



PAPER – 1: ADVANCED ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY FOR JANUARY 2027 EXAMINATION

I. Revised Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
 - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;
 - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
 - (iv) which does not have borrowings in excess of fifty crore

rupees at any time during the immediately preceding accounting year; and

- (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.
4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.
5. This Announcement supersedes the earlier Announcement of the ICAI on '**Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021**¹.

¹ The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribed the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.

6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind AS) or Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.
7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Additional requirements

- (1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME and has complied with the Accounting Standards insofar as they are applicable to an MSME.
- (2) Where an MSME had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.
- (3) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.
- (4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

- (5) If an MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.
- (6) An MSME may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead users of financial statements.

Annexure 1

Applicability of Accounting Standards to Non-company Entities The Accounting Standards issued by the ICAI, as on April 1, 2024, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2024, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting

AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

- (1) Applicability of the Accounting Standards to Large Non- company entities.

Large entities are required to comply in full with all the Accounting Standards.

- (2) Applicability of the Accounting Standards and exemptions/ relaxations for Micro, Small and Medium sized Non-company entities

(A) Accounting Standards not applicable to Micro, Small and Medium sized entity (MSME) in their entirety

- (i) Accounting Standards not applicable to all MSMEs in their entirety:
- AS 3, Cash Flow Statements
 - AS 17, Segment Reporting
 - AS 20, Earnings per Share
 - AS 24, Discontinuing Operations

- (ii) AS 18, Related Party Disclosures and AS 28, Impairment of Assets not applicable in their entirety to MSMEs :
 - (a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
 - (b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and
 - (c) which is not a Holding and subsidiary of an MSME not covered above.

(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)

- (i) Accounting Standard (AS) 10, Property, Plant and Equipment MSMEs may not comply with paragraph 87 relating to encouraged disclosures.
- (ii) AS 11, The Effects of Changes in Foreign Exchange Rates MSMEs may not comply with paragraph 44 relating to encouraged disclosures.
- (iii) AS 15, Employee Benefits
 - (1) MSMEs may not comply with the following paragraphs:
 - (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are nonvesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
 - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts

that fall due more than 12 months after the balance sheet date;

- (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
 - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
- (iv) AS 19, Leases
- MSMEs may not comply with paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.
- (v) AS 22, Accounting for Taxes on Income
- (a) MSMEs shall comply with the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22,

with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

(b) Transitional requirements on the first occasion when an MSME avails this exemption, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

(vi) AS 26, Intangible Assets MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.

(vii) AS 28, Impairment of Assets (a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard. (b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.

(viii) AS 29, Provisions, Contingent Liabilities and Contingent Assets

MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.

(C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are

covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

- (D) AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

II. Amendments to AS 22, Accounting for Taxes on Income

Paragraphs 2A, 32A–32D (including their related heading and example after paragraph 32D) and 35 are added.

Scope: 2A This Standard applies to taxes on income arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the taxes on income arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an enterprise should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Presentation and Disclosure: International tax reform—Pillar Two model rules 32A An enterprise should disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see

paragraph 2A). 32B An enterprise should disclose separately its current tax expense (income) related to Pillar Two income taxes. 32C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an enterprise should disclose known or reasonably estimable information that helps users of financial statements understand the enterprise's exposure to Pillar Two income taxes arising from that legislation. 32D To meet the disclosure objective in paragraph 32C, an enterprise should disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an enterprise should instead disclose a statement to that effect and disclose information about the enterprise's progress in assessing its exposure.

Examples illustrating paragraphs 32C–32D Examples of information an enterprise could disclose to meet the objective and requirements in paragraphs 32C–32D include: (a) qualitative information such as information about how an enterprise is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an enterprise's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.

Provided that a Micro, Small and Medium-sized Enterprise (Levels IV, III and II non-company entities) may not apply the disclosure requirements laid down in paragraphs 32C and 32D. ... Effective date 35 International Tax Reform—Pillar Two Model Rules, added paragraphs 2A and 32A–32D. An enterprise should: (a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and (b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2024. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.

III. Notification G.S.R 880(E) dated 1st December, 2025

The Central Government has amended the Companies (Specification of definition details) Rules, 2014, through the Companies (Specification of definition details) Amendment Rules, 2025.

Amendment: In the Companies (Specification of definition details) Rules, 2014: In **rule 2**, in sub-rule (1), for clause (t), the following clause shall be substituted, namely:-

"(t) For the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed rupees ten crores and rupees one hundred crores respectively."

**QUESTIONS****PART – I: Multiple Choice Questions based on Case Scenarios**

1. Delma Infrastructure Ltd. (DIL) is engaged in infrastructure development. DIL has certain investments in other companies. It prepares consolidated financial statements (CFS) in accordance with Accounting Standard (AS) 21, AS 23, and AS 27.

DIL holds 30% of the equity shares of Sima Developers Pvt. Ltd. (SDPL). The remaining 70% is held by several unrelated investors. DIL has representation on the board and participates in policy decisions on project development and finance.

DIL also holds 18% of the equity capital of Orion Estates Ltd. Although DIL has board representation, all decisions require a 3/4th majority of directors, and DIL does not participate actively in policy decisions. The management believes significant influence does not exist.

Further, DIL holds 25% of the equity of Bela Ltd, but the investment is temporarily held for resale. It is expected to be disposed of within 6 months.

- a. Which of the following entities should be treated as an associate of DIL for the purpose of consolidation under AS 23?

- (i) Sima Developers Pvt. Ltd. and Orion Estates Ltd.
 - (ii) Sima Developers Pvt. Ltd. and Bela Ltd.
 - (iii) Only Sima Developers Pvt. Ltd.
 - (iv) All three entities
- b. As per AS 23 Accounting for Investments in Associates in Consolidated Financial Statements, DIL should account for its investment in Associates in the consolidated financial statements by:
- (i) applying proportionate consolidation method
 - (ii) Accounting for investment at cost
 - (iii) Applying the equity method
 - (iv) Accounting for investment as a financial asset
- c. How should DIL account for its investment in Bela Ltd. while preparing consolidated financial statements?
- (i) Include it as an associate using the equity method
 - (ii) Account for it as a joint venture using proportionate consolidation
 - (iii) Exclude it from consolidation since it is held exclusively for disposal
 - (iv) Fully consolidate it as a subsidiary
- d. Which of the following factors best indicate the existence of significant influence as per AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements':
- (i) Ownership of more than 10% of the voting power
 - (ii) Existence of a long-term trade relationship between the investor and the investee
 - (iii) Participation in policy-making processes, representation on the Board, and material transactions between investor and investee
 - (iv) Provision of management services to the investee

2. A company revalues its building, resulting in an increase in carrying amount of ₹ 5,00,000. In an earlier year, the same building had been written down by ₹ 2,00,000 due to a revaluation decrease, which was charged to the Profit and Loss Statement. As per AS 10, how should the current increase of ₹ 5,00,000 be treated?
 - (i) Entire ₹ 5,00,000 credited to Revaluation Reserve
 - (ii) ₹ 2,00,000 credited to Profit and Loss Statement (reversing the earlier decrease) and ₹ 3,00,000 credited to Revaluation Reserve
 - (iii) Entire ₹ 5,00,000 credited to Profit and Loss Statement
 - (iv) Ignored, since revaluation increases are not recognized under AS 10

3. As per AS 11, which of the following is classified as a "non-integral foreign operation"?
 - (i) A foreign branch that merely sells goods imported from the parent, remitting proceeds regularly
 - (ii) A foreign operation that accumulates cash and other monetary items, incurs expenses, and generates revenue primarily in local currency, largely independent of the reporting enterprise
 - (iii) A branch acting only as a selling agent for the parent on commission basis
 - (iv) A branch that borrows from the parent to finance all its activities

4. Comet Logistics Ltd. enters into a forward exchange contract purely for trading or speculation purposes — not to hedge an identifiable transaction or firm commitment. How does AS 11 require Comet to account for the gain or loss on this contract, in contrast to a hedging (non-trading, non-speculation) forward contract?
 - (i) In the same way as a hedging contract — the premium or discount is amortised as expense or income over the life of the contract.
 - (ii) Unlike a hedging forward contract (where the premium/discount is amortised over the contract's life), the gain or loss on a trading or speculation forward contract is determined at each reporting date

by reference to the change in the forward rate for the remaining maturity of the contract, compared to the contracted forward rate (or the rate at the last reporting date), with the resulting gain or loss recognised in the statement of profit and loss for that period.

- (iii) It must be capitalised to the cost of an identifiable capital asset, exactly as a hedging contract would be.
- (iv) Trading and speculative forward contracts are entirely outside the scope of Indian GAAP and are simply ignored until settlement.

Part II - Descriptive Questions

Applicability of Accounting Standards

Introduction to Accounting Standards

5. XYZ Ltd. follows an Accounting Standard for the valuation of its inventories. However, a specific provision of the applicable statute requires the inventories to be valued using a different method. The application of the statutory requirement results in a valuation different from that determined in accordance with the Accounting Standard.

You are required to advise XYZ Ltd. regarding the treatment to be followed in such a situation. Also, state how the company should provide relevant information to the users of its financial statements in such circumstances.

Framework for Preparation & Presentation of Financial Statements

6. The Balance Sheet of a trader as at 31st March, 2026 shows Property, Plant and Equipment at ₹ 65,000. While preparing the financial statements for the year ended 31st March, 2027, the accountant is considering whether the financial statements should continue to be prepared on a going concern basis, as there are indications that the business may discontinue its operations.

You are required to:

- (i) explain the basis on which assets are generally measured when financial statements are prepared on a going concern basis; and

- (ii) state the disclosure requirements where the financial statements are prepared on a basis other than the going concern basis.

AS 2 "Valuation of Inventories"

7. Shivalik Traders deals in a single line of electronic components. During the month of March 2026, the firm purchased 800 units of a component at ₹ 120 per unit. During the same month, it sold 600 units at ₹ 150 per unit. The remaining 200 units remained unsold as at the year-end, 31st March 2026.

The proprietor seeks your advice on the valuation of closing stock and the resultant profit for the year under the following two independent situations:

Situation A: The net realisable value (NRV) per unit of the unsold components, based on prevailing market conditions as at the year-end, is ₹ 150.

