paid by way of income tax.

- (ix) A new machinery costing ₹ 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 15 crores. The balance was paid in cash to the vendor.
- (x) Investment costing ₹ 18 cores were sold at a loss of ₹ 2 crores.
- (xi) Dividends totalling ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores) was also paid.
- (xii) Debenture interest amounting ₹ 2 crore was paid.
- (xiii) On 31st March 2016, Balance with Bank and Cash on hand totalled ₹ 2 crores.

Profit/Loss prior to Incorporation

3. The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	<u>10,000</u>	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	<u>1,019</u>	<u>43,819</u>
Net Profit		<u>6,181</u>

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to draw up a statement showing the amount of pre and post in corporation period profits stating the basis of allocation of expenses.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>43,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Internal Reconstruction of a Company

5. Proficient Infosoft Ltd. is in the hands of a Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows the position of the company as on 30th June, 2016:

Liabilities	₹	Assets	₹
8,000 shares of ₹ 100 each	4,80,000	Property	10,80,000
₹ 60 paid up		Plant & Machinery	4,36,000
First Debentures	3,60,000	Cash in hand	<u>3,24,000</u>
Second Debentures	7,80,000		18,40,000
Unsecured trade payables	<u>5,40,000</u>	Uncalled capital	<u>3,20,000</u>
	<u>21,60,000</u>		<u>21,60,000</u>

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed:

- (i) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.
- (ii) B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.
- (iii) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100.

The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

- (iv) Uncalled capital is to be called up in full and ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

Amalgamation of Companies

6. Given below are the summarized Balance Sheet of two companies as on 31st March, 2017.

A Limited

Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
<u>Issued and fully paid up</u>		Building	5,40,000
50,000 8% Cumulative		Plant and Machinery	15,10,000
Preference Shares of ₹ 10 each	5,00,000	Furniture	75,000
1,50,000 Equity shares of ₹ 10 each	15,00,000	Investment	1,55,000
General Reserve	7,65,000	Stock	3,58,000
Profit and Loss account	1,25,000	Sundry Debtors	72,000
Sundry Creditors	<u>60,000</u>	Cash and Bank	<u>1,40,000</u>
	29,50,000		29,50,000

B Limited

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000
<u>Issued and fully paid</u>		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash and Bank	<u>20,000</u>
	<u>5,76,000</u>		<u>5,76,000</u>

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

- (i) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
- (ii) AB Ltd. to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- (iii) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- (iv) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
- (v) The creditors of A Ltd. and B Ltd. are considered to be paid by the liquidators of the respective companies and not taken over by AB Ltd.
- (vi) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
- (vii) AB Ltd. is to make a public issue of 60,000, 8% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value and preliminary expenses and underwriting commission are to be written off.

Average Due Date

7. A merchant trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:

Sl. No.	Date of Bills	Amount (₹)	Usance of the bill
1	1 st May, 2017	500	2 months
2	10 th May, 2017	300	3 months
3	5 th June, 2017	400	2 months
4	25 th June, 2017	375	1 month
5	10 th July, 2017	500	2 months

You are required to find the said average due date.

Any fraction of a day arising from the calculation to be considered as full day.

Account Current

8. The following are the transactions that took place between Rohan & Sunil during the half year ended 30th June, 2017:

		₹
i	Balance due to Rohan by Sunil on 1 January, 2017	3,010
ii	Goods sold by Rohan to Sunil on 7 January, 2017	4,430
iii	Goods purchased by Rohan from Sunil on 16 February, 2017	6,480
iv	Goods returned by Rohan to Sunil on 18 February, 2017 (out of the purchases of 16 February, 2017)	560
v	Goods sold by Sunil to Rohan on 24 th March, 2017	3,560
vi	Bill accepted by Rohan at 3 months on 22 nd April, 2017	1,500
vii	Cash paid by Rohan to Sunil on 29 th April, 2017	2,500
viii	Goods sold by Rohan to Sunil on 17 th May, 2017	2,710
ix	Goods sold by Sunil to Rohan on 22 nd June, 2017	2,280

Draw up an account current to be rendered by Sunil to Rohan charging interest @ 10% per annum.

Self – Balancing Ledgers

9. From the following particulars, prepare Total Debtors Account in the general ledger:

Balance of Sundry Debtors as on 1-4-2017	Dr. (₹) 1,000
Transactions during April, 2017	₹
Sales (including cash ₹ 6,000)	22,000
Cash received from customers (in full settlement of claims of ₹ 13,000)	12,000
Bills receivable received	3,580
Bills receivable endorsed	800
Endorsed B/R dishonoured	300
B/R discounted	1,400
Bills receivable dishonoured	400
Interest charged on dishonoured B/R	30
Transfer from Debtors Ledger to Creditors Ledger	600

Financial Statements of Not-For-Profit Organizations

10. Following information has been given for Bharat Sports Club, Delhi for the year ending 31.12.2016 and 31.12.2017.

	31.12.2016	31.12.2017
Building (subject to 10% depreciation for the current year)	60,000	?
Furniture (subject to 10% depreciation for the current year)	-	20,000
Stock of Sports Materials	5,000	2,000
Prepaid Insurance	3,000	6,000
Subscription receivable	12,000	8,000
Advance Subscription	6,000	4,000
Locker Rent receivable	-	6,000
Advance Locker Rent received	-	2,000
Outstanding Rent for Godown	6,000	3,000
12% General Fund Investments	2,00,000	2,00,000
Accrued Interest on above	-	4,000
Cash Balance	1,000	64,000
Bank Balance	2,000	-
Bank Overdraft	-	2,000

Additional Information:

- (i) Entrance fees received ₹ 20,000, Life membership fees received ₹ 20,000 during the year.
- (ii) Surplus from Income and Expenditure Account ₹ 60,000.
- (iii) It is the policy of the club to treat 60% of entrance fees and 40% of life membership fees as revenue nature.
- (iv) The furniture was purchased on 01.01.2017.

Prepare Opening and Closing Balance Sheet of Bharat Sports Club as on 31st December, 2016 and 31st December, 2017 respectively.

Accounts from Incomplete Records

11. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	₹	Assets	₹
Capital:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	<u>2,80,000</u>		<u>2,80,000</u>

They give you the following additional information:

- (i) Creditors' Velocity* 1.5 month & Debtors' Velocity* 2 months.
- (ii) Stock level is maintained uniformly in value throughout all over the year.
- (iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
- (iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.
- (v) Rate of gross profit remains the same.
- (vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.
- (vii) Closing stock is to be valued on LIFO Basis.

* Velocity indicates the no. of times the creditors and debtors are turned over a year.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

Prepare Trading, Profit and Loss Account, Trade Debtors A/c and Trade Creditors A/c for the year ending 31.03.2017.

Hire Purchase Transactions

12. Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2014 on the following terms (for both cars):

Down payment	6,00,000
1 st Installment at the end of first year	4,20,000
2 nd Installment at the end of 2 nd year	4,90,000
3 rd Installment at the end of 3 rd year	5,50,000

Interest is charged at 10% p.a.

Srikumar provides depreciation @ 25% on the diminishing balances.

On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

You are required to:

- Calculate the cash price of the cars and the interest paid with each installment.
- Prepare Cars Account in the books of Srikumar assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

Investment Accounts

13. Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2017 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ ₹ 103 each on ex-interest basis. The market value of the debentures as at the close of the year was ₹ 106. Prepare the Debenture Investment Account in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.

Insurance Claim for loss of stock

14. The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2015-16 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

- (i) In July, 2016, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.
- (ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.
- (iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

Issues in Partnership Accounts

15. A, B and C were partners sharing Profits and Losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 1.4.2015 stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets	10,00,000
5,00,000		Inventory	2,50,000
4,00,000		Trade Receivable	3,50,000
<u>3,00,000</u>	12,00,000	Cash and Bank	1,00,000
Reserves	1,00,000		
Trade Payables	<u>4,00,000</u>		
	17,00,000		<u>17,00,000</u>

On 1st October, 2015, C died. His representatives agreed that:

- (i) Goodwill of the firm be valued at ₹ 5,00,000. Goodwill not to be shown off in books of accounts.
- (ii) Fixed assets be written down by ₹ 1,00,000 and
- (iii) In lieu of profits, C should be paid at the rate of 25% p.a. on his capital as on 1.4.2015.

Current year's (2015-2016) profits after charging depreciation of ₹ 95,000 (₹ 50,000 related to the 1st half) was ₹ 4,05,000. Profit was evenly spread throughout the year.

As on 31.3.2016, the following were the balances:

Inventory	₹ 2,30,000
Trade Receivable	₹ 1,90,000
Trade Payable	₹ 3,50,000
Cash and Bank Balance	₹ 43,770

The particulars regarding their drawings are given below:

	Upto 1-10-2015	After 1-10-2015
A	41,250	50,000
B	41,250	50,000
C	17,500	-

You are required to:

- (i) Prepare the Balance Sheet of the firm as on 31.3.2016, assuming that final settlement to C's executors was made on 31.3.2016.
- (ii) Prepare the Capital accounts of the partners as on 1.10.2015 & 31.3.2016.

Accounting in Computerized Environment

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. What are the criteria based on which choice of such third party made?

Applicability of Accounting Standards

17. (a) List the criteria to be applied for rating a non-corporate entity as Level-II entity for the purpose of compliance of Accounting Standards in India.

AS 1 Disclosure of Accounting Policies

- (b) J Ltd. had made a rights issue of shares in 2016. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:
 - (i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).
 - (ii) Provide for permanent fall in the value of investments - this fall had taken place over the past five years - the provision being ₹ 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

AS 2 Valuation of Inventories

18. (a) A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of the inventories by the company.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

- (b) In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	<u>₹ 50,00,000</u>
		<u>₹ 90,00,000</u>

Calculate depreciation for the year 2016-17 as per componentization method.

AS 7 Construction Contracts

19. (a) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS 7.

AS 9 Revenue Recognition

- (b) A manufacturing company has the following stages of production and sale in manufacturing Fine paper rolls:

Date	Activity	Cost to Date (₹)	Net Realizable Value (₹)
15.1.16	Raw Material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31.3.16 on this product according to AS 9.

AS 10 Property, Plant and Equipment

20. (a) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not.

AS 13 Accounting for Investments

- (b) How you will deal with the following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS-13?

Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

ANSWERS

1.

Kapil Ltd.

Balance Sheet
as at 31st March, 2017

	Particulars	Note No.	(₹)
I	Equity and Liabilities		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	59,586
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	<u>4,07,414</u>
	Total		<u>40,25,500</u>
II	ASSETS		
	(1) Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	29,30,000
	(2) Current Assets		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500
	(c) Cash and Cash Equivalents	7	<u>28,000</u>
	Total		<u>40,25,500</u>

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>
IV	Expenses:		
	Cost of purchases		12,32,500

	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VII	Profit for the period		<u><u>2,80,000</u></u>

Notes to Accounts:**1. Share Capital**

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

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax (Working note)	<u>(48,614)</u>	<u>52,586</u>
		<u><u>59,586</u></u>

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	<u>61,000</u>
	<u><u>13,28,000</u></u>

4. Short-term Provisions

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	<u>48,614</u>
	<u>4,07,414</u>

5. Tangible Assets

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,59,500</u>

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	<u>20,000</u>
	<u>28,000</u>

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	<u>25,000</u>
	<u>13,93,000</u>

10. Finance Cost

Interest on Bank overdraft	1,11,000
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11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	<u>25,000</u>
	<u>4,40,000</u>

Working Note**Calculation of grossing-up of dividend:**

Particulars	₹
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend $2,38,800 \times [15/(100-15)]$	<u>42,141</u>
Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	<u>48,614</u>

2. Cash flow statement (using direct method) for the year ended 31st March, 2017

	(₹ in crores)	(₹ in crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	<u>(251)</u>	
Cash from operations	145	
Less: Income tax paid	<u>(26)</u>	
Net cash generated from operating activities		119
Cash flow from investing activities		

Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	<u>16</u>	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	<u>(15)</u>	
Net cash used in financing activities		<u>(25)</u>
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		<u>2</u>
Cash and cash equivalents as on 31.3.2017		<u>102</u>

Working Note:**Calculation of cash paid to suppliers of goods and services and to employees**

	(₹ in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	<u>176</u>
Total	260
Less: Closing balance in Creditors Account	<u>92</u>
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	<u>44</u>
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	<u>20</u>
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	<u>251</u>

3. **Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for the year ended 31st March, 2017**

Particulars	Basis	Pre	Post
		₹	₹
Sales (given)		10,000	40,000

Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	<u>237</u>	<u>782</u>
Gross Profit (i)		<u>3,949</u>	<u>20,032</u>
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	<u>1,200</u>	<u>3,600</u>
Total of Expenses(ii)		<u>4,200</u>	<u>13,600</u>
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 : 4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio

∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period

∴ Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3.

4. Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-20X1	Equity share final call A/c Dr.	5,40,000		
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-20X1	Bank A/c Dr.	5,40,000		
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c Dr.	75,000		
	Capital redemption reserve A/c Dr.	1,20,000		

General Reserve A/c	Dr.	3,60,000	
Profit and Loss A/c (b.f.)	Dr.	1,20,000	
To Bonus to shareholders A/c			6,75,000
(For making provision for bonus issue of one share for every four shares held)			
Bonus to shareholders A/c	Dr.	6,75,000	
To Equity share capital A/c			6,75,000
(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
Issued and subscribed capital	
24,000 12% Preference shares of ₹ 10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

5. Journal Entries

Particulars	Debit (₹)	Credit (₹)
First debentures A/c	Dr. 3,60,000	
Second debentures A/c	Dr. 3,60,000	
Unsecured trade payables A/c	Dr. 1,08,000	
To A		8,28,000
(Being A's total liability ascertained)		
A	Dr. 2,52,000	
To Capital reduction A/c		2,52,000
(Being cancellation of debt up to ₹2,52,000)		
Bank A/c	Dr. 36,000	
To A		36,000
(Being cash received in course of settlement)		

A	Dr.	6,12,000	
To First debentures A/c			6,12,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,60,000	
Unsecured trade payables A/c	Dr.	72,000	
To B			4,32,000
(Being B's liability ascertained)			
B	Dr.	4,32,000	
To Bank A/c			1,08,000
To Capital reduction A/c			3,24,000
(Being B's liability discharged in satisfaction of all claims)			
Unsecured trade payables A/c	Dr.	3,60,000	
To Equity share capital A/c			1,62,000
To Loan (Unsecured) A/c			1,44,000
To Capital reduction A/c			54,000
(Being settlement of unsecured Trade payables)			
Share call A/c	Dr.	3,20,000	
To Share capital A/c			3,20,000
(Being final call money due)			
Bank A/c	Dr.	3,20,000	
To Share call A/c			3,20,000
(Being final call money received)			
Capital reduction A/c	Dr.	6,30,000	
To Capital reserve A/c			6,30,000
(Being balance in capital reduction account transferred to capital reserve account)			

Working Note:

	Settlement of claim of remaining unsecured trade payables	₹
	60% of ₹ 3,60,000	2,16,000
	Considering their claim for share of ₹ 100 each	
	$2,16,000/100 = 2,160$ shares	
	Less: Number of shares to be issued	

2,160 x 3= 6,480 shares of ₹25 each	(1,62,000)
Transferred to Capital reduction A/c	<u>54,000</u>

6. Balance Sheet of AB Ltd.

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	30,80,000
b Reserves and Surplus	2	6,17,100
2 Current liabilities		
a Other liabilities		38,900
Total		<u>37,36,000</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	3	23,09,000
Intangible assets	4	1,12,000
b Non-current investments		1,55,000
2 Current assets		
a Inventories (3,58,000 + 2,40,000)		5,98,000
b Trade receivables (72,000 +70,000)		1,42,000
c Cash and cash equivalents		4,20,000
Total		<u>37,36,000</u>

Notes to accounts

		₹
1 Share Capital		
Authorized share capital		
3,00,000 equity shares of ₹ 10 each	30,00,000	
60,000, 8% cumulative Preference Shares of ₹ 10 each	<u>6,00,000</u>	<u>36,00,000</u>
Equity share capital		

2,48,000 equity shares of ₹ 10 each (of the above shares, 2,18,000 shares have been issued for consideration other than cash)		24,80,000
Preference share capital		
60,000, 8% cumulative Preference Shares of ₹ 10 each		6,00,000
Total		30,80,000
2 Reserves and Surplus		
Debit balance of Profit and Loss Account		
Underwriting commission	38,900	
Preliminary expenses	<u>24,000</u>	(62,900)
Securities Premium A/c		
(2,48,000 equity shares x 2.50)	6,20,000	
(60,000 Preference shares x ₹ 1)	<u>60,000</u>	6,80,000
		6,17,100
3 Tangible assets		
Building	5,40,000	
Motor car	1,26,000	
Plant & machinery	15,10,000	
Furniture	<u>1,33,000</u>	23,09,000
4 Intangible assets		
Goodwill (W.N. 4) (15,000 + 62,000-65,000)	12,000	
Patents	<u>1,00,000</u>	1,12,000

Working Notes:**1. Mode of discharge of Purchase Consideration of A Ltd.**

	₹
Cash payment	5,75,000
Equity shares (1,80,000 Shares x ₹ 12.5)	<u>22,50,000</u>
Total Purchase consideration	<u>28,25,000</u>

2. Mode of discharge of Purchase Consideration of B Ltd.

	₹
Cash payment	16,000

Equity shares (38,000 shares x ₹ 12.5)	<u>4,75,000</u>
Total Purchase consideration	<u>4,91,000</u>

3. **Cash at bank balance in the initial balance sheet of AB Ltd.**

Cash and Bank Account

	₹		₹
To Issue of preference shares (60,000 x 11)	6,60,000	By Payment to A Ltd.	5,75,000
To Equity shares (30,000 x 12.50)	<u>3,75,000</u>	By Payment to B Ltd.	16,000
	<u>10,35,000</u>	By Preliminary expenses	24,000
		By Balance c/d	<u>4,20,000</u>
			<u>10,35,000</u>

4. **Calculation of goodwill/ capital reserve of A Ltd. & B Ltd.**

Particulars	A Ltd.		B Ltd.	
Business Purchase A/c		28,25,000		4,91,000
Less: Goodwill			62,000	
Patent A/c	1,00,000		-	
Building A/c	5,40,000		-	
Plant & Mach. A/c	15,10,000		-	
Motor car A/c	-		1,26,000	
Furniture A/c	75,000		58,000	
Investment A/c	1,55,000		-	
Stocks A/c	3,58,000		2,40,000	
Debtors A/c	<u>72,000</u>	<u>(28,10,000)</u>	<u>70,000</u>	<u>(5,56,000)</u>
Goodwill / Capital reserve (Bal. fig.)		<u>15,000</u>		<u>(65,000)</u>
Net goodwill (15,000 +62,000 -65,000) = 12,000				

Note:

It has been assumed in the above solution that preliminary expenses of ₹ 24,000 has been paid and underwriting commission is still payable in the balance sheet of the amalgamated company.

7. Calculation of the average due date

Taking 4th July as the base date

Sl. No.	Date of bill	Due Date of Maturity	Amount ₹	No. of days from starting date (4 th July)	Product
1	1 st May 2017	4th July	500	0	0
2	10th May 2017	13th August	300	40	12,000
3	5th June 2017	8th August	400	35	14,000
4	25th June 2017	28 th July	375	24	9,000
5	10th July 2017	13th September	<u>500</u>	71	<u>35,500</u>
Total			<u>2,075</u>		<u>70,500</u>

Average Due Date is $70,500/2,075 = 34$ days after the assumed due date, 4th July, 2017.
The new bill should be for ₹ 2,075 payable on 7th August, 2017.

8.

In the books of Sunil
Rohan in Account Current with Sunil
as on 30th June, 2017

Date 2017	Particulars	Amount ₹	Days	Interest ₹	Date 2017	Particulars	Amount ₹	Days	Interest ₹
Feb. 16	To Sales	6,480.00	134	237.90	Jan. 1	By Balance b/d	3,010.00	181	149.26
Mar. 24	To Sales	3,560.00	98	95.58	Jan. 7	By Purchases	4,430.00	174	211.18
June 22	To Sales	2,280.00	8	5.00	Feb 18	By Returns inward	560.00	132	20.25
June 30	To Balance of interest			107.08	Apr. 22	By B/R (maturing on 25 July, 2017)	1,500.00	(25)	(10.27)*
June 30	To Balance c/d	2,497.08			Apr. 29	By Cash	2,500.00	62	42.47
					May 17	By Purchases	2,710.00	44	32.67
					June 30	By Interest	107.08		
		14,817.08		445.56			14,817.08		445.56
					July 1	By Balance b/d	2,497.08		

*Interest on amount of Bill receivable maturing on 25th July, 2017 is a red ink interest.

Credit for the B/R is given on the date when it is received, but the amount will be received only on its maturity. Hence, the interest for the period for which the bill is to run after accounting period is shown as negative figure.

9. **Total Debtors Account in General Ledger**

2017	Particulars	₹	2017	Particulars	₹
April 1	To Balance b/d	1,000			
April 30	To Sales (Credit)	16,000	April 30	By Cash	12,000
	To Total creditors (endorsed B/R dishonoured)	300		By Discount	1,000
	To B/R (Dishonoured)	400		By Bills receivable	3,580
	To Interest	30		By Total creditors (Transfer)	600
		17,730		By Balance c/d	550
					17,730

Notes:

1. B/R discounted and Cash sales will not be shown in the Total Debtors
2. Endorsed B/R dishonoured and transfers will be shown in the Total Debtors.

10. **Balance Sheet of Bharat Sports club as at 31st December, 2016**

Liabilities	₹	Assets	₹
Outstanding Rent	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports materials	5,000
Capital Fund	2,71,000	Prepaid Insurance	3,000
(balancing Figure)		Subscription receivable	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	2,000
	<u>2,83,000</u>		<u>2,83,000</u>

Balance Sheet of Bharat Sports club as at 31st December, 2017

Liabilities		₹	Assets		₹
Outstanding Rent		3,000	Building		
Advance Subscription		4,000	Book Value	60,000	
Advance Locker Rent		2,000	Less: Depreciation	<u>6,000</u>	54,000
Bank Overdraft		2,000	Furniture Cost	20,000	
Capital Fund:			Less: Depreciation	<u>2,000</u>	18,000
Opening Balance	2,71,000		Stock of sports materials		2,000

Add: Entrance Fees [20,000 x 40%]	8,000		Prepaid Insurance	6,000
Add: Life Membership fee [₹ 20,000 x 60%]	12,000		Subscription receivable	8,000
Add: Surplus	<u>60,000</u>	3,51,000	Locker Rent receivable	6,000
			12% General	2,00,000
			Fund Investments	
			Accrued Interest on 12%	
			General Fund Investments	4,000
			Cash Balance	<u>64,000</u>
		3,62,000		3,62,000

11.

**Trading and Profit and Loss account
for the year ending 31st March, 2017**

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	<u>86,250</u>		
	<u>4,71,250</u>		<u>4,71,250</u>
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on:			
Machinery	6,500		
Building	<u>5,000</u>		
	11,500		
To Net profit	<u>24,750</u>		
	<u>86,250</u>		<u>86,250</u>

Trade Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	50,000	By Bank (bal.fig.)	4,09,375
To Sales	<u>4,31,250</u>	By Balance c/d (1/6 of 4,31,250)	<u>71,875</u>
	<u>4,81,250</u>		<u>4,81,250</u>

Trade Creditors Account

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Bank (Balancing figure)	3,31,875	By Balancing b/d	30,000
To Balance c/d/ (1/8 of ₹ 3,45,000)	<u>43,125</u>	By Purchases	<u>3,45,000</u>
	<u>3,75,000</u>		<u>3,75,000</u>

Working Note:

		<i>₹</i>
(i)	<i>Calculation of Rate of Gross Profit earned during previous year</i>	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹ 60,000}{₹ 3,00,000} \times 100$	20%
(ii)	<i>Calculation of sales and Purchases during current year</i>	<i>₹</i>
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 25 %	<u>60,000</u>
		3,00,000
C	Add: Increase in cost @ 15%	<u>45,000</u>
D	Cost of Goods Sold during Current Year	3,45,000
E	Add: Gross profit @ 25% on cost (20% on sales)	<u>86,250</u>
F	Sales for current year [D+E]	<u>4,31,250</u>

12. (i) Calculation of Interest and Cash Price

<i>No. of installments</i>	<i>Outstanding balance at the end after the payment of installment</i>	<i>Amount due at the time of installment</i>	<i>Outstanding balance at the end before the payment of installment</i>	<i>Interest</i>	<i>Outstanding balance at the beginning</i>
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 x 10/110	[6] 4-5
3 rd	-	5,50,000	5,50,000	50,000	5,00,000
2 nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1 st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹ 12,00,000+ 6,00,000 (down payment) = ₹ 18,00,000.

(ii) **In the books of Srikumar
Cars Account**

Date	Particulars	₹	Date	Particulars	₹
1.4.2014	To Fair Value Motors A/c	18,00,000	31.3.2015	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2015	To Balance b/d	13,50,000	31.3.2016	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2016	To Balance b/d	10,12,500	31.3.2017	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d $\frac{1}{2} (10,12,500 - 2,53,125)$	3,79,687
		10,12,500			10,12,500

13.

Books of Alpha Ltd.**Investment in 13.5% Debentures in Pergot Ltd. Account****(Interest payable on 31st March & 30th September)**

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2017		₹	₹	₹	2017		₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: $5,00,000 \times 13.5\% \times 1/12 = ₹ 5,625$
2. Interest received on 30th Sept. 2017

$\text{On ₹ 5,00,000} = 5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$
 $\text{On ₹ 2,50,000} = 2,50,000 \times 13.5\% \times \frac{1}{2} = \underline{16,875}$
 Total ₹ 50,625
3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2017 for April 2017 to July 2017 as part of purchase price:
 $2,50,000 \times 13.5\% \times 4/12 = ₹ 11,250$
4. Loss on Sale of Debentures

Cost of acquisition
 $(₹ 5,19,375 + ₹ 2,45,000) \times ₹ 2,00,000 / ₹ 7,50,000 = 2,03,833$
 Less: Sale Price $(2,000 \times 103) = \underline{2,06,000}$
 Profit on sale = ₹ 2,167
5. Cost of Balance Debentures
 $(₹ 5,19,375 + ₹ 2,45,000) \times ₹ 5,50,000 / ₹ 7,50,000 = ₹ 5,60,542$
6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)
 $₹ 5,50,000 \times 13.5\% \times 3/12 = ₹ 18,563$

14. Ascertainment of rate of gross profit for the year 2015-16
Trading A/c for the year ended 31-3-2016

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		32,63,600

$$\begin{aligned} \text{Rate of gross profit} &= \frac{\text{GP}}{\text{Sales}} \times 100 \\ &= \frac{5,20,000}{26,00,000} \times 100 = 20\% \end{aligned}$$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		Add: Unrecorded cash sales (W.N.)	<u>20,000</u>	24,78,500
Less: Goods used for advertisement	<u>(50,000)</u>	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of ₹ 24,78,500)		4,95,700			
		<u>28,50,650</u>			<u>28,50,650</u>

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:**Cash sales defalcated by the Accountant:**

Defalcation period = 1.4.2016 to 18.8.2016 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

15. (i) Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts			Fixed Assets	10,00,000	
A	5,09,385		Less: Written down	<u>(1,00,000)</u>	
B	<u>4,09,385</u>	9,18,770		9,00,000	
Trade Payables	3,50,000		Less: Depreciation	<u>(95,000)</u>	8,05,000
			Trade Receivables		1,90,000
			Inventory		2,30,000
			Cash and Bank		<u>43,770</u>
		<u>12,68,770</u>			<u>12,68,770</u>

