PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2022 EXAMINATION

A. Applicable for May, 2022 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Appendix "Schedule III to the Companies Act" in Module II of September, 2021 Edition. The students are advised to refer the link https://resource.cdn.icai.org/66657bos53803-mod2-appx.pdf for the revised content.

II. The Institute of Chartered Accountants of India revised the Guidance Note on Accounting for Share-based Payments in year 2020. This revised Guidance Note is applicable for the topic "Accounting for Employee Stock Option Plans" for May, 2022 Examination. The provisions of the Guidance Note cover employee stock option plans, the grant date in respect of which falls on or after 1 April 2021. An enterprise is not required to apply this Guidance Note to employee stock option plans to equity instruments that are not fully vested as on 1 April 2021. The chapter on "Employee Stock Option Plans" given in Module II of September, 2021 Edition of the Study Material is revised accordingly. The students are advised to refer link https://resource.cdn.icai.org/66641bos53803-cp3.pdf for the revised chapter.

NOTE: September, 2021 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for May 2022 Examination which incorporates the above amendments. The students who have editions prior to September, 2021 may refer the revised content for the amendments.

B. Not applicable for May, 2022 examination

Non-Applicability of Ind AS for May, 2022 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May 2022 Examination.

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PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of Partnership Firm

1. (a) The firm of M/s Om has four partners - A,B,C & D and as of 31st March, 2021, its Balance Sheet stood as follows:

Equity and Liabilities	₹	Assets	₹
Capital A/cs:		Land	50,000
A	2,00,000	Building	2,50,000
B	2,00,000	Office equipment	1,25,000
C	1,00,000	Computers	70,000
Current A/cs:		Debtors	4,00,000
A	50,000	Stocks	3,00,000
B	1,50,000	Cash at Bank	75,000
C	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c:	
Current Liabilities	70,000	D	87,400
	13,80,000		13,80,000

The partners have been sharing profits and losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 1.4.2021 on the basis of the following understanding:

(a) The following assets are to be adjusted to the extent indicated with respect to the book values:

Land	200%
Building	120%
Computers	70%
Debtors	95%
Stocks	90%

(b) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(c) D is insolvent and no amount is recoverable from him. His father, C, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

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(d) The assets are realized at the agreed (adjusted) values.

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Cash A/c, Realization Account and the Partners' capital accounts (including their current accounts).

Limited Liability Partnerships

(b) Explain the nature of a Limited Liability Partnership. Under what circumstances, an LLP may be wound up voluntarily or by the Tribunal?

Sale of Partnership firm to a company

2. U and V were in partnership with sharing of profit and loss equally. The firm's Balance sheet as at 31/12/2021 (for 9 months) was:

Equity and Liabilities			Assets		
Partners' Capital Accounts:			Plant		1,85,000
U	1,50,000		Building		1,00,000
V	1,80,000	3,30,000	Debtors		85,000
Sundry Creditors		90,000	Stock		56,000
Bank Overdraft		83,000	Profit & Loss A/c (Dr. balance)		60,000
			Partners' Drawings Accounts:		
			U	8,000	
			V	9,000	17,000
Total		5,03,000	Total		5,03,000

The operations of the business were carried on till 31/03/2022. U and V both withdrew in equal amount half the amount of profit made during the current period of three months after charging depreciation of ₹ 5,000 on plant and after writing off 5% of building. During the current period of three months, creditors were reduced by ₹ 50,000 and bank overdraft by ₹ 50,000. The stock was valued at ₹ 24,000 and debtors at ₹ 40,500 on 31st March, 2022. The other items remained the same as at 31/12/2021.

On 31/03/2022, the firm sold its business to UV Limited. The value of goodwill was estimated at ₹ 1,84,000 and the remaining assets were valued on the basis of the balance sheet as on 31/03/2022 except building and stock, which were valued as below:

Building ₹ 1,20,000

Stock ₹ 36,000

UV Limited paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare (with necessary working notes):

(i) Balance sheet of the firm as at 31/03/2022.

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(ii) Realization account and

(iii) Partners' capital accounts showing the final settlement between them.