Situation B: Due to a sudden fall in market price on account of a new competing product launched by a rival company, the net realisable value (NRV) per unit of the unsold components as at the year-end has fallen to ₹ 100.

You are required to determine the value at which the closing stock of 200 units should be recognised in each of the above situations, and compute the profit of Shivalik Traders for the year in each case, as per AS 2 "Valuation of Inventories," read with the principle of prudence under AS 1, Disclosures of Accounting Policies .

AS 19 "Leases" (read with AS 1 "Disclosure of Accounting Policies")

8. Kavin Industries Ltd. sells a machine to a finance company for ₹ 2 crore and simultaneously leases back the same machine for the remainder of its useful life. The agreement provides that ownership of the machine will transfer back to Kavin Industries Ltd. at the end of the lease term on payment of ₹ 1. Kavin Industries Ltd. continues to use the machine and bears the risk of technological obsolescence throughout the lease term.

You are required to:

- (i) state, with reasons, whether the sale and leaseback transaction is, in substance, a finance lease; and

- (ii) explain the accounting treatment of the transaction in the books of Kavin Industries Ltd. with reference to AS 1, *Disclosure of Accounting Policies*, and AS 19, *Leases*.

AS 3 "Cash Flow Statements "

9. Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2027:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening balance:		Payment for Account	
Cash	10,000	Payables	90,000
Bank	70,000	Salaries and wages	25,000
Share capital – shares issued	5,00,000	Payment of overheads	15,000
Collection on account of Trade Receivables	3,50,000	Property, plant and equipment acquired	4,00,000
		Debentures redeemed	50,000
Sale of Property, plant and equipment	70,000	Bank loan repaid	2,50,000
		Taxation	55,000
		Dividends	1,00,000
		Closing balance:	
		Cash	5,000
		bank	10,000
	<u>10,00,000</u>		<u>10,00,000</u>

Prepare Cash Flow Statement for the year ended 31st March, 2027 in accordance with Accounting Standard 3.

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

10. MN Limited operates its business into various segments. Its financial year ended on 31st March, 2026 and financial statements were approved

by their approving authority on 15th June, 2026. The following material events took place:

- (1) On 7th April, 2026, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of ₹ 15 crores would be fully covered by the insurance company.
- (2) A claim for damage amounting to ₹ 2 crores for breach of patent had been received by the entity prior to the year end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.
- (3) A major property was sold (it was included in the balance sheet at ₹ 37,50,000) for which contracts had been exchanged on 15th March, 2026. The sale was completed on 15th May, 2026 at a price of ₹ 39,75,000.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of MN Limited for the year ended 31st March, 2026 as per AS-4.

AS 7 "Construction Contracts"

11. (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. ₹ 50 Lakh ₹ 60 Lakh and ₹ 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

- (ii) On 1st December, 2026, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2027, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2027 as per provisions of AS 7?

AS 10 "Property Plant and Equipment"

12. Hardy Ltd. intends to extend the factory set up on the adjacent plot with dilapidated old premises. It acquired the land having an area of 250 hectares at a cost of ₹ 25,000 per hectare.

Hardy Ltd. incurred Stamp duty and registration charges of 5% of land value. Legal fees were paid ₹ 4,75,000 for land acquisition.

Hardy Ltd. incurred ₹ 37,85,000 for demolishing old premises thereon. A sum of ₹ 12,60,000 (including 5% GST thereon) was realized from the sale of material salvaged from the site.

Till the new site with extended factory premises is ready, the company needs to move the present production facilities to another (temporary) site. The following incremental costs will be incurred.

- (1) Set up costs of ₹ 7,50,000 to install machinery in the new location.
- (2) Rent of ₹ 12,00,000.
- (3) Removal costs of ₹ 2,50,000 to transport the machinery from the old location to the temporary location.
 - (i) Management is of the opinion that the cost of moving the production facilities to another temporary location can be capitalised.

You are required to advise.

- (ii) You are also required to compute the cost of land acquired.

AS 11 "The Effects of Changes in Foreign Exchange Rates"

13. Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2026, it borrowed US \$1 million from International Funding Agency, USA when exchange rate was 1 \$ = ₹ 63. The funds were used for acquiring machineries, on the same date, to be used in three different plants. The useful life of the machineries is 10 years and their residual value is ₹ 30,00,000.

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2027 is 1 US \$ = ₹ 62. Assume that on 31st March, 2027, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2026.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2027. If yes, then calculate the depreciation amount on machineries as on 31st March, 2027.

AS 12 "Accounting for Government Grants"

14. Sunrise Manufacturing Ltd. established a new manufacturing unit in an economically backward region under a Government scheme. Under the scheme, the company was eligible to receive a subsidy equivalent to 15% of the total capital investment made in the unit. The subsidy was granted as an incentive for establishing the undertaking, and no repayment was ordinarily expected. The scheme did not require the subsidy to be utilised for acquiring any particular asset.

During the year ended 31st March, 2027, the company made a capital investment of ₹ 40 crore and, after fulfilling all the conditions of the scheme, received a subsidy of ₹ 6 crore from the Government.

The management proposes to recognise the subsidy as income in the Statement of Profit and Loss for the year ended 31st March, 2027.

You are required to examine, with reference to AS 12, Accounting for Government Grants, whether the proposed accounting treatment is appropriate.

AS 28 "Impairment of Assets"

15. A machine was acquired by Zest Ltd. on 01/04/2022 for ₹ 60 lakhs. It had a useful life of 6 years. The machine is depreciated on straight line basis and does not carry any residual value. On 01/04/2025, the carrying value of the machine was reassessed at ₹ 36 lakhs.

The surplus arising out of the revaluation being credited to revaluation reserve.

For the year ended March 2027, conditions indicating an impairment of the existing machine and the amount recoverable ascertained to be ₹ 9 lakhs.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Zest Ltd. The company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

AS 29 “Provisions, Contingent Liabilities and Contingent Assets”

16. A company incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/ outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. occurrence of such events cannot be ruled out, given the large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.

2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

- (i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29.
- (ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

Buy back of Securities

17. Purpose Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of total paid up equity capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Branch Accounting

18. From the following particulars relating to Pune branch for the year ending December 31, 2026, prepare Branch Account in the books of Head office. All the daily collections are transferred from the branch to the head office. Head office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. Assume that goods are invoiced to the branch at cost.

		₹
Stock at Branch on January 1, 2026		10,000
Branch Debtors on January 1, 2026		4,000
Branch Debtors on Dec. 31, 2026		4,900
Petty cash at branch on January 1, 2026		500
Furniture at branch on January 1, 2026		2,000
Prepaid fire insurance premium on January 1, 2026		150

Salaries outstanding at branch on January 1, 2026		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2027	<u>600</u>	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31, 2026		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

Amalgamation of Companies

19. The following are the summarized Balance Sheet of Ram Limited and Shyam Limited as at 31st March 2027:

Particulars	Ram Limited (₹ in Lakhs)	Shyam Limited (₹ in Lakhs)
Equity and liabilities		
Equity Shares of ₹ 100 each	40.000	28.000
10% Debentures of ₹ 100 each	15.000	-
8% Debentures of ₹ 100 each	-	8.000

General Reserves	1.500	0.670
Retirement Gratuity Fund (Long term)	3.450	1.300
Trade Payables	7.400	4.250
Other current liabilities	1.240	0.880
Short-term provisions	<u>0.710</u>	<u>0.320</u>
Total	<u>69.300</u>	<u>43.420</u>
Assets		
Goodwill	8.750	1.795
Property, Plant and Equipment	35.650	31.260
Inventories	8.890	4.800
Trade Receivables	13.535	4.650
Cash in hand	0.485	0.315
Balances with banks	<u>1.990</u>	<u>0.600</u>
Total	<u>69.300</u>	<u>43.420</u>

On 31st March 2027, Ram Limited absorbs the business of Shyam Limited on the following terms:

- (i) 8% Debenture holders of Shyam Limited are to be paid at 10% discount by issue of 10% Debentures at par in Ram Limited.
- (ii) There is an unrecorded current asset of ₹ 1,16,000 in the books of Shyam Limited, which is taken over by Ram Limited.
- (iii) Trade payables of Shyam Limited included ₹ 1,50,000 payable to Ram Limited.
- (iv) Inventory of Shyam Limited is taken over by Ram Limited at 10% more than its book value.
- (v) Goodwill of Shyam Limited on absorption is to be computed based on two times of simple average profits of preceding three financial years (2023-2024: ₹ 4,50,000; 2024-2025: ₹ 3,90,000; and 2025-2026: ₹ 2,35,000). In the year 2024-2025, there was an embezzlement of cash by an employee amounting to ₹ 50,000, which has already been adjusted in the profit for the year 2024-2025.

- (vi) Property, Plant and Equipment of Shyam Limited are taken over by Ram Limited at ₹ 36,44,500.
- (vii) Remaining Assets and Liabilities of Shyam Limited are taken over by Ram Limited at their book value.
- (viii) Equity Shareholders of Shyam Limited will be issued necessary equity shares in Ram Limited at 5% premium.

You are required to:

- (i) Calculate the Purchase consideration.
- (ii) Prepare Balance Sheet of Ram Limited after absorption as at 31st March 2027.

Consolidated Financial Statements

20. The following are the summarized Balance Sheets of Seva Limited and its subsidiary Meva Limited as at 31st March 2027:

Particulars	Seva Limited (₹ in Lakh)	Meva Limited (₹ in Lakh)
Equity Shares of ₹ 10 each, fully paid up	6,000	4,000
General Reserve	1,500	1,200
Profit and Loss Account	2,000	1,500
10% Debentures of ₹ 10 each	1,180	820
Trade Payable	<u>1,500</u>	<u>1,080</u>
Total	<u>12,180</u>	<u>8,600</u>
Land and Building	4,000	4,150
Plant & Machinery	1,460	1,650
Non-current investments (Shares in Meva Limited)	3,000	
Inventories	1,400	1,100
Trade Receivable	1,420	1,000
Cash at Bank	550	600
Cash in Hand	<u>350</u>	<u>100</u>
Total	<u>12,180</u>	<u>8,600</u>

The following information are provided:

- (i) The Authorised Share Capital of Seva Limited is ₹ 9,000 Lakh divided into Equity Shares of ₹ 10 each and that of Meva Limited is ₹ 6,000 Lakh divided into Equity Shares of ₹ 10 each.
- (ii) Seva Limited acquired 80% equity shares of Meva Limited on 1st April 2026. On that date, General Reserve and Profit & Loss Account of Meva Limited stood at ₹ 2,000 lakh and ₹ 800 lakh respectively.
- (iii) On 1st November 2026 Meva Limited issued one fully paid up bonus share for every three shares held out of balances of its general reserve as on 31st March 2026.
- (iv) On 31st March 2027 Seva Limited's includes goods purchased from Meva Limited for ₹ 125 lakh on which Meva Limited earned a profit of ₹ 25 lakh.

You are required to prepare Consolidated Balance Sheet of Seva Limited and its subsidiary Meva Limited as on 31 March 2027 as per Schedule III of the Companies Act, 2013.



SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Hints
1.	(a)	(iii)
	(b)	(iii)
	(c)	(iii)
	(d)	(iii)
2.		(ii)
3		(ii)
4		(ii)

Descriptive Answers

5. Where there is a conflict between the requirements of an Accounting Standard and a statutory requirement governing an enterprise, the statutory requirement shall prevail.

Accordingly, XYZ Ltd. should follow the valuation method prescribed under the applicable statute, even though it differs from the method prescribed by the relevant Accounting Standard.

However, while preparing its financial statements, XYZ Ltd. should ensure that the financial information remains relevant, reliable and meaningful to the users. The company should appropriately disclose the accounting policy followed for valuation of inventory and the fact that the different treatment has been adopted pursuant to the statutory requirement. Such disclosure will enable users to understand the basis of valuation and its impact on the financial statements. The disclosure should state the deviation from the Accounting Standard, the reason for the deviation (i.e., the statutory requirement) and the financial effect, if any, arising out of the deviation, in line with Section 129(5) of the Companies Act, 2013

6. The going concern assumption means that the business is expected to continue in operation for the foreseeable future and that it neither intends, nor has any realistic alternative but, to liquidate or materially curtail the scale of its operations.

(i) Measurement of assets under the going concern basis: When financial statements are prepared on a going concern basis, assets are measured and presented in accordance with the applicable Accounting Standards on the assumption that they will be used in the normal course of business, rather than realised through a forced or immediate sale. Accordingly, assets are generally measured on the historical cost basis (cost less accumulated depreciation and impairment losses), and not at realisable or liquidation value.

Accordingly, Property, Plant and Equipment is generally carried in accordance with the applicable standard—normally at its carrying amount, i.e., cost less accumulated depreciation and accumulated

impairment losses (or under the applicable revaluation model, where adopted). Therefore, the PPE balance of ₹ 65,000 as at 31 March 2026 would be further adjusted, as appropriate, for depreciation, impairment, additions or disposals during 2027. It is not automatically restated to liquidation or forced-sale value merely because there are doubts about continuity.

(ii) **Disclosures where financial statements are not prepared on a going concern basis:** Where financial statements are prepared on a basis other than the going concern basis, the entity should disclose:

1. the fact that the financial statements have not been prepared on a going concern basis;
2. the basis on which the financial statements have been prepared; and
3. the reason why the entity is not regarded as a going concern. This enables users to understand the basis of measurement and presentation adopted and assess its effect on the financial statements.

7. As per AS 2, inventories are to be valued at the lower of cost and net realisable value (NRV). This is a direct application of the principle of prudence, one of the major considerations governing the selection of accounting policies under AS 1 profits are not anticipated, but all probable/known losses are provided for. Accordingly, unrealised gains (NRV higher than cost) are ignored, while probable losses (NRV lower than cost) are recognised in the current period itself.

Situation A: NRV = ₹ 150 per unit (higher than cost of ₹ 120)

Since NRV (₹150) > Cost (₹ 120), the closing stock is valued at cost, i.e., ₹ 120 per unit, in line with the prudence principle the unrealised gain of ₹ 30 per unit (₹ 150 – ₹ 120) is not recognised in the current year.

Particulars	Amount (₹)
Value of closing stock (200 units × ₹ 120)	24,000
Sales (600 units × ₹ 150)	90,000
Less: Cost of goods sold (800 units × ₹ 120 – 24,000)	<u>(72,000)</u>
Profit for the year	18,000

Situation B: NRV = ₹ 100 per unit (lower than cost of ₹ 120)

Since NRV (₹ 100) < Cost (₹ 120), the closing stock is valued at NRV, i.e., ₹ 100 per unit. The probable future loss of ₹ 20 per unit (₹ 120 – ₹ 100) on the unsold 200 units is recognised immediately in the current year itself.

Particulars	Amount (₹)
Value of closing stock (200 units × ₹ 100)	20,000
Sales (600 units × ₹ 150)	90,000
Less: Cost of goods sold (800 units × ₹ 120 – 20,000)	<u>(76,000)</u>
Profit for the year	14,000

Hence, in Situation A, the closing stock is valued at cost (₹ 24,000), yielding a profit of ₹18,000, with the unrealised gain of ₹ 6,000 (200 units × ₹ 30) deferred to the next period. In Situation B, the closing stock is valued at the lower NRV (₹ 20,000), yielding a reduced profit of ₹14,000, since the anticipated loss of ₹ 4,000 (200 units × ₹ 20) on the unsold units is recognised upfront. This reflects the prudent approach mandated by AS 2 and AS 1.

8. As per AS 1, Disclosure of Accounting Policies, transactions should be accounted for in accordance with their substance and economic reality and not merely their legal form.

In the present case, Kavin Industries Ltd. continues to use the machine for substantially its entire remaining useful life, bears the risk of technological obsolescence and obtains the right to have ownership of the machine transferred back to it for a nominal amount of ₹ 1 at the end of the lease term. These factors indicate that substantially all the risks and rewards incidental to ownership of the machine continue to remain with Kavin Industries Ltd. In particular, transfer of ownership to the lessee by the end of the lease term for a nominal consideration is one of the situations that individually or in combination lead to a lease being classified as a finance lease under AS 19 (paras 8 and 10).

Accordingly, the transaction is, in substance, a finance lease and not a genuine sale followed by an operating lease.

The accounting treatment shall be as follows:

1. The transaction should be accounted for in accordance with the provisions relating to finance leases under AS 19, Leases.
2. The machine should be recognised as a leased asset in the books of Kavin Industries Ltd. and a corresponding lease obligation should be recognised. The machine continues to be shown in the books of Kavin Industries Ltd. and depreciated as before.
3. The amount of ₹ 2 crore received from the finance company represents, in substance, finance obtained under the arrangement and should not be treated as ordinary sale proceeds.
4. Where the sale and leaseback results in a finance lease, any excess of the sale proceeds over the carrying amount of the machine should not be recognised immediately as income. Such excess should be deferred and amortised over the lease term.

Thus, the transaction should be accounted for on the basis of its financing substance rather than its legal form as a sale followed by a leaseback.

9. Cash Flow Statement for the year ended 31.3.2027

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(55,000)	
Net cash generated from operating activities		1,65,000

Cash flow from investing activities		
Payment for purchase of Property, plant and equipment	(4,00,000)	
Proceeds from sale of Property, plant and equipment	70,000	
Net cash used in investing activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Dividends paid	(1,00,000)	
Net cash generated from financing activities		1,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

10. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

- (1) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of note in the financial statements. The disclosure should state the nature of the event and an estimate of its financial effect (loss of ₹ 15 crores, expected to be fully recovered from the insurer).
- (2) On the basis of evidence provided, the claim against the company will not succeed. Thus, 2 crores should not be provided in the account but should be disclosed by means of a contingent liability with full details of the facts as per AS 29. Provision can be made

for legal fee expected to be incurred to the extent that they are not expected to be recovered if the amount can be ascertained.

- (3) The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2026 and the profit on sale of property ₹ 2,25,000 would be considered.

- 11. (i)** As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

Therefore, AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

- (ii)**

	₹ in lakhs
Cost of construction incurred till date	32.50
<i>Add:</i> Estimated future cost	<u>15.10</u>
Total estimated cost of construction	<u>47.60</u>

Percentage of completion till date to total estimated cost of construction

$$= (32.50/47.60) \times 100 = 68.28\%$$

Proportion of total contract value recognised as revenue for the year ended 31st March, 2027 per AS 7 (Revised)

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹ 45 \text{ lakh} \times 68.28\% = ₹ 30.73 \text{ lakhs.}$$

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	<u>(45.00)</u>
Total foreseeable loss to be recognized as expense	<u>2.60</u>

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

12. (a) (i) (i) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.
- (ii) These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (iii) The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised)
- (iv) Therefore, these costs cannot be capitalized.

(ii) Computation of cost of land

Particulars		₹	₹
Purchase Price	250 hectares x ₹ 25,000 per hectares		62,50,000
Stamp Duty and Registration Charges	5% of ₹ 62,50,000		3,12,500
Legal and Consultancy Fees			4,75,000

Demolition Expenses (Net of Salvage Income)	₹ 12,60,000 x (100/105)	37,85,000 (12,00,000)	<u>25,85,000</u>
Cost of Land			96,22,500

13. As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount ₹

Cost of the asset in \$		1 million
Exchange rate on 1 st April, 2026		₹ 63 = 1\$
Cost of the asset in ₹	(1 million x ₹ 63)	63 million
Less: Exchange differences as on 31 st March, 2027 (63-62) x \$ 1 million	(Gain)	<u>(1 million)</u>
		62 million
Less: Depreciation for 2026-2027	(62 million - 3 million)/ 10 years	<u>(5.90 million)</u>
		<u>56.10 million</u>

- 14.** As per AS 12, Accounting for Government Grants, government grants which are in the nature of promoters' contribution, i.e., grants given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay, and where no repayment is ordinarily expected, should be treated as capital reserve.

In the present case, the subsidy is granted with reference to the total capital investment made by Sunrise Manufacturing Ltd. in establishing its new undertaking. Further, the subsidy is not related to any specific asset or to the revenue of the company, and no repayment is ordinarily expected.

Accordingly, the subsidy of ₹ 6 crore is in the nature of promoters' contribution and should be credited to Capital Reserve.

The proposed treatment of recognising the subsidy as income in the Statement of Profit and Loss is therefore not appropriate.

Thus, the subsidy should be recognised as Capital Reserve and not as revenue income.

15. Statement Showing Impairment Loss

	(₹ in lakhs)
Carrying amount of the machine as on 1 st April, 2022	60
Depreciation for 3 years i.e. 2022-2023 to 2024-2025 [$\frac{60 \text{ Lakh}}{6 \text{ years}} \times 3 \text{ years}$]	(30)
Carrying amount as on 31.03.2025	30
Add: Upward Revaluation (credited to Revaluation Reserve account)	<u>6</u>
Carrying amount of the machine as on 1 st April, 2025 (revalued)	36
Less: Depreciation for 2 years i.e. 2025-2026 & 2026-2027 [$\frac{36 \text{ Lakh}}{3 \text{ years}} \times 2 \text{ years}$]	<u>(24)</u>

Carrying amount as on 31.03.2027	12
Less: Recoverable amount	(9)
Impairment loss	<u>3</u>
Less: Revaluation reserve created on 01.04.2025: 6	
Less: Enhanced depreciation met from revaluation reserve 2025-2026 & 2026-2027 = [(12 – 10) x 2 years] (4)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"	(2)
Impairment Loss to be debited to profit and loss account	<u>1</u>

- 16** (i) Para 14 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

From the above, it is clear that in the contingencies considered by the company, neither a present obligation exists as a result of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognised for such contingencies under the facts and circumstances of the case.

- (ii) "As per AS 29, a "provision" is a liability which can be measured only by using a substantial degree of estimation. Since the contingencies stipulated by the company are not known at the balance sheet date, no present obligation exists and the provision in this regard cannot be created. Therefore, the provision so created by the company should be reversed and shall be treated as a 'Reserve' (an appropriation of surplus and not a charge against income).

17. Journal Entries in the books of Purpose Ltd.

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000

6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c	Dr.	32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

Working Notes:
1. Calculation of amount used from General Reserve Account

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹ 10)	(10,00,000)
Less: Utilization of Securities Premium Account	<u>(16,00,000)</u>
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹ 10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹ 10)	<u>(10,00,000)</u>
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

18.

Pune Branch Account

Particulars		₹	Particulars	₹	₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600		Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

19. (i) Calculation of Purchase Consideration

	₹ in Lakhs
Goodwill	7.500
PPE	36.445
Inventory	5.280
Trade receivables	4.650
Cash in hand	0.315
Cash at Bank	0.600
Unrecorded assets	<u>1.160</u>
(i)	<u>55.950</u>
Less: Liabilities:	
10% debentures	7.200
Retirement Gratuity Fund	1.300
Trade payables	4.250
Other current liabilities	0.880
Short term provisions	<u>0.320</u>
(ii)	<u>13.950</u>
Net Assets/ Purchase Consideration	<u>42.000</u>
To be satisfied as under:	
Equity Shareholders of Shyam Ltd. to be satisfied by issue of 40,000 (42 lakhs/105) Equity Shares of Ram Ltd. at 5% Premium (40,000 x 105)	

**Balance Sheet of Ram Ltd (after absorption)
as on 31.03.2027**

	Particulars	Notes	₹ in lakhs
	Equity & Liabilities		
1	Shareholders' Fund		
a	Share Capital	1	80.000
b	Reserves & Surplus	2	3.500

2	Non-Current Liabilities		
a	Long-term Borrowings	3	22.200
b	Long-term Provisions	4	4.750
3	Current Liabilities		
a	Trade Payables	5	10.150
b	Other current liability	6	2.120
c	Short term provisions	7	<u>1.030</u>
	Total		<u>123.750</u>
	Assets		
1	Non-current assets		
a	Property, Plant & Equipment	8	72.095
b	Intangible assets	9	16.250
2	Current assets		
a	Inventories	10	14.170
b	Trade receivables	11	16.685
c	Cash and cash equivalents	12	3.390
d	Other current assets	13	<u>1.160</u>
	Total		<u>123.750</u>

Notes to Accounts

	Particulars	₹ in lakhs
1	Share Capital	
	Authorised share capital	
	Issued, Subscribed & Paid up	
	80,000 Equity Shares of ₹100 each	80.000
	(out of the above 40,000 shares have been issued for consideration other than cash)	
	Total	80.000

2	Reserves & Surplus		
	Securities Premium		2.000
	General Reserve		<u>1.500</u>
		Total	<u>3.500</u>
3	Long Term Borrowings		
	10% Debentures of ₹ 100	(15.000 + 7.200)	22.200
4	Long Term Provisions		
	Retirement Gratuity Fund (3.450 + 1.300)		4.750
5	Trade Payables	(7.400 + 4.250 - 1.500)	10.150
6	Other Current Liabilities	(1.240 + 0.880)	2.120
7	Short term provisions	(0.710 + 0.320)	1.030
8	Property, Plant and Equipment		
	PPE	(35.650 + 36.445)	72.095
9	Intangible Assets		
	Goodwill	(8.750 + 7.500)	16.250
10	Inventories	(8.890 + 5.280)	14.170
11	Trade Receivables	(13.535 + 4.650 - 1.500)	16.685
12	Cash & Cash equivalent		
	Cash in hand	(0.485 + 0.315)	0.800
	Balance with banks	(1.990 + 0.600)	<u>2.590</u>
			<u>3.390</u>
13	Other Current Assets		1.160

Working notes
1. Calculation of goodwill

Particulars	₹ In lakhs
Total profit	
Year:	
2023-24	4.50

2024-25 (3.90+0.50)		4.40
2025-26		<u>2.35</u>
	(i)	<u>11.25</u>
Average profit (i/3)	(ii)	3.75
No of years of purchase	(iii)	2 years
Goodwill (ii*iii)		7.5

**20. Consolidated Balance Sheet of Seva Ltd.
and its subsidiary Meva Ltd. as at 31st March, 2027**

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,000
(b) Reserves and Surplus	2	5,840
(2) Minority Interest [W.N.6]		1,335
(3) Non-current liabilities		
(a) Long term borrowings	3	2,000
(4) Current Liabilities		
(a) Trade payables	4	<u>2,580</u>
Total		<u>17,755</u>
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	11,260
(2) Current assets		
(a) Inventories	6	2,475
(b) Trade receivables	7	2,420
(c) Cash and cash equivalents	8	<u>1,600</u>
Total		<u>17,755</u>

Notes to Accounts

		(₹ in lacs)	(₹ in lacs)
1	Share Capital		
	Authorized share capital		
	900 lakh Equity shares of ₹ 10 each,		<u>9,000</u>
	Issued and Subscribed:		
	600 lakh Equity shares of ₹ 10 each,		<u>6,000</u>
	Total		<u>6,000</u>
2	Reserves and surplus		
	Capital Reserve (WN 5)	1,640	
	General Reserve (WN 8)	1,660	
	Profit and Loss Account (WN 8)	<u>2,540</u>	
	Total		<u>5,840</u>
3	Long term Borrowings		
	10% Debentures of ₹ 10 each		
	(1,180 + 820)		<u>2,000</u>
4	Trade payables		
	Seva Ltd.	1,500	
	Meva Ltd.	<u>1,080</u>	2,580
5	Property, plant and equipment		
	Land and Buildings		
	Seva Ltd. 4,000		
	Meva Ltd. <u>4,150</u>	8,150	
	Plant and Machinery		
	Seva Ltd. 1,460		
	Meva Ltd. <u>1,650</u>	<u>3,110</u>	
	Total		11,260

6	Inventories		
	Seva Ltd.	1400	
	Meva Ltd.	<u>1,100</u>	
		2,500	
	Less: Unrealized profit	<u>(25)</u>	2,475
7	Trade receivables		
	Seva Ltd.	1,420	
	Meva Ltd.	<u>1,000</u>	2,420
8	Cash and cash equivalents		
	Cash at Bank (550 + 600)	1,150	
	Cash in hand (350+100)	<u>450</u>	1,600

Working Notes:

1. Meva Ltd.'s General Reserve Account

	₹ in lakhs		₹ in lakhs
To Bonus to equity shareholders (WN-9)	1,000	By Balance b/d	2,000
	<u>1,200</u>	By Profit and Loss A/c	<u>200</u>
To Balance c/d	<u>2,200</u>		<u>2,200</u>

2. Meva Ltd.'s Profit and Loss Account

	₹ in lakhs		₹ in lakhs
To General Reserve [WN 1]	200	By Balance b/d	800
	<u>1,500</u>	By Net Profit for the year (Balancing figure)	<u>900</u>
To Balance c/d	<u>1,700</u>		<u>1,700</u>

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	900
Less: Share of Seva Ltd.	
Share in General Reserve (80% of 200) = 160	
Share in P&L A/c (80% of 700) = <u>560</u>	<u>(720)</u>
Share of Minority Shareholders (20%)	<u>180</u>

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (2,000 – 1,000)	1,000
Profit and loss account on the date of acquisition	<u>800</u>
	<u>1,800</u>

Seva Ltd.'s share = 80% of ₹ 1,800 lakhs = ₹ 1,440 lakhs

Minority interest = ₹ 1,800 – ₹ 1,440 = ₹ 360 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (80% of ₹ 4,000)	3,200
Add: Share in capital profits [WN 4]	<u>1,440</u>
	4,640
Less: Cost of shares	<u>(3,000)</u>
Capital reserve	<u>1,640</u>

6. Calculation of Minority Interest

	₹ in lakhs
20% of share capital (20% of 4,000)	800
Add: Share in revenue profits [WN 3]	180
Share in capital profits [WN 4]	<u>360</u>
	1,340
Less: Unrealized profit (80% of 25)	<u>5</u>
Minority Interest	1,335

7. Unrealized profit in respect of inventory

₹ 25 lakhs (80% Related to Seva Ltd. and 20% related to Meva Ltd)

8. Calculation of Consolidated General Reserve and Profit & Loss A/c of Seva Ltd.

	General Reserve	P&L A/c
Balance on reporting date	1,500	2,000
Share in post-acquisition or revenue profits of Meva Ltd.	<u>160</u>	<u>560</u>
	1,660	2,560
Less: Unrealized profit	-	20
Closing Balance	1,660	2,540

9. Computation of bonus to equity shareholders

₹ In lakhs

Shares as on 31 March 2027 including bonus share
issued on 1 Nov. 2026 4,000

Or we can say these are $1 + \frac{1}{3}$ or $\frac{4}{3}$

i.e. Shares before bonus issue should have been $\frac{4,000}{4} \times 3 = 3,000$

Accordingly, bonus issue would be (4,000-3,000) 1,000