

MOCK TEST PAPER
INTERMEDIATE (NEW) : GROUP – I
PAPER – 1: ACCOUNTING

1. (a) Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of ₹ 20 lakh on 31.03.2020 on payment of US \$ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

Foreign currency loan (in ₹) = (50 lakh \$ x ₹ 60) = ₹ 3,000 lakh

Exchange loss on outstanding loan on 31.03.2020 = ₹ 40 lakh US \$ x (62.00-60.00) = ₹ 80 lakh.

So, ₹ 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to ₹ 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by ₹ 100 lakh. Total depreciation to be provided for the year 2019 - 2020 = 20% of (₹ 3,000 lakh + 100 lakh) = ₹ 620 lakh.

- (b) According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(₹ in lakhs)
1 st April, 2017	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31 st March, 2018	Less: Depreciation @ 20%	<u>(80)</u>
1 st April, 2018	Book value	320.00
31 st March, 2019	Less: Depreciation @ 20%	<u>(64)</u>
1 st April, 2019	Book value	256.00
31 st March, 2020	Less: Depreciation @ 20%	<u>(51.20)</u>
1 st April, 2020	Book value	204.80
2 nd April, 2020	Add: Refund of grant	<u>100.00</u>
	Revised book value	<u>304.80</u>

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

- (c) (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.
- (ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10.

- (d) As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	₹
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account (\$1,000 x ₹ 70)	<u>70,000</u>
	<u>1,80,000</u>

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

2. (a) **Balance Sheet of Shree Ltd.**
as at 31st March, 2020

	Particulars	Note No.	(₹)
I	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	19,90,000
(b)	Reserves and Surplus	2	3,47,000
(2)	Current Liabilities		
(a)	Trade Payables		2,40,500
(b)	Other Current Liabilities	3	13,28,000
(c)	Short-Term Provisions	4	<u>1,20,000</u>
	Total		<u>40,25,500</u>
II	ASSETS		
(1)	Non-Current Assets		
(i)	Property, plant and Equipment (PPE)	5	29,30,000
(2)	Current Assets		
(a)	Inventories		7,08,000
(b)	Trade Receivables	6	3,59,500
(c)	Cash and Cash Equivalents	7	<u>28,000</u>
	Total		<u>40,25,500</u>

Shree Ltd.

Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>

III	Total Revenue [I + II]		<u>36,53,500</u>
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VII	Profit for the period		<u>2,80,000</u>

Notes to Accounts:

1. Share Capital

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

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	<u>2,80,000</u>	3,47,000

3. Other Current Liabilities

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

4. Short-term Provisions

Provision for Tax	1,20,000
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5. PPE

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000

Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

6. Trade Receivables

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

7. Cash & Cash Equivalent

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

8. Other Income

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

9. Employee benefits expenses

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

10. Finance Cost

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

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

(b) As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria:

- (i) it is expected to be settled in the company's normal operating cycle;
- (ii) it is held primarily for the purpose of being traded;
- (iii) it is due to be settled within twelve months after the reporting date; or
- (iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 30.09.2020 and 31.03.2021 will be shown under the head 'other current liabilities'. Therefore, in the balance sheet as on 31.3.2020, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

3. (a) (i) Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
1.1.19	To Bank A/c	600		12,000	31.3.19	By Balance c/d	1,500		34,500
15.3.19	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
1.4.19	To Balance b/d	1,500		34,500	15.9.19	By Bank - dividend		4,500	3,000
20.5.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000
25.7.19	To Bonus shares	2,500		—	1.2.20	By Bank	1,000		24,000
12.11.19	To Bank A/c	600		12,000	31.3.20	By Balance c/d	3,100		36,812.50
20.12.19	To P & L A/c (profit on sale)			15,187.50					
1.2.20	To P & L A/c (profit on sale)			12,125					
31.3.20	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. Calculation of Weighted average cost of equity shares

600 shares purchased at ₹ 12,000

900 shares purchased at ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19)].

Hence, weighted average cost per share will be considered as ₹ 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2019.

3. Calculation of right shares subscribed by Vijay

Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1 = 1,000 shares

Shares subscribed = 1,000 x 60% = 600 shares

Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000

Calculation of sale of right renouncement

No. of right shares sold = 1,000 x 40% = 400 shares

Sale value of right = 400 shares x ₹ 3 per share = ₹ 1,200

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

As on 20.12.19

Sales price (1,500 shares at ₹ 22)	33,000.00
Less: Cost of shares sold (1,500 x ₹ 11.875)	(17,812.50)
Profit on sale	<u>15,187.50</u>

As on 1.2.20

Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	(11,875)
Profit on sale	<u>12,125</u>

Balance of 3,100 shares as on 31.3.20 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

- (ii) The accounting treatment 'at cost' under the head 'Long Term Investment' in the financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment. If the decline in the value of investment is, other than temporary, compared to the time when the shares were purchased, provision is required to be made. The reduction in market value should not be considered, in isolation to determine the decline, other than temporary. The amount of the provision for diminution in the value of investment may be ascertained considering the factors indicated in AS 13.

(b) **Memorandum Trading Account for the period 1st April, 2020 to 31st August, 2020**

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	-	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)	90,000	2,500	92,500
	<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>		<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2020	92,500
Less: Stock salvaged	(20,000)
Loss of stock	<u>72,500</u>

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

$$= ₹ 72,500 \times \frac{60,000}{92,500} = ₹ 47,027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	<u>(1,500)</u>
Adjusted purchases	<u>1,56,500</u>

4. (a) Departmental Trading Account for the year ended on 31st March, 2020

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	<u>24,00,000</u>	<u>45,00,000</u>			
	<u>66,00,000</u>	<u>1,02,00,000</u>		<u>66,00,000</u>	<u>1,02,00,000</u>

General profit and loss account of Beta for the year ended on 31st March, 2020

Particulars	Amount	Particulars	Amount
	₹		₹
To General expenses	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
	<u>69,66,000</u>	Dept. B	<u>45,00,000</u>
			<u>69,66,000</u>

Working Notes:

	Dept. A	Dept. B
Percentage of Profit	24,00,000/60,00,000 x 100 = 40%	45,00,000/90,00,000 x 100 = 50%
Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
Closing Stock reserve	1,20,000 x 50% = 60,000	1,80,000 x 40% = 72,000

**(b) Trading and Profit and Loss Account
for the year ended 31st March, 2020**

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash	2,40,000
To Gross Profit @ 25%	3,10,000	Credit	<u>10,00,000</u>
			12,40,000

		By Closing Stock (bal.fig.)	<u>1,20,000</u>
	<u>13,60,000</u>		<u>13,60,000</u>
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000 x 6/12)	5,000		
To Net Profit	<u>1,45,000</u>		
	<u>3,10,000</u>		<u>3,10,000</u>

Balance Sheet as at 31st March, 2020

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	<u>1,45,000</u>		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	<u>(80,000)</u>	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		<u>90,000</u>		
		<u>5,60,000</u>		<u>5,60,000</u>

Working Notes:

1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	<u>10,00,000</u>	By Balance c/d	<u>3,50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	<u>90,000</u>		
	<u>8,10,000</u>		<u>8,10,000</u>

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business		

			expenses		1,20,000
			By Balance c/d	10,000	80,000
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

5. (a)

Tejasvi (P) Limited

Statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods

	Pre. inc. (5 months) (₹)	Post inc. (10 months) (₹)
Sales (W.N.1)	3,00,000	16,80,000
Less: Cost of sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N.2)	18,750	71,250
Rent (W.N.3)	15,000	1,20,000
Interest (W.N.4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses		<u>15,000</u>
Net profit	<u>4,250</u>	<u>2,01,550</u>

Working Notes:

1. Calculation of sales ratio

Let the average sales per month in pre-incorporation period be x

$$\text{Average Sales (Pre-incorporation)} = x \times 5 = 5x$$

$$\text{Sales (Post incorporation) from June to December, 2019} = 2\frac{1}{2}x \times 7 = 17.5x$$

$$\text{From January to March, 2020} = 3\frac{1}{2}x \times 3 = 10.5x$$

$$\text{Total Sales} = 5x + 17.5x + 10.5x = 28.0x$$

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

$$\text{Pre-incorporation salary} = x \times 5 = 5x$$

Post incorporation salary

$$\text{June, 2019} = x$$

$$\text{July, 2019 to March, 2020} = x \times 9 \times 2 = 18x$$

$$19x$$

Ratio is 5 : 19

3. Calculation of Rent

₹

$$\text{Total rent} = 1,35,000$$

$$\text{Less: Additional rent for 9 months @ ₹ 10,000 p.m.} = \underline{90,000}$$

Rent of old premises apportioned in time ratio		<u>45,000</u>
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent	<u> </u>	<u>90,000</u>
	<u>15,000</u>	<u>1,20,000</u>

4. Calculation of interest

Pre-incorporation period from January, 2019 to May, 2019

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12} \right) = ₹ 30,000$$

Post incorporation period from June, 2019 to March, 2020

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12} \right) = ₹ 75,000$$

₹ 1,05,000

(b) Pune Branch Trading and Profit and Loss Account

Particulars	₹	Particulars	₹
To Opening Stock (including ₹10,000 from Goa Branch)	40,000	By Sales (including ₹20,000 to Goa Branch)	2,80,000
To Purchases	2,00,000	By Closing Stock (including ₹5,000 from Goa Branch)	30,000
To Chargeable Expenses	15,000		
To Gross Profit c/d (before making adjustment for unrealised profit)	55,000		
	<u>3,10,000</u>		<u>3,10,000</u>
To Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch) (₹4,000 x 25/100)	1,000	By Gross Profit b/d	55,000
To Office & Adm. Expenses	13,250	By Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To Selling & Distribution Expenses	15,000		
To Net Profit	<u>30,000</u>		
	<u>59,250</u>		<u>59,250</u>

(c) In the books of Ganesh Ltd.

New York Branch Trial Balance in (₹) as on 31st March, 2020

	Conversion rate per US \$ (₹)	Dr. ₹	Cr. ₹
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600

Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

6. (a)

In the books of ABC Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2020 April 1	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,00,000	1,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,00,000	1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	75,000 25,000	1,00,000

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

(b) **Computation of effective capital:**

	₹
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
Public Deposits	<u>3,70,000</u>
(A)	<u>1,85,65,000</u>
Investments	75,00,000
Profit and Loss account (Dr. balance)	<u>15,00,000</u>
(B)	<u>90,00,000</u>
Effective capital	(A–B) <u>95,65,000</u>

(c) **Determination of Capital balances of Mr. Aman on 31.3.2018 and 31.3.2019**

	31.3.2018	31.3.2019
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	<u>12,52,000</u>	<u>22,60,000</u>

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-3-2019	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	<u>(50,000)</u>
	22,10,000
Add: Drawings (₹32,000 × 12)	<u>3,84,000</u>
	25,94,000
Less: Capital Balance as on 1.4.2018	<u>(12,52,000)</u>
Profit	13,42,000
Income declared	<u>9,12,000</u>
Suppressed Income	<u>4,30,000</u>

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹4,30,000.

OR

$$\text{Ratio of interest and amount due} = \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 rd	4,40,000	1/11 of ₹ 4,40,000 = ₹ 40,000	4,00,000
2 nd	8,40,000	1/11 of ₹ 8,40,000 = ₹ 76,364	7,63,636
1 st	12,03,636	1/11 of ₹ 12,03,636 = ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

- (d) 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, ABC Ltd. should recognize a liability of ₹ 4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized 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 recognized as an expense. Hence ABC Ltd. should charge the amount of ₹ 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2020.