



PAPER – 1: ADVANCED ACCOUNTING



QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. The following is the Capital Structure of Mars Limited as on 31 March, 2025:

Sl. No.	Particulars	Amount (₹)
(I)	Equity Share Capital (Face Value 10 per Share)	24,00,000
(II)	Reserves:	
	General Reserve	21,60,000
	Securities Premium Reserve	8,00,000
	Statement of Profit and Loss	6,00,000
	Development Rebate Reserve	6,40,000
	Revaluation Reserve	2,00,000
(III)	Loan Funds: 14% Debentures	55,00,000
	Unsecured Loan (due within one year ₹ 5,00,000/-)	9,00,000

The shareholders of Mars Limited on the recommendation of the Board of Directors have approved a proposal to buy-back the maximum permissible number of shares 30/- per share.

Based on the information given in the above case scenario, answer the following Question:

- i. What will be the Future Equity Shareholders' Fund of Mars Limited as per the Debt Equity Ratio Test?

- (A) ₹ 43,20,000
 - (B) ₹ 51,20,000
 - (C) ₹ 52,80,000
 - (D) ₹ 51,60,000
- ii. What will be the minimum equity to be maintained by Mars Limited after the proposed buy-back of shares?
- (A) ₹ 32,00,000
 - (B) ₹ 27,50,000
 - (C) ₹ 29,50,000
 - (D) ₹ 30,00,000
- iii. What will be the maximum number of shares that can be bought back by Mars Limited as per Section 68 of the Companies Act, 2013?
- (A) 60,000 Shares
 - (B) 48,000 Shares
 - (C) 64,000 Shares
 - (D) 55,000 Shares
- iv. If Mars Limited buys-back its own shares out of free reserves, a sum equal to the nominal value of the shares so bought back shall be transferred to:
- (A) Revenue Redemption Reserve
 - (B) Capital Reserve
 - (C) Capital Redemption Reserve
 - (D) Shares Buy-Back Reserve
- v. Current maturity of Unsecured Loan as per Schedule III of the Companies Act, 2013 would be classified as:
- (A) Current Liabilities
 - (B) Short Term Borrowings

- (C) Long Term Borrowings
- (D) Other Current Liabilities

Independent MCQ

2. S Limited is engaged in the manufacture of Lithium-ion batteries for electric cars. It has developed a new technology which would enhance the operating efficiency of batteries. It has capitalized the development expenditure of ₹ 75,00,000/- for the same. It estimates the life of the technology developed to be 4 years. The net cash flows to be generated during these 4 years are estimated at ₹ 30,00,000, ₹ 40,00,000, ₹ 55,00,000 and ₹ 35,00,000 respectively.

What should be the amortization charge during the first year of the technology's life?

- (A) ₹ 25,78,125
 - (B) ₹ 18,75,000
 - (C) ₹ 16,40,625
 - (D) ₹ 14,06,250
3. Cropex Ltd. has the following property but is unsure about how to account for the same:

A Tennant House has costed ₹15,00,000 to the company five years ago. The property is freehold and is let out to private individuals for six-month periods. The current market value of the property is ₹17,50,000.

What is the correct accounting treatment for the above property?

- (A) The property is owned by Cropex Ltd. and it is to be accounted on cost model as per AS 10 Property, plant and equipment. Depreciation to be calculated at ₹3,00,000 as 5 years useful life. Revaluation of the property is done as per accounting policy.
- (B) Held for its investment potential and not for use by Cropex Ltd. Treat as investment property in accordance with AS 13 Accounting for Investments, where they are accounted for in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.

- (C) Treat as investment property in accordance with AS 13 Accounting for Investments, apply only fair value model. In case of Cropex Ltd., the current market value of ₹17,50,000 to be recorded.
 - (D) The property is accounted as per AS 10 'Property, plant and equipment'. Only fair value model is allowed. In case of Cropex Ltd., the current market value of ₹17,50,000 to be recorded.
4. One of your junior staff members has few queries on the recognition of a liability. He understands that 'A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Which of the following would be classified as liability?

- (A) X & Co, is planning to invest in new machinery and has received a quoted price of ₹4,60,000.
- (B) P & Co, has estimated a current tax charge of ₹ 2,25,000 on its profits for the year just ended.
- (C) R & Co's business manufactures a product under license. In 8 months' time the license is due to expire, and R will have to pay ₹1,54,000 to get the license renewed.
- (D) S & Co, purchased investments some 6 months ago for ₹12 lakhs. The market value of these investments has now fallen, and S's investments are now valued at ₹10.5 lakhs.

Part II - Descriptive Questions

Applicability of Accounting Standards

5. Any country can become IFRS compliant either through adoption or convergence.

You are required to:

- (a) Explain the adoption process of IFRS.
- (b) Explain the convergence process of IFRS.
- (c) Explain the benefits of being IFRS compliant.

Framework for Preparation & Presentation of FS

6. Giant Ltd. has entered into a binding agreement with Tiny Ltd. to buy a custom-made machine of ₹1,00,000 at the end of 2025-26, before delivery of the machine, Giant Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 2025-26.

Applicability of AS**AS 1 "Disclosure of Accounting Policies"**

7. SS Ltd had made a Rights Issue of Shares 3 years back. In the Offer Document to its Members, it had projected a surplus of ₹ 40 Crores during the current Accounting Year. 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:
- (a) Value year-end inventory at Works Cost (₹50 Crores) instead of the hitherto method of valuation of inventory at Prime Cost (₹30 Crores).
 - (b) Provide depreciation for the year on straight line basis on account of substantial additions in Gross Block during the year instead of on reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 Crores is lower than the amount of ₹ 45 Crores, which would have been provided had the old method been followed by ₹ 18 Crores.
 - (c) Not to provide for "After Sales Expenses" during the warranty period. Till the last year, provision at 2% of Sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The Board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹ 600 Crores.

- (d) Provide for permanent fall in the value of Investments - which 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 Directors to draft the Notes on Accounts for inclusion in the Annual Report for the year.

AS 2 "Valuation of Inventories"

8. (a) Sun Ltd. has fabricated special equipment (solar power panel) during 2024-2025 as per drawing and design supplied by the customer. However, due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31.3.2026 are as follows:

Solar power panel (WIP)	₹ 85 lakh
Solar power panel (finished products)	₹ 55 lakh
Sundry Debtor (solar power panel)	₹ 65 lakh

The petition for winding up against the customer has been filed during 2025-2026 by Sun Ltd. Comment with explanation on provision to be made of ₹ 205 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statements of 2025-2026 as per AS 2.

AS 3 "Cash Flow Statements "

9. From the following information, prepare Cash Flow Statement of Amex Limited for the year ended 31st March, 2026 by using indirect method:

Balance Sheets as on

	31.3.2025		31.3.2026	
Liabilities		₹		₹
Share Capital		5,00,000		6,00,000
Reserves		1,50,000		1,80,000
Profit and Loss Account		40,000		65,000

Debentures		3,00,000		2,50,000
Creditors for goods		1,70,000		1,60,000
Provision for Income Tax		<u>60,000</u>		<u>80,000</u>
		12,20,000		13,35,000
Assets				
Gross Block	10,00,000		11,20,000	
Less: Depreciation	<u>(3,70,000)</u>		<u>(4,60,000)</u>	
Net Block		6,30,000		6,60,000
Stock in trade		2,40,000		3,70,000
Book Debts		2,50,000		2,30,000
Cash in hand and at bank		80,000		60,000
Miscellaneous Expenditure				
Discount on issue of shares		10,000		7,500
Preliminary Expenses		<u>10,000</u>		<u>7,500</u>
		12,20,000		13,35,000

**Profit and Loss Appropriation Account for the year ended
31st March, 2026**

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

AS 4 "Contingencies and Events Occurring after the Balance Sheet Date"

10. The Board of Directors of M/s. New Graphics Ltd. in its Board Meeting held on 18th April, 2026, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2026 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended

31st March, 2026 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2026, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2026 as per the applicable Accounting Standard and other Statutory Requirements.

AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"

11. The company finds that the stock sheets of 31.3.2025 did not include two pages containing details of inventory worth ₹ 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2026 with reference to AS 5.

AS7 "Construction Contracts"

12. A Company has undertaken a contract to construct Railway Over Bridge (ROB), which is expected to be completed in three years. A summary of the financial data during construction period is as follows: (₹ in lakhs)

	Year -I	Year -II	Year-III
Initial amount of revenue agreed in contract	750	750	750
Variation	-	50	50
Contract cost incurred upto the reporting date	240	520	700
Contract cost to complete	460	180	-
Material at site to be used in subsequent year included in contract cost above	65	100	-

Ascertain the amount of revenue, expenses and profit recognised in the Statement of Profit and Loss in each of the three years.

AS 10 "Property, Plant and Equipment"

- 13 A newly set up Private Limited Manufacturing Company has incurred following expenditures for the acquisition of Plant and Machinery. The

Company intends to capitalize these expenses. Is the Company justified? State with reasons.

- (1) Foreign Tour Expenses of Directors for purchasing Plant and Machinery.
- (2) Technical Staff's Salary during the period of installation of Plant and Machinery.
- (3) Non-Technical Staff's Salary during the period of installation of Plant and Machinery.
- (4) Other Sundry Expenses such as Stationery, Printing, Postage, Telephone, and Local Conveyance, etc.

AS 13 "Accounting for Investments"

14. ABC Ltd. wants to re-classify its investments in accordance with AS 13. Decide and state on the amount of transfer, based on the following information:
 - (1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
 - (2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 - (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

AS 17 "Segment Reporting"

15. Following details are given for Monish Ltd. for the year ended 31st March (₹ in Lakhs)

Particulars	Food Products	Plastics & Packaging	Health & Scientific	Others	Total
Sales (including Inter-Segment)	10,000	1,240	690	364	12,294
Expenses	7,170	800	444	400	8,814

Other items:					
General Corporate Expenses	–	–	–	–	1,096
Income from Investments	–	–	–	–	252
Interest Expenses	–	–	–	–	126
Identifiable Assets	15,096	4,000	1,400	1,364	21,860
General Corporate Assets	–	–	–	–	1,664
Other Information					
Inter-Segment Sales	120	168	36	10	
Operating Profit includes ₹ 66,000 on Inter-Segment Sale					

AS 18 “Related Party Disclosures”

16. A Limited has a corporate communications department, which centralises the public relations function for the whole group of A Limited and its subsidiaries. No charges are, however, levied by A Limited on its subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute related party transactions requiring disclosure under AS 18 in the standalone financial statements of A Limited?

AS 19 “Leases”

17. On 1st April, 2025, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31st March, 2026.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

AS 20 "Earnings per share"

18. Would completely vested options to purchase shares of a company be included in the computation of Basic EPS? BC Limited has formulated a scheme for Employee Stock Options for its employees. During the year ended December 31, 2026, BC Limited has granted options to purchase 36,000 shares to its employees, out of which, options to purchase 15,000 shares have vested by December 31, 2026. However, no options have been exercised by December 31, 2026. Would such 15,000 shares that have vested be included in the computation of Basic EPS of BC Limited for the year ended December 31, 2026

AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

19. Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2025 and needs your expert advice on the following issues:
- (i) The company has its plants at 3 different locations. It has to shut down one of its plants due to internal reasons. The said plant site is under a rental agreement till 31.3.2026. The rent per month is ₹ 80,000. If the company cancels the agreement, it has to pay a penal amount equal to six month's rent. The company also has an option to sub-let the site at a rent of ₹ 45,000 per month.
 - (ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.
 - (iii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% of the value is to be paid. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's

report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed for the compensation.

Give your answers based on relevant Accounting standard.

Consolidated Financial Statements

20. Rose Ltd. holds 80% share in Marigold Ltd., its subsidiary. Share capital of Marigold Ltd. is ₹ 25,00,000 and reserves being ₹ 5,00,000 on the date of acquisition 31.3.2026.

Following is the results of Marigold Ltd.:

Year ended	Profit/(Loss)	Net worth (₹ in lakh)
31.3.2027	(15,00,000)	+15.00
31.3.2028	(20,00,000)	(5.00)
31.3.2029	4,00,000	(1.00)
31.3.2030	5,00,000	+4.00

Calculate minority interest for the period from 2025-2026 to 2029-2030 as per AS 21



SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Hints
1.	i	(B)
	ii	(A)
	iii	(B)
	iv	(C)
	v	(B)
2.		(D)
3.		(B)
4.		(B)

Descriptive Answers

5. (a) Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.
- (b) Convergence means that the country will develop high quality, compatible accounting standards and there would be alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially.

Ind AS are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

- (c) Improves investor confidence across the world with transparency and comparability.

Improves inter-unit/ inter-firm/inter-industry comparison.

Group consolidation will be easy with same standard by all companies in group irrespective of their global location, Acceptability of financial statements by stock exchanges across the globe, which will facilitate listing of Indian companies to international stock exchanges.

6. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, Giant Ltd. should recognise a liability of ₹1,00,000 to Tiny Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense. The accounting entry is suggested below:

		₹	₹
Loss on change in production Method To Gamma Ltd. (Loss due to change in production method)	Dr.	1,00,000	1,00,000

Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method (loss transferred to profit and loss account)			1,00,000

7. 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:

- (1) Change in Method of Valuation of Inventory: During the year, inventory has been valued at Works Cost, instead of valuing them at Prime Cost which 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. Due to this change, the year-end inventory has been valued at ₹50 Crores (instead of ₹30 Crores at Prime Cost) and the profit for the year is greater by ₹20 Crores.
- (2) Change in Method of Providing Depreciation: Due to heavy capital-intensive method of production introduced during the year, the Company has decided to change the method of providing depreciation from Reducing Balance Method to Straight Line Method. Due to this change, depreciation has been provided at ₹27 Crores, which is lower by ₹18 Crores than the old method (WDV Method). Consequently, the profit is higher by ₹18 Crores.
- (3) Provision for After Sales Expenses during Warranty Period: The Company has been providing 2% of Sales, for meeting "After Sales Expenses" during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Due to this change, the profit for the

year is greater by ₹ 12 Crores than would have been the case, if the old provisioning policy were to continue.

- (4) Fall in Investments: 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 last 5 years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 Crores.

8. From the fact given in the question it is obvious that Sun Ltd. is a manufacturer of solar power panel. As per AS 2 'Inventories', inventories are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Therefore, solar power panel held in its stock will be considered as its inventory. Further, as per the standard, inventory at the end of the year are to be valued at lower of cost or NRV.

As the customer has postponed the delivery schedule due to liquidity crunch, the entire cost incurred for solar power panel which were to be supplied has been shown in Inventory. The solar power panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principles laid down in AS 2 i.e. lower of Cost or NRV. Though, the goods were produced as per specifications of buyer the Company should determine the NRV of these goods in the market and value the goods accordingly. Change in value of such solar power panel should be provided for in the books. In the absence of the NRV of WIP and Finished product given in the question, assuming that cost is lower, the company shall value its inventory as per AS 2 for ₹ 140 lakh [i.e solar power panel (WIP) ₹ 85 lakh + solar power panel (finished products) ₹ 55 lakh].

Alternatively, if it is assumed that there is no buyer for such fabricated solar power panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards Sundry Debtors balance, since the Company has filed a petition for winding up against the customer in 2025-2026, it is probable that amount is not recoverable from the party. Hence, the provision for doubtful debts for ₹ 65 lakh shall be made in the books against the debtor's amount.

9.

Amex LTD.

Cash Flow Statement for the year ended 31st March, 2026

	₹	₹v	₹
(i) Cash flow from Operating Activities			
Net Profit before tax		1,35,000	
<i>Add back:</i>			
Depreciation (4,60,000 – 3,70,000)	90,000		
Discount on issue of shares written off	2,500		
Preliminary expenses written off	2,500		
Provision for tax	80,000	1,75,000	
Operating Profit before working capital changes		3,10,000	
<i>Less:</i> Increase in stock	(1,30,000)		
Decrease in creditors	(10,000)	(1,40,000)	
		1,70,000	
<i>Add:</i> Decrease in book debts		20,000	
Cash generated from Operations		1,90,000	
<i>Less:</i> Income tax paid		(60,000)	
Net cash generated from Operating Activities			1,30,000
(ii) Cash flow from Investing Activities			
Fixed Assets purchased		(1,20,000)	
Net cash used in Investing Activities			(1,20,000)
(iii) Cash flow from Financing Activities			
Issue of shares		1,00,000	
Redemption of Debentures		(50,000)	
Interim Dividend paid		(80,000)	
Net cash used in Financing Activities			(30,000)
Net decrease in cash			(20,000)
Opening balance of cash and cash equivalents			80,000
Closing balance of cash and cash equivalents			60,000

- 10.** As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2026 shall not be accounted for in the books for the year 2025-26 irrespective of the fact that it pertains to the year 2025-26 and will be paid after approval in the Annual General Meeting of the members / shareholders.

- 11.** As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth ₹20 lakhs in 31.3.2025 is a prior period item. As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, ₹20 lakhs must be added to opening stock of 1.4.2025. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

- 12 Calculation of the amount of Revenue, Expenses and Profit recognized in the Statement of Profit and Loss in each of the three years:**
(₹ in lakh)

	Up to the reporting date	Recognized in previous years	Recognized in current year
<u>Year 1</u>			
Revenue (750 x 25%)	187.50	-	187.50

Expenses (700 x 25%)	<u>(175)</u>	-	<u>(175)</u>
Profit	<u>12.50</u>	-	<u>12.50</u>
<u>Year 2</u>			
Revenue (800 x 60%)	480	187.50	292.50
Expenses (700 x 60%)	<u>(420)</u>	<u>(175)</u>	<u>(245)</u>
Profit	<u>60</u>	<u>12.50</u>	<u>47.50</u>
<u>Year 3</u>			
Revenue (800 x 100%)	800	480	320
Expenses (700 x 100%)	<u>(700)</u>	<u>(420)</u>	<u>(280)</u>
Profit	<u>100</u>	<u>60</u>	<u>40</u>

Working Note:

Computation of percentage of completion

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
Revenue before variations	750	750	750
Add: Variations Cost incurred till date	<u>-</u>	<u>50</u>	<u>50</u>
	<u>750</u>	<u>800</u>	<u>800</u>
Total Estimated cost :			
Actual cost incurred upto the reporting date	240	520	700
Further cost to be incurred	<u>460</u>	<u>180</u>	<u>-</u>
	<u>700</u>	<u>700</u>	<u>700</u>
Actual cost incurred up to the reporting date (excluding material to be used later year)	175 (240-65)	420 (520-100)	700
Percentage of completion	$\frac{175}{700} \times 100$ 25%	$\frac{420}{700} \times 100$ 60%	$\frac{700}{700} \times 100$ 100%

- 13.** As per AS 10, costs incurred to bring the asset to the location and condition necessary for it to be capable to be operated in the manner as intended by the management can be added to the cost of PPE. Other costs which are not directly attributable to the PPE are to be recognized in P&L.

Sr. No.	Particulars Treatment
(1) Foreign Tour Expenses of Directors for purchase of Plant and Machinery	Capitalize
(2) Technical Staff Salary for erection of Plant and Machinery	Capitalize
(3) Salary of Non-Technical Staff	P&L
(4) Administration and Other General Overhead Costs	P&L

- 14.** As per AS 13, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

- (1) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.
- (2) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

- (3) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

15. Identification of Reportable Segments (Amounts in ₹ Lakhs)

Particulars	Food Products	Plastics & Packaging	Health & Scientific	Others	Total	Limit = 10% of Total
1. Segment Revenue						
External	9,880	1,072	654	354	11,960	
Inter-Segment	<u>120</u>	<u>168</u>	<u>36</u>	<u>10</u>	<u>334</u>	
Total Revenue	<u>10,000</u>	<u>1,240</u>	<u>690</u>	<u>364</u>	<u>12,294</u>	<u>1,229</u>
2. Segment Expenses	7,170	800	444	400	8,814	
3. Segment Result						
Profit	2,830	440	246	–	3,516	
(Loss)	–	–	–	(36)	(36)	10% of Higher of 3,516 or 36 = 352
4. Segment Assets	15,096	4,000	1,400	1,364	21,860	2,186
5. Reportable Segment	Yes	Yes	No	No		
6. Criteria Satisfied	Revenue, Result & Assets	Revenue, Result & Assets	Nil	Nil		

Now, we shall check the 75% Principle:

	Particulars	Computation	₹ in lacs
(i)	Total External Revenue of Reportable Segments (Food Products, Plastic & Packaging)	9,880 + 1,072	10,952
(ii)	Total Enterprise Revenue	Given	12,294
(iii)	Percentage of Revenue	i ÷ ii	89.08%

Thus, 75% Principle is satisfied and no other segments need to be reported.

- 16.** These transactions would require disclosure under AS 18 in the standalone financial statements of A Limited. As per paragraph 10 of AS 18, a related party transaction is "a transfer of resources or obligations between related parties, regardless of whether or not a price

is charged". In the given situation, there is a transfer of resources from A Limited to its subsidiaries, though no price is charged for the same. Hence, it will constitute as related party transaction and will require disclosure in the financial statements of A Ltd.

- 17.** Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is ₹ 8,53,600 [$₹ 1,60,000 \times 5.335$ (Annuity factor of ₹ 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 6,72,800 (Sale value ₹ 8,52,800 less carrying amount ₹ 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of ₹ 1,06,600 per annum for 8 years ($₹ 8,52,800/8$) and amortise profit of ₹ 6,72,800 over the lease term of 8 years, i.e. ₹ 84,100 p.a.

The net effect is a debit of ($₹ 1,06,600 - 84,100$) ₹ 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

- 18.** 15,000 shares that have vested at December 31, 2026 would not be included in the computation of Basic EPS of BC Limited for the year then ended.

Paragraph 15 of the Statement states that "For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period." As the vesting of shares can not be considered as shares being outstanding, shares that have vested would not be included in the

computation of basic EPS. Paragraph 21 of the Statement also gives this indication since for inclusion of contingently issuable shares in the computation of basic earnings per share all necessary conditions under the contract should have been satisfied. As the employees are yet to exercise their option to purchase, which is one of the necessary condition of the contract, these shares would not be included in the computation of Basic EPS

However, the entire 36,000 shares should be considered for inclusion in the computation of Diluted EPS (refer paragraph 7 (c) of the Statement).

19. (i) As per AS 29, an 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract is the lower of net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

In the given case, Saharsh Ltd. is required to pay:

In case of cancellation of agreement:

$$= ₹ 80,000 \times 6 \text{ months} = ₹ 4,80,000$$

In case of continuance of agreement (in case of sub-let):

Net of rent paid over rent collected from sub-tenant (₹80,000-45,000) $\times$ 12 = ₹ 4,20,000.

Lower of the above is to be provided for i.e. ₹ 4,20,000 is to be provided for.

- (ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2024-2025.

(iii) Loss due to accident ₹ 30,00,000

Insurance claim receivable by company
= ₹ 30,00,000 x 90% = ₹ 27,00,000

Loss to be recognised in the books
for 2024-2025 ₹ 3,00,000

Insurance claim receivable to be recorded
in the books ₹ 27,00,000

Compensation claim by dealer against company to be provided for
in the books

= ₹ 30,00,000 x 15% = ₹ 4,50,000*

***Note:** Alternatively, the compensation @ 15% can be computed on the whole contract amount of ₹ 1 crore. In such a situation, the compensation should be ₹ 15,00,000 (1 crore x 15%).

20. As per AS 21 "Consolidated Financial Statements", the losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Details	Minority Interest (MI) (20%)	Minority's Share of losses borne by Rose Ltd.
			Balance
Minority Interest at the time of acquisition i.e. on 31.3.2026		6,00,000 (W.N.)	
2026-2027	(15,00,000 x 20%)	(3,00,000)	

on 31.3.2027		3,00,000	
2027-2028	(20,00,000 x 20%)	<u>(4,00,000)</u>	
		(1,00,000)	
	Loss amounting ₹ 1,00,000 of minority borne by majority shareholders on application of AS 21	<u>1,00,000</u>	1,00,000
on 31.3.2028		Nil	
2028-2029	(4,00,000 x 20%)	80,000	
	On application of AS 21, profit transferred to majority shareholders	<u>(80,000)</u>	(80,000)
on 31.3.2029		Nil	20,000
2029-2030	(5,00,000 x 20%)	1,00,000	
	On application of AS 21, profit transferred to majority shareholders to the extent earlier loss was borne by majority share holders	<u>(20,000)</u>	(20,000)
on 31.3.2030		<u>80,000</u>	Nil

Working Note:

Calculation of Minority Interest as on 31.3.2026

	Total Amount (100%)	Minority Interest (20%)
	(₹)	(₹)
Share Capital (20%)	25,00,000	5,00,000
Add: Share in Reserves (20%)	5,00,000	<u>1,00,000</u>
		<u>6,00,000</u>