(ii) Partners' Capital Accounts as on 1-10-2015

		A	B	C			A	B	C
To	Revaluation A/c (Loss of Fixed Assets)	40,000	40,000	20,000	By	Balance b/d	5,00,000	4,00,000	3,00,000
To	Drawings	41,250	41,250	17,500	By	Reserves	40,000	40,000	20,000
To	C	50,000	50,000	-	By	A & B (goodwill adjustment)	-	-	1,00,000

To	Executor's A/c	-	-	4,20,000	By	Profit and Loss Appropriation A/c (W.N.2)	81,250	81,250	37,500
To	Balance c/d	<u>4,90,000</u>	<u>3,90,000</u>	-					
		6,21,250	5,21,250	4,57,500			6,21,250	5,21,250	4,57,500

Partners' Capital Accounts as on 31-3-2016

Dr.				Cr.			
		A	B			A	B
To	Drawings	50,000	50,000	By	Balance b/d	4,90,000	3,90,000
To	Balance c/d	5,09,385	4,09,385	By	Profit & Loss	69,385	69,385
		_____	_____		Appropriation A/c	_____	_____
		5,59,385	4,59,385			5,59,385	4,59,385

Working Notes:**1. Calculation of profits**

	₹
(a) Profit after Depreciation	4,05,000
Add: Depreciation	<u>95,000</u>
Profit before Depreciation	<u>5,00,000</u>
(b) Profit for the 1st half (evenly spread)	2,50,000
Less: Depreciation with respect to 1st half	<u>(50,000)</u>
Post Depreciation profit	<u>2,00,000</u>
(c) Profit for the 2nd half	2,50,000
Less: Depreciation for the 2nd half	<u>(45,000)</u>
2nd half profit after Depreciation	<u>2,05,000</u>

2. Profit and Loss Appropriation A/c (for the first half)

Dr.		Cr.		
	₹	₹	₹	
To	Interest on C Capital (3,00,000 × 25% for 6 months)	37,500	By Profit	2,00,000

To	A	81,250		
	B	<u>81,250</u>	<u>1,62,500</u>	
			<u>2,00,000</u>	<u>2,00,000</u>

3. Application of Section 37 of the Partnership Act

Either

$$(i) \text{ Interest on } 4,20,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 12,600$$

Or

(ii) Profit earned out of unsettled capital

$$2,05,000 \times \frac{4,20,000}{(4,90,000 + 3,90,000 + 4,20,000)} = ₹ 66,230$$

In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or the share of profit earned for the amount due to the deceased partner.

In the given case, it would be rational to assume that the representatives would opt for ₹ 66,230.

4. Profit and Loss Appropriation A/c for the second half

Dr.		₹		Cr.
				₹
To	Executors A/c	66,230	By	Net Profit
				2,05,000
To	A	69,385		
	B	<u>69,385</u>		
		<u>1,38,770</u>		
		<u>2,05,000</u>		<u>2,05,500</u>

5. C's Executors Account

Dr.		Cr.	
To Bank	4,86,230	By C's Capital A/c	4,20,000
		By Profit & Loss Appropriation	<u>66,230</u>
	<u>4,86,230</u>		4,86,230

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time.

The choice of outsourcing vendor is made on the basis of the proposals received from these vendors. The proposals are evaluated and the decision is often taken based on the following criteria:

1. The type of services provided and whether the same matches with the requirements,
 2. The reputation and background of the vendor,
 3. The comparative costs of the various propositions,
 4. The assurance of quality.
17. (a) Non-corporate entities which are not level I entities but fall in any one or more of the following categories are classified as level II entities:
- (i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
 - (ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
 - (iii) Holding and subsidiary entities of any one of the above.
- (b) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

- (i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year is increased by ₹ 20 crores.
- (ii) The company has decided to provide ₹ 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crores.

- 18 (a) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realisable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

- (b) Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	<u>1,00,000</u>
	<u>2,15,000</u>

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

19. (a)

	₹ in crore
Cost of construction of bridge incurred 31.3.16	4.00
Add: Estimated future cost	<u>6.00</u>
Total estimated cost of construction	<u>10.00</u>
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$$= (4/10) \times 100 = 40\%$$

Revenue and Profit to be recognized for the year ended 31st March, 2016 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

= ₹ 12.60 crore x 40% = ₹ 5.04 crore

Profit for the year ended 31st March, 2016 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

- (b) According to AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:
- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Thus, sales will be recognized only when following two conditions are satisfied:

- (i) The sale value is fixed and determinable.
- (ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 15.3.2016 when sales are agreed upon at a price and goods are allocated for delivery purpose through invoice. The amount of net profit ₹ 1,50,000 (3,50,000 – 2,00,000) would be recognized in the books for the year ending 31st March, 2016.

20. (a) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10 PPE.
- (b) As per AS 13, “Accounting for Investments” Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that 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.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of ₹ 2,55,000 to profit and loss account.

AS 10: PROPERTY, PLANT AND EQUIPMENT**1. Introduction**

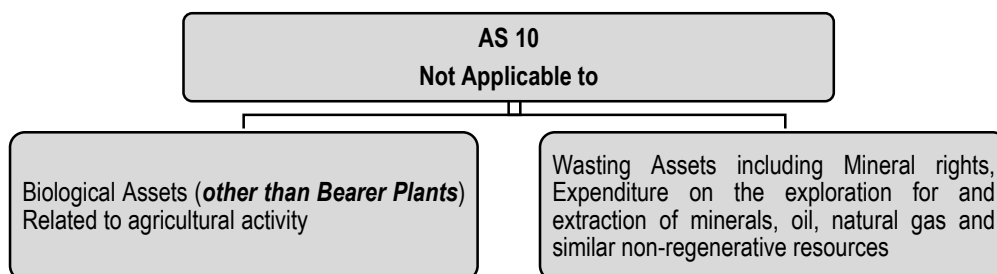
The objective of this Standard is to prescribe Accounting treatment for Property, Plant and Equipment (PPE). The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

2. Scope of the Standard

As a general principle, AS 10 should be applied in accounting for PPE.

Exception:

When another Accounting Standard requires or permits a different accounting treatment.

This Standard does not apply to:

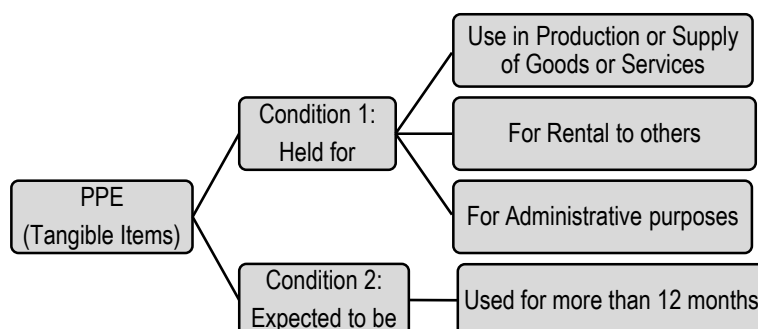
Note: AS 10 applies to Bearer Plants but it does not apply to the produce on Bearer Plants.

Clarifications:

1. AS 10 applies to PPE used to **develop or maintain** the assets described above.
2. Investment property (defined in AS 13), should be accounted for only in accordance with the **Cost model prescribed in this standard**.

3. Definition of Property, Plant and Equipment (PPE)

There are 2 conditions to be satisfied for a TANGIBLE item to be called PPE. PPE are **tangible items** that:



Note: Intangible items are covered under AS 26 which is not covered in syllabus of Paper 1.

“Administrative purposes”: The term ‘Administrative purposes’ has been used in **wider sense** to **include all business purposes**. Thus, PPE would include assets used for:

- Selling and distribution
- Finance and accounting
- Personnel and other functions

of an Enterprise.

Items of PPE may also be acquired for **safety or environmental reasons**.

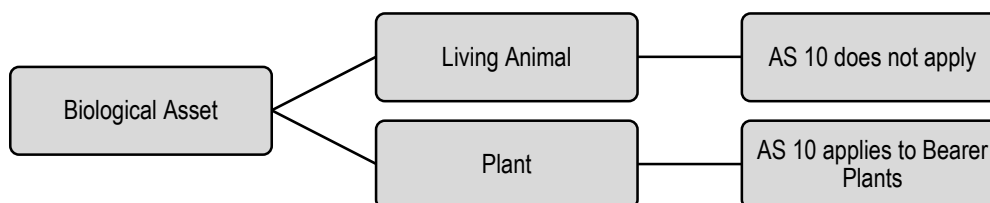
The acquisition of such PPE, although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for an enterprise to obtain the future economic benefits from its other assets.

Such items of PPE qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

Example: A chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the enterprise is unable to manufacture and sell chemicals.

4. Other Definitions

1. **Biological Asset:** An Accounting Standard on “Agriculture” is under formulation, which will, inter alia, cover accounting for livestock. Till the time, the Accounting Standard on “Agriculture” is issued, accounting for livestock meeting the definition of PPE, will be covered as per AS 10 (Revised).



2. Bearer Plant: Is a plant that (satisfies all 3 conditions):

	Is used in the production or supply	• Of Agricultural produce
	Is expected to bear produce	• For more than a period of 12 months
	Has a remote likelihood of being sold as Agricultural produce	• Except for incidental scrap sales

Note: When bearer plants are no longer used to bear produce they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant.

The following are not Bearer Plants:

- (a) Plants cultivated to be **harvested** as Agricultural produce

Example: Trees grown for use as lumber

- (b) Plants cultivated **to produce** Agricultural produce when there is more than a remote likelihood that the entity will **also harvest and sell** the plant as agricultural produce, other than as incidental scrap sales

Example: Trees which are cultivated both for their fruit and their lumber

- (c) Annual crops

Example: Maize and wheat

Agricultural Produce is the **harvested product** of **Biological Assets** of the enterprise.

3. Agricultural Activity: Is the **management** by an Enterprise of:

- Biological transformation; and

- Harvest of Biological Assets
- For sale, Or
- For conversion into Agricultural Produce, Or
- Into additional Biological Assets

5. Recognition Criteria for PPE

The **cost of an item of PPE** should be recognised as an asset **if, and only if:**

- It is probable that future economic benefits associated with the item will flow to the enterprise, and
- The cost of the item can be measured reliably.

Notes:

- It may be **appropriate to aggregate individually insignificant items**, such as moulds, tools and dies and to apply the criteria to the aggregate value.
- An enterprise **may decide to expense an item** which could otherwise have been included as PPE, because the amount of the expenditure is not material.

When do we apply the above criteria for Recognition?

An enterprise evaluates under this recognition principle all its costs on **PPE at the time they are incurred.**

6. Treatment of Spare Parts, Stand by Equipment and Servicing Equipment

Case I If they meet the definition of PPE as per AS 10:

- Recognised as PPE as per AS 10

Case II If they do not meet the definition of PPE as per AS 10:

- Such items are classified as Inventory as per AS 2

7. Treatment of Subsequent Costs

Cost of day-to-day servicing

Meaning:

Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the '**Repairs and Maintenance**' of the item of PPE.

Accounting Treatment:

An enterprise does not recognise in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the Statement of Profit and Loss as incurred.

Replacement of Parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

Examples:

1. A furnace may require relining after a specified number of hours of use.
2. Aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe.
3. Major parts of conveyor system, such as, conveyor belts, wire ropes, etc., may require replacement several times during the life of the conveyor system.
4. Replacing the interior walls of a building, or to make a non-recurring replacement.

Accounting Treatment:

An enterprise recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.

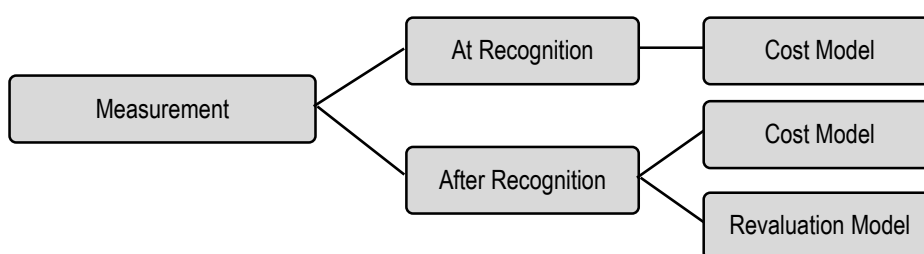
Note: The carrying amount of those parts that are **replaced is derecognised** in accordance with the de-recognition provisions of this Standard.

Regular Major Inspections - Accounting Treatment

When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

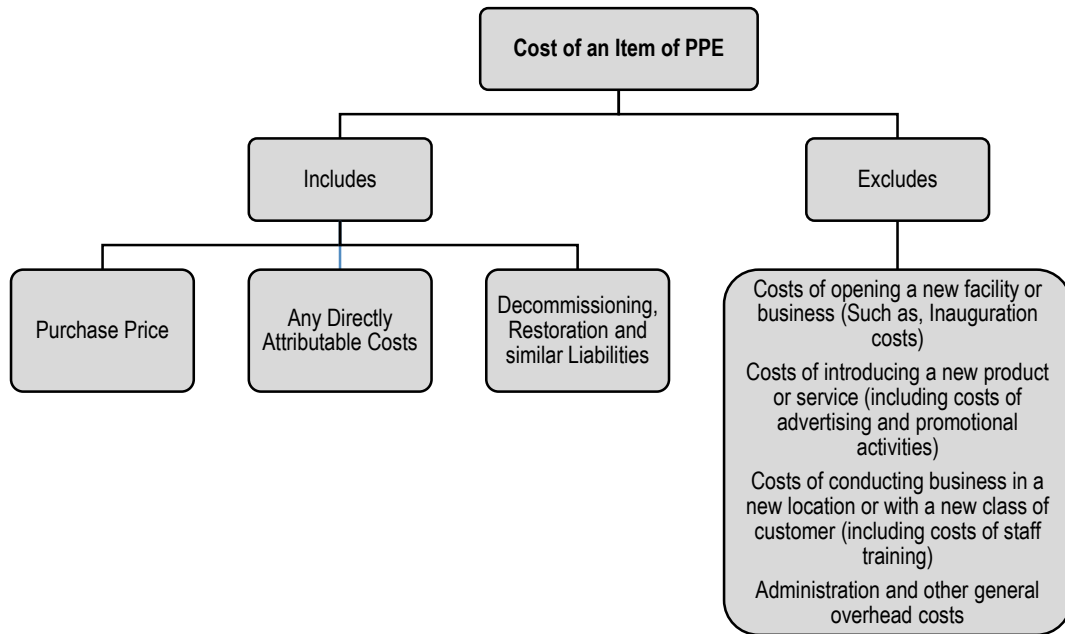
8. Measurement of PPE



9. Measurement at Recognition

An item of PPE that qualifies for recognition as an asset should be measured **at its cost**.

What are the elements of Cost?

Cost of an item of PPE comprises:**Examples of directly attributable costs are:**

1. Costs of employee benefits (as defined in AS 15) arising directly from the construction or acquisition of the item of PPE
2. Costs of site preparation
3. Initial delivery and handling costs
4. Installation and assembly costs
5. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)
6. Professional fees

The following costs are not included in the carrying amount of an item of PPE:

1. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
2. Initial operating losses, such as those incurred while demand for the output of an item builds up. And
3. Costs of relocating or reorganising part or all of the operations of an enterprise.

Example: Income may be earned through using a building site as a car park until construction starts because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the Statement of Profit and Loss and included in their respective classifications of income and expense.

C. Decommissioning, Restoration and similar Liabilities:

Initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'Decommissioning, Restoration and similar Liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes **other than** to produce inventories during that period.

Exception: An enterprise applies AS 2 "Valuation of Inventories", to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.

Note: The obligations for costs accounted for in accordance with AS 2 or AS 10 are recognised and measured in accordance with AS 29* "Provisions, Contingent Liabilities and Contingent Assets".

10. Cost of a Self-constructed Asset

Cost of a self-constructed asset is determined using the same principles as for an acquired asset.

1. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AS 2). Therefore, any **internal profits are eliminated** in arriving at such costs.
2. Cost of **abnormal amounts** of wasted material, labour, or other resources incurred in self constructing an asset is **not included** in the cost of the asset.
3. AS 16* on Borrowing Costs, establishes criteria for the **recognition of interest** as a component of the carrying amount of a self-constructed item of PPE.

* AS 29 is not covered in syllabus of paper-1

* AS 16 is not covered in syllabus of paper-1

4. **Bearer plants** are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by management.

11. Measurement of Cost

Cost of an item of PPE is the **cash price equivalent** at the recognition date.

A. If payment is deferred beyond normal credit terms:

Total payment - Cash price equivalent

- Is recognised as Interest over the period of credit
- unless such interest is capitalised in accordance with AS 16*

B. PPE acquired in Exchange for a Non-monetary Asset or Assets Or A combination of Monetary and Non-monetary Assets:

Cost of such an item of PPE is **measured at fair value unless:**

- (a) Exchange transaction lacks commercial substance; Or
- (b) Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

Note:

1. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up.
2. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

C. PPE purchased for a Consolidated Price:

Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition.

Note: In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

12. Measurement after Recognition

An enterprise should choose

- **Either** Cost model,
- **Or** Revaluation model

as its accounting policy and should apply that policy to an entire **class of PPE**.

Class of PPE: A class of PPE is a grouping of assets of a **similar nature and use** in operations of an enterprise.

Examples of separate classes:

- (a) Land
- (b) Land and Buildings
- (c) Machinery
- (d) Ships
- (e) Aircraft
- (f) Motor Vehicles
- (g) Furniture and Fixtures
- (h) Office Equipment
- (i) Bearer plants

Cost Model

After recognition as an asset, an item of PPE should be carried at:

Cost - Any Accumulated Depreciation - Any Accumulated Impairment losses

Revaluation Model

After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount.

Fair value at the date of the revaluation	-
Less: Any subsequent accumulated depreciation	(-)
Less: Any subsequent accumulated impairment losses	(-)
Carrying value	=

Revaluation for entire class of PPE

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

Frequency of Revaluations

Revaluations should be made with **sufficient regularity** to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date.

The frequency of revaluations depends upon the changes in fair values of the items of PPE being revalued.

When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

A. Items of PPE experience significant and volatile changes in Fair value

Annual revaluation shall be done.

B. Items of PPE with only insignificant changes in Fair value

Revaluation shall be done at an interval of 3 or 5 years.

Determination of Fair Value

Fair value of items of PPE is usually determined from **market-based evidence** by appraisal that is normally undertaken by professionally qualified valuers.

If there is **no market-based evidence** of fair value because of the specialised nature of the item of PPE and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an income approach.

Example:

Based on

- Discounted cash flow projections, Or
- A depreciated replacement cost approach

Which aims at making a **realistic estimate of the current cost** of acquiring or constructing an item that has the same service potential as the existing item.

13. Accounting Treatment of Revaluations

When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount.

At the date of the revaluation, the asset is treated in one of the following ways:

A. Technique 1: Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

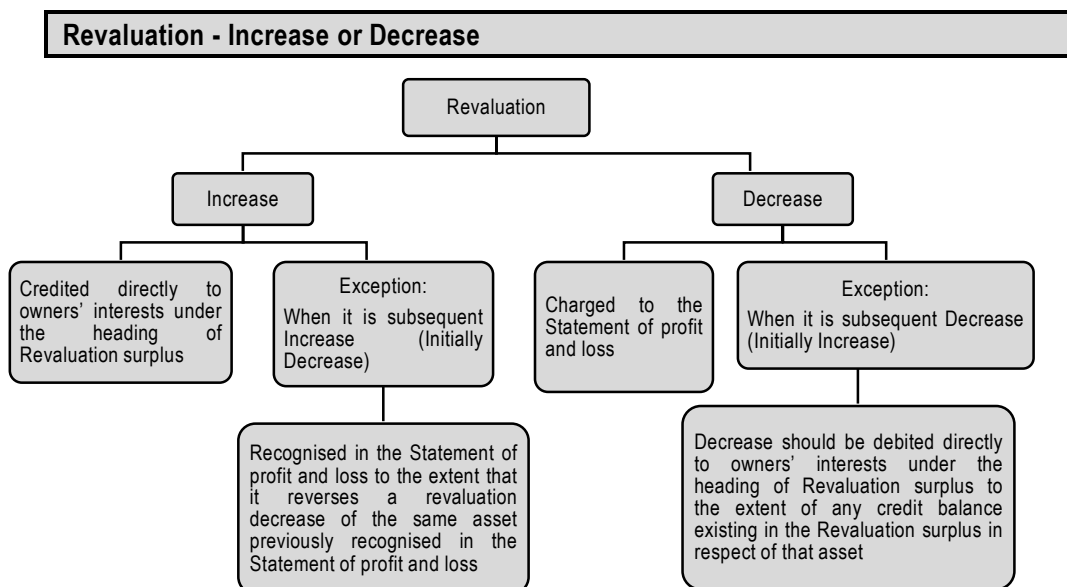
Gross carrying amount

- May be restated by reference to observable market data, or
- May be restated proportionately to the change in the carrying amount.

Accumulated depreciation at the date of the revaluation is

- Adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses

B. Technique 2: Accumulated depreciation is eliminated against the Gross Carrying amount of the asset.



Treatment of Revaluation Surplus

The revaluation surplus included in owners' interests in respect of an item of PPE may be transferred to the **Revenue Reserves when the asset is derecognised**.

Case I : When whole surplus is transferred:

When the asset is:

- Retired; Or
- Disposed of

Case II : Some of the surplus may be transferred as the asset is used by an enterprise:

In such a case, the amount of the surplus transferred would be:

Depreciation (based on Revalued Carrying amount) – Depreciation (based on Original Cost)

Transfers from Revaluation Surplus to the Revenue Reserves are **not made** through the Statement of Profit and Loss.

14. Depreciation

Component Method of Depreciation:

Each part of an item of PPE with a cost that is **significant in relation to the total cost** of the item should be depreciated separately.

Depreciable Amount and Depreciation Period

What is “Depreciable Amount”?**Depreciable amount is:**

Cost of an asset (or other amount substituted for cost i.e. revalued amount) - Residual value

The depreciable amount of an asset should be **allocated on a systematic basis** over its useful life.

Review of Residual Value and Useful Life of an Asset

Residual value and the useful life of an asset should be reviewed **at least at each financial year-end** and, if expectations differ from previous estimates, the change(s) should be accounted for as a **change in an accounting estimate**.

Note: Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

Commencement of period for charging Depreciation

Depreciation of an asset begins when it is **available for use**, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Cessation of Depreciation**I. Depreciation ceases to be charged when asset's residual value exceeds its carrying amount**

The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, depreciation charge of the asset is zero **unless and until** its residual value subsequently decreases to an amount below its carrying amount.

II. Depreciation of an asset ceases at the earlier of:

- The date that the asset is retired from active use and is held for disposal, and
- The date that the asset is derecognised

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated.

However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Land and Buildings

Land and buildings are separable assets and are accounted for separately, **even when they are acquired together**.

A. Land: Land has an unlimited useful life and therefore is not depreciated.

Exceptions: Quarries and sites used for landfill.

Depreciation on Land:**I. If land itself has a limited useful life:**

It is depreciated in a manner that reflects the benefits to be derived from it.

II. If the cost of land includes the costs of site dismantlement, removal and restoration:

That **portion of the land asset** is depreciated over the period of benefits obtained by incurring those costs.

B. Buildings: Buildings have a limited useful life and therefore are depreciable assets.

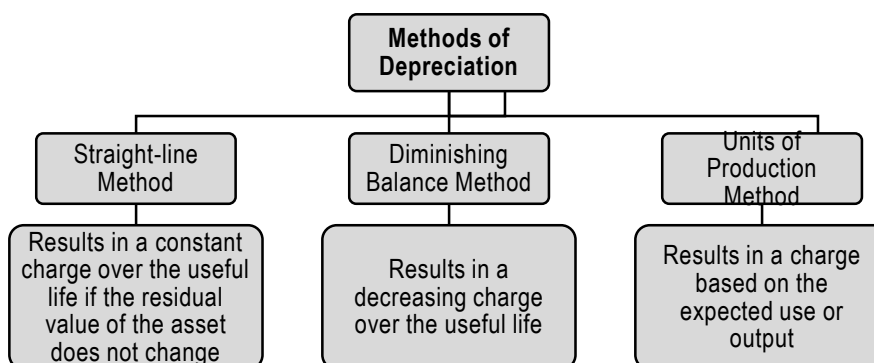
An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

15. Depreciation Method

The depreciation method used should **reflect the pattern in which the future economic benefits** of the asset are expected to be consumed by the enterprise.

The method selected is applied **consistently from period to period** unless:

- There is a change in the expected pattern of consumption of those future economic benefits; Or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.

**Review of Depreciation Method:**

The depreciation method applied to an asset should be reviewed at **least at each financial year-end** and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Such a change should be accounted for as a **change in an accounting estimate**.

Depreciation Method based on Revenue:

A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is **not appropriate**.

16. Changes in Existing Decommissioning, Restoration and other Liabilities

The cost of PPE may undergo changes subsequent to its acquisition or construction on account of:

- Changes in Liabilities
- Price Adjustments
- Changes in Duties
- Changes in initial estimates of amounts provided for Dismantling, Removing, Restoration, and
- Similar factors

The above are **included in the cost of the asset**.

17. Retirements

Items of PPE retired from active use and held for disposal should be stated at the lower of:

- Carrying Amount, and
- Net Realisable Value

Note: Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss.

18. De-recognition

The carrying amount of an item of PPE should be derecognised:

- On disposal
 - By sale
 - By entering into a finance lease, or
 - By donation, Or
- When no future economic benefits are expected from its use or disposal

19. Disclosure**General Disclosures:**

The financial statements should disclose, for each class of PPE:

- (a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;
- (b) The depreciation methods used;
- (c) The useful lives or the depreciation rates used.

In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;

- (d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) A reconciliation of the carrying amount at the beginning and end of the period showing:

Additional Disclosures:

The financial statements should also disclose:

- (a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- (b) The amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) The amount of contractual commitments for the acquisition of property, plant and equipment;
- (d) If it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and
- (e) The amount of assets retired from active use and held for disposal.

Disclosures related to Revalued Assets:

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- (a) The effective date of the revaluation;
- (b) Whether an independent valuer was involved;
- (c) The methods and significant assumptions applied in estimating fair values of the items;
- (d) The extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and
- (e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

20. Transitional Provisions

Previously Recognised Revenue Expenditure

Where an entity has in past recognized an expenditure in the Statement of Profit and Loss which is eligible to be included as a part of the cost of a project for construction of PPE in accordance with the requirements of this standard:

- It may do so **retrospectively** for such a project.

Note: The effect of such retrospective application, should be recognised **net-of-tax in Revenue reserves**.

PPE acquired in Exchange of Assets

The requirements of AS 10 regarding the initial measurement of an item of PPE acquired in an exchange of assets transaction should be **applied prospectively** only to transactions entered into after this Standard becomes mandatory.

Spare parts

On the date of this Standard becoming mandatory, the spare parts, which hitherto were being treated as inventory under AS 2, and are **now required to be capitalised** in accordance with the requirements of this Standard, should be capitalised at their respective carrying amounts.

Note: The spare parts so capitalised should be depreciated over their remaining useful lives prospectively as per the requirements of this Standard.

Revaluations

The requirements of AS 10 regarding the revaluation model should be **applied prospectively**.

In case, on the date of this Standard becoming mandatory, an enterprise **does not adopt** the revaluation model as its accounting policy but the carrying amount of item(s) of PPE reflects any previous revaluation it should adjust the amount outstanding in the Revaluation reserve against the carrying amount of that item.

Note: The carrying amount of that item should never be less than residual value. Any excess of the amount outstanding as Revaluation reserve over the carrying amount of that item **should be adjusted** in Revenue reserves.