Accounting for ESOPs

3. (a) Define the following terms:

   (i) Vesting

   (ii) Grant date

   (iii) Exercise Price

   (b) Noor Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2021 it granted 4,000 employee stock options at ₹ 40 per share, when the market price was ₹ 60 per share. Fair value per option was ₹ 20. The options were to be exercised between 15th March, 2021 and 31st March, 2021. The employees exercised their options for 2,500 shares only and the remaining options lapsed. The company closes its books on 31st March every year. You are required to give Journal entries (with narration) as would appear in the books of the company for the year ended 31st March, 2021.

Buy Back of Securities

4. Complicated Ltd. (an unlisted company) gives the following information as on 31.3.2021:

Particulars	**Amount (₹)**
Equity shares of ₹ 10 each, fully paid up	13,50,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Long term - Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
Property, plant and equipment	46,50,000
Current assets	40,00,000

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The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 15 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company for this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares was made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet of the company after buy back of shares.

Equity Shares with Differential Rights

5. (a) Explain the conditions for equity shares with differential rights under the Companies (Share Capital and Debentures) Rules.

(b) L,M,N and O hold Equity capital in the proportion of 30:30:20:20 in Hill Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 60 Lakh and preference share capital is ₹ 30 Lakh.

Amalgamation of Companies

6. The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (₹)	Ganga Limited (₹)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		5,08,00,000	3,28,00,000
II. Assets:			
(1) Non-Current Assets:			
Property, Plant & Equipment		68,00,000	1,36,00,000

(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		5,08,00,000	3,28,00,000

Notes to Accounts:

		Aakash Limited (₹)	Ganga Limited (₹)
1.	Share Capital		
	Authorized, Issued, Subscribed & Paid up :		
	6,00,000 Equity Shares of ₹10 each	60,00,000	-
	20,000 Preference Shares of ₹ 100 each	20,00,000	-
	2,00,000 Equity Shares of ₹ 10 each	-	20,00,000
		80,00,000	20,00,000
2.	Reserves and Surplus		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	56,00,000
3.	Secured Loans		
	(Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	Unsecured Loans	1,72,00,000	-
5.	Other Current Liabilities		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	56,00,000

Both the companies go into liquidation and a new company 'AakashGanga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.

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(iii) Secured Loans include ₹ 32,00,000 accured interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of ₹ 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth ₹ 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

Internal Reconstruction of a Company

7. Z Limited provides the following information as on 31st March, 2021:

Particulars	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000

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Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

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(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above-mentioned transactions including amounts to be written off for Goodwill, Patents and Loss in Profit and Loss account. Also prepare Bank Account and Reconstruction A/c.

Liquidation of Company

8. The Balance Sheet of Cloud Ltd., as at 31st March, 2021, being the date of voluntary winding up is as under:

	Particulars	Note	Amount (₹)
I	**Equity and Liabilities**		
1	**Shareholders' Funds:**		
	(a) Share Capital	1	21,00,000
	(b) Reserve and Surplus	2	4,00,000
2	**Non-Current Liabilities:**		
	(a) Long Term Borrowings	3	4,20,000
3	**Current Liabilities:**		
	(a) Short Term Borrowings	4	9,70,000
	(b) Trade Payables		12,00,000
	(c) Other Current Liabilities	5	2,10,000
	Total		53,00,000
II	**Assets**		
1	**Non-Current Assets:**		
	(a) Property, Plant and Equipment	6	26,00,000
2	**Current Assets:**		
	(a) Inventories		6,50,000
	(b) Trade Receivables		20,50,000
	(c) Cash and Cash Equivalents		-
	Total		53,00,000

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Notes to Accounts:

Particulars	Amount (₹)
1. Share Capital	
Authorized:	
10,000 Equity Shares of ₹ 100 each	10,00,000
10,000 Equity Shares of ₹ 100 each	10,00,000
10,000, 10% Cumulative Preference Shares of ₹ 100 each	10,00,000
Issued, Subscribed & Paid up:	
10,000 Equity Shares of ₹ 100 each, ₹ 60 paid up.	6,00,000
10,000 Equity Shares of ₹ 100 each, ₹ 50 paid up.	5,00,000
10,000, 10% Cumulative Preference Shares of ₹ 100 each, fully paid up.	10,00,000
Total	21,00,000
2. Reserve and Surplus	
(a) Securities Premium	15,00,000
(b) Profit & Loss A/c (Dr. balance)	(11,00,000)
	4,00,000
3. Long Term Borrowings	
10% Debentures	4,20,000
4. Short Term borrowings	
Bank Overdraft (unsecured)	9,70,000
5. Other Current Liabilities	
Preferential Creditors	2,10,000
6. Property, Plant and Equipment	
(a) Land and Buildings	10,40,000
(b) Plant and Machinery	15,60,000
	26,00,000

Preference Dividend is in arrears for three years (upto 31st March, 2021). The assets realized as follows:

Land & Building	₹ 12,40,000	Plant & Machinery	₹ 14,20,000
Inventory	₹ 6,20,000	Trade receivables	₹ 13,20,000

Expenses of Liquidation are ₹1,72,000. The Remuneration of the Liquidator is 2% of the realization of assets. Income Tax Payable is ₹1,34,000. Interest on debentures for the

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year ended 31st March, 2021 has not been considered in the given balance sheet and is also to be paid.

Prepare the Liquidator's Final Statement of Account.

NBFCs

9. (a) Calculate 'Owned Fund' of an NBFC based on the following information:

Paid up share capital: ₹ 200 lakhs

Free reserves: ₹ 150 lakhs

Compulsory convertible preference shares (CCPS): ₹ 50 lakhs

Revaluation reserve: ₹ 50 lakhs (created by revaluation of assets)

Securities premium: ₹ 25 lakhs

Book value of intangible assets: ₹ 10 lakhs

Capital reserves (surplus arising out of sale proceeds of assets): ₹ 15 lakhs

(b) While closing its books of account at year end, a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	1,26,000
Sub-standard assets	10,050
Secured portions of doubtful debts:	
– up to one year	2,400
– one year to three years	675
– more than three years	225
Unsecured portions of doubtful debts	727
Loss assets	360

Calculate the amount of provision, which must be made against the advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

Banking Companies

10. The following figures are available from the books of Star Bank Ltd. for the year ended 31st March, 2021.

	Amount in ₹
Interest and Discounts Received	1,52,00,640
Interest Paid on Deposits	91,81,440
Salaries and Allowances	10,00,000

Directors' Fees and Allowances	1,40,000
Rent and Taxes Paid	4,00,000
Postage	2,61,360
Statutory Reserve Fund	32,00,000
Commission, Exchange and Brokerage Earned	7,60,000
Rent Received	2,88,000
Profit on sale of Investments	9,03,200
Depreciation on Assets	1,60,000
Statutory Expenses	1,52,000
Preliminary Expenses	1,20,000
Auditors' Fees	48,000

The following further information is also available:

(i) Issued and Subscribed Capital of the Bank is ₹ 40,00,000

(ii) Preliminary Expenses to be fully written off during the year.

(iii) Rebate on Bills Discounted was ₹ 60,000 as on 31st March, 2020 and was ₹ 80,000 on 31st March, 2021.

(iv) Transfer 25% of the profits to statutory reserves.

(v) Income Tax of ₹ 8,00,000 is to be provided.

(vi) Mr. G, a customer of the bank, who had taken an advance of ₹ 40,00,000 from the bank became insolvent and only 25% was expected to be recovered from his estate.

(vii) A provision of ₹ 8,00,000 was also necessary on other debts.

(viii) There was no opening balance of Profit and Loss Account.

You are required to prepare the Profit and Loss Account and the Schedules of Profit and Loss Account of Star bank for the year ended 31st March, 2021. Also show how the Profit and Loss Account will appear in the Balance Sheet.

Consolidated Financial Statements

11. From the following information of Beta Ltd. and its subsidiary Gamma Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date:

	Beta Ltd.	Gamma Ltd.
	₹	₹
Share Capital:		
Shares of ₹ 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500

Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
Property, plant and Equipment:		
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000
Non-current Investments:		
Shares in Gamma Ltd.: 2,000 shares at ₹ 200 each	4,00,000	

Other information:

Reserves and Profit and Loss Account of Gamma Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Beta Ltd. on 1st April, 2020.

Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Gamma Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2020 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

AS 4 Contingencies and Events occurring after the Balance Sheet Date

12. Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31st March 2020 are to be approved by the approving authority on 30th June 2020. During the first quarter of 2020-2021, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

    (i) Tee Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31st March 2020. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realizable value, whichever is lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during April, 2020 at a price of ₹ 4,000 per machine.

    (ii) A fire has broken out in the company's godown on 15th April 2020. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

    (iii) A suit against the company's advertisement was filed by a party on 10th April, 2020 10 days after the year end claiming damages of ₹ 20 lakhs.

    You are required to state with reasons, how the above transactions will be dealt with in the financial statements for the year ended 31 March 2020.

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

13. (a) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2021. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2020. From the Financial year 2020-2021, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2021, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2021, there was change in cost formula in measuring the cost of inventories.

AS 7 Construction Contracts

(b) B Ltd. undertook a construction contract for ₹ 50 crores in April, 2020. The cost of construction was initially estimated at ₹ 35 crores. The contract is to be completed in 3 years. While executing the contract, the company estimated that the cost of completion of the contract would be ₹ 53 crores.

Can the company provide for the expected loss in the financial Statements for the year ended 31st March, 2021? Explain.

AS 9 Revenue Recognition

14. (a) An infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Financial Officer of the company wants to account/recognize license fee as income for 12 months during current year and variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is correct or not.

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(b) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS 9.

(1) Trade discount and volume rebate received.

(2) Where goods are sold to distributors or others for resale.

(3) Where seller concurrently agrees to repurchase the same goods at a later date.

(4) Insurance agency commission for rendering services.

AS 17 Segment Reporting

15. (a) Company A is engaged in the manufacture and sale of products, which constitute two distinct business segments. The products of the Company are sold in the domestic market only. The management information system of the Company is organized to reflect operating information by two broad market segments, rural and urban. Besides the two business segments, how should Company A identify geographical segments? Do geographical segments exist within the same country? Explain in line with the provisions of AS 17.

(b) A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 20% above cost. You are required to examine whether the policy adopted by the company is correct or not?

AS 18 Related Party Disclosures

16. (a) In respect of a key supplier who is dependent on the company for its existence and the company enjoys influence over the prices of this supplier (which may not be formally demonstrable), can the supplier and the company be considered as related parties?

(b) Define "Key management personnel" in the context of AS 18.

AS 19 Leases

17. (a) Classify the following into either operating or finance lease:

(i) If Present value (PV) of Minimum lease payment (MLP) = "X"; Fair value of the asset is "Y" and X=Y.

(ii) Economic life of the asset is 7 years, lease term is 6.5 years, but asset is not acquired at the end of the lease term;

(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

(b) Viral Ltd. sold machinery having WDV of ₹ 40 lakhs to Saral Ltd. for ₹ 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

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(i) Fair value is ₹ 45 lakhs and sale price is ₹ 39 lakhs.

(ii) Fair value is ₹ 40 lakhs and sale price is ₹ 49 lakhs.

(iii) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

AS 20 Earnings Per Share

18. (a) Stock options have been granted by AB Limited to its employees and they vest equally over 5 years, i.e., 20 per cent at the end of each year from the date of grant. The options will vest only if the employee is still employed with the company at the end of the year. If the employee leaves the company during the vesting period, the options that have vested can be exercised, while the others would lapse. Currently, AB Limited includes only the vested options for calculating Diluted EPS. Should only completely vested options be included for computation of Diluted EPS? Is this in accordance with the provisions of AS 20? Explain.

(b) X Limited, as at March 31, 2021, has income from continuing ordinary operations of ₹ 2,40,000, a loss from discontinuing operations of ₹ 3,60,000 and accordingly a net loss of ₹ 1,20,000. The Company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 2021. You are required to compute Basic and Diluted EPS?

AS 22 Accounting for Taxes on Income

19. (a) The following transactions were reported by PQR Ltd. during the year 2020-2021:

i.	Tax Rate	30%
		(₹ in lakh)
ii.	Items disallowed in 2019-2020 and allowed for tax purposes in 2020-2021.	20.00
iii.	Interest to Financial Institutions accounted in the books on accrual basis, but actual payment was made before the due date of filing return and allowed for tax purpose also.	20.00
iv.	Donations to Private Trust made in 2020-2021 (not allowed under Income Tax Laws).	10.00

You are required to show impact of the above items in terms of Deferred Tax Assets/Deferred Tax Liability for the year ended 31.03.2021.

AS 24 Discontinuing Operations

(b) (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?

(ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

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AS 26 Intangible Assets

20. (a) PQR Ltd. has acquired a Brand from another company for ₹ 100 lakhs. PQR Ltd. contends that since the said brand is a very popular and famous brand, no amortization needs to be provided. Comment on this in line with the Accounting Standards.

(b) X Ltd. is engaged in the business of newspaper and radio broadcasting. It operates through different brand names. During the year ended 31st March, 2021, it incurred substantial amount on business communication and branding expenses by participation in various corporate social responsibility initiatives. The company expects to benefit by this expenditure by attracting new customers over a period of time and accordingly it has capitalized the same under brand development expenses and intends to amortize the same over the period in which it expects the benefits to flow. As the accountant of the company do you concur with these views? You are required to explain in line with provisions of Accounting Standards.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(c) Chaos Limited is in the process of finalizing its accounts for the year ended 31st March, 2020. It seeks your advice in the following cases:

(i) Chaos Limited has filed a court case in 2014-2015 against its competitors. It became evident to its lawyers during the year ended 31st March, 2020 that Chaos Limited may lose the case and would have to pay ₹ 3,00,000 being the cost of litigation. No entries/provisions have been made in the books.

(ii) A new regulation has been passed in 2019-2020 by the healthcare ministry to upgrade facilities. Deadline set by the government is 31.03.2021. The company estimates an expenditure of ₹ 10,00,000 for the said upgrade.

(iii) The company gives one year warranty for its healthcare equipment under the contract of sale that it will make good any manufacturing defect by repair or replacement. As per past experience, it is probable that there will be 1% such cases and estimated cost of repair / replacement is estimated at 10% of such sale value. During the year, the company has made a sale of ₹ 5 crores.

Kindly give your answer for each of above with proper reasoning according to the relevant Accounting Standard. Also state the principles for recognition of provision, as per AS 29.

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SUGGESTED ANSWERS

1. (a) **In the books of M/s Om**

Cash Account (Bank Column)

	₹				₹
To Balance b/d	75,000	By	Realisation A/c-		
To Realization A/c	12,46,600		(Payment of sundry liabilities)		5,75,000
(Realization of Sundry assets)		By	Partners' Capital A/cs:		
			A	2,42,600	
			B	3,42,600	
			C	1,61,400	7,46,600
	13,21,600				13,21,600

Realization Account

To Land		50,000	By Current Liabilities		70,000
To Building		2,50,000	By Loan from NBFC		5,00,000
To Office equipment		1,25,000	By Cash A/c:		
To Computers		70,000	Land	1,00,000	
To Debtors		4,00,000	Building	3,00,000	
To Stocks		3,00,000	Office Equip.	1,25,000	
To Other Current Assets		22,600	Computers	49,000	
To Cash A/c:			Debtors	3,80,000	
Current liabilities	70,000		Stocks	2,70,000	
Loan from NBFC	5,05,000	5,75,000	Other Current Assets	22,600	12,46,600
To Partners' Current A/cs:					
Profit on realisation:					
A	9,600				
B	9,600				
C	2,400				
D	2,400	24,000			
		18,16,600			18,16,600

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Partners' Capital Accounts

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Partners' Current A/cs Transfer	–	–	–	85,000	By Balance b/d	2,00,000	2,00,000	1,00,000	–
To D A/c 50% of deficiency	–	–	42,500	–	By Partners' Current A/cs transfer	59,600	1,59,600	1,12,400	–
To D A/c - balance of deficiency borne in capital ratio of other partners (2:2:1)	17,000	17,000	8,500	–	By C A/c – 50% of deficiency	–	–	–	42,500
					By A A/c	–	–	–	17,000
To Cash A/c - final Settlement	2,42,600	3,42,600	1,61,400	–	By B A/c	–	–	–	17,000
					By C A/c	–	–	–	8,500
	2,59,600	3,59,600	2,12,400	85,000		2,59,600	3,59,600	2,12,400	85,000

Partners' Current Accounts

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d	–	–	–	87,400	By Balance b/d	50,000	1,50,000	1,10,000	–
To Partners' Capital A/cs (transfer)	59,600	1,59,600	1,12,400	–	By Realisation A/c	9,600	9,600	2,400	2,400
					By Partners' Capital A/cs (transfer)	–	–	–	85,000
	59,600	1,59,600	1,12,400	87,400		59,600	1,59,600	1,12,400	87,400

(b) A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights, or liabilities of the limited liability partnership.

Under the LLP Act, 2008 an LLP may be wound up voluntarily or by the Tribunal and such LLP so wound up may be dissolved. LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;

- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

2. (i) Balance Sheet of the Firm as at 31.3.2022

Liabilities	₹	Assets	₹	₹
Capital Accounts:		Plant	1,85,000	
U's capital	1,18,750	Less: Depreciation	(5,000)	1,80,000
V's capital	1,47,750	Building	1,00,000	
Sundry Creditors (90,000 – 50,000)	40,000	Less: Written off	(5,000)	95,000
Bank overdraft (83,000 – 50,000)	33,000	Stock		24,000
		Sundry Debtors		40,500
	3,39,500			3,39,500

(ii) Realization Account

	Particulars	₹		Particulars	₹
To	Plant A/c	1,80,000	By	Sundry Creditors A/c	40,000
To	Building A/c	95,000	By	Bank Overdraft A/c	33,000
To	Stock A/c	24,000	By	UV Ltd. A/c	4,87,500
To	Sundry Debtors A/c	40,500		(W.N.2)	
To	U's Capital A/c	1,10,500			
To	V's Capital A/c	1,10,500			
		5,60,500			5,60,500

(iii) Partners' Capital Accounts

Date	*Particulars*	*U*	*V*	*Date*	*Particulars*	*U*	*V*
		₹	₹			₹	₹
1.1.22	To Profit & Loss A/c	30,000	30,000	1.1.22	By Balance b/d	1,50,000	1,80,000

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	To Drawings A/c	8,000	9,000	31.3.22	By Profit (W.N.1)	13,500	13,500
31.3.22	To Drawings (W.N.1)	6,750	6,750				
	To Balance c/d	1,18,750	1,47,750				
		1,63,500	1,93,500			1,63,500	1,93,500
30.3.22	To Shares in UV Ltd. A/c	2,29,250	2,58,250	31.3.22	By Balance b/d	1,18,750	1,47,750
				31.3.22	By Realization A/c	1,10,500	1,10,500
		2,29,250	2,58,250			2,29,250	2,58,250

Working Notes:

(1) Ascertainment of profit for the 3 months ended 31st March,2022

	₹	₹
Assets:		
Stock		24,000
Sundry Debtors		40,500
Plant less depreciation		1,80,000
Building		95,000
		3,39,500
Less: Liabilities:		
Sundry Creditors	40,000	
Bank overdraft	33,000	(73,000)
Closing net assets		2,66,500
Less: Opening adjusted capitals		
U (1,50,000 – 30,000 – 8,000)	1,12,000	
V (1,80,000 – 30,000 – 9,000)	1,41,000	2,53,000
Profit net of drawings		13,500
Add: Combined drawings during the 3 months (equal to half of profit) = 13,500 X 2		27,000
Combined drawings for 3 months		13,500

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(2) Ascertainment of purchase consideration

	₹	₹
Assets:		
Stock		36,000
Sundry Debtors		40,500
Plant less depreciation		1,80,000
Building		1,20,000
		3,76,500
Less: Liabilities:		
Sundry Creditors	40,000	
Bank overdraft	33,000	(73,000)
Net Assets value taken by UV Ltd.		3,03,500
Add: Goodwill		1,84,000
Purchase Consideration paid by equity shares in UV Ltd. at ₹ 10 each		4,87,500

3. (a) (i) **Vesting** means to become an entitlement. Under an employee stock option plan, a counterparty's right to receive cash, other assets or equity instruments of the enterprise vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.

(ii) **Grant Date** is the date at which the enterprise and another party (i.e. an employee) agree to an employee stock option plan, being when the enterprise and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date, the enterprise confers on the counterparty the right to cash, other assets, or equity instruments of the enterprise, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

(iii) **Exercise Price** is the price payable by the counterparty for exercising the option granted to him/her/it in pursuance of the employee stock option plan.

(b) **Journal Entries in the books of Noor Ltd.**

			₹	₹
15.03.2021	Bank A/c (2,500 shares x ₹ 40)	Dr.	1,00,000	
to 31.3.2021	Employee compensation expense A/c (2,500 shares x ₹ 20)	Dr.	50,000	
	To Equity share capital A/c (2,500 shares x ₹ 10)			25,000

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	To Securities premium A/c (2,500 shares x ₹ 50) (Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			1,25,000
31.3.2021	Profit and Loss A/c	Dr.	50,000	
	To Employee compensation expenses A/c (Being transfer of employee compensation expenses transfer to Profit and Loss Account)			50,000

Working Notes:

1. No entry is passed when stock options are granted to employees. Hence no entry will be passed on 1 January 2021.
2. Fair value per option i.e. ₹ 20 per option is the employee cost or employee compensation expense and will be charged to P&L Account for the number of options exercised.

4. As per the information given in the question, buy-back of 25,000 shares @ ₹ 15, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	3,75,000	
	To Bank account			3,75,000
	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 15 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Premium payable on buyback account	Dr.	1,25,000	
	To Equity shares buy-back account			3,75,000
	(Being cancellation of shares bought back)			
(c)	Securities premium account	Dr.	1,25,000	
	To Premium payable on buyback account			1,25,000
	(Being Premium payable on buyback adjusted against securities premium account)			

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(d)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as at 1st April, 2021

Particulars	*Note No*	*Amount* ₹
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	23,50,000
2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Short-term borrowings	4	16,50,000
(b) Other current liabilities	5	3,00,000
Total		82,75,000
ASSETS		
1 **Non-current assets**		
(a) Property, Plant and Equipment		46,50,000
2 Current assets (₹ 40,00,000 – ₹ 3,75,000)		36,25,000
Total		82,75,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	Reserves and Surplus			
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	
	Securities premium	2,50,000		

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	Less: Utilization for share buy-back	(1,25,000)	1,25,000	
	Share Option Outstanding Account		4,00,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Surplus i.e. Profit and Loss A/c		1,25,000	23,50,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Short-term borrowings			
	Current maturities of long-term borrowings			16,50,000
5.	Other Current Liabilities			
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	3,00,000

5. (a) Companies (Share Capital and Debentures) Rules deal with equity shares with differential rights. The rules lay down the following conditions to be compulsorily complied with:

- The articles of association of the company authorizes the issue of shares with differential rights;
- The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- The voting power in respect of shares with differential rights shall not exceed seventy four percent of the total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

- The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

  Provided that a company may issue equity shares with differential rights upon expiry of five years from the end of financial year in which such default was made good.

- The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

(b) L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 60 Lakhs and Preference share capital is ₹ 30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L = 2/3X30/100 = 3/15

M = 2/3X30/100 = 3/15

N = 2/3X20/100 = 2/15

O = 2/3X20/100 = 2/15

X = 1/3X40/100 = 2/15

Y = 1/3X30/100 = 1/10

Z = 1/3X20/100 = 1/15

K = 1/3X10/100 = 1/30

6. **Balance sheet of AakashGanga Ltd. as at 1st April, 2021**

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) **Shareholders' Funds**		
(a) Share Capital	1	1,40,00,000
(2) **Non-Current Liabilities**		
(a) Long term borrowings	2	2,12,60,000

	(3) **Current Liabilities**		
	(a) Trade Payables	3	73,60,000
	(b) Other current liabilities	4	1,64,00,000
	Total		5,90,20,000
II.	**Assets**		
	(1) **Non-current assets**		
	(a) Property, Plant & Equipment	5	2,04,00,000
	(b) Intangible assets	6	1,54,20,000
	(2) **Current assets**		
	(a) Cash and cash equivalents		40,00,000
	(b) Other current assets	7	1,92,00,000
	Total		5,90,20,000

Notes to Accounts

				(₹)
1.	Share Capital			
	Issued, subscribed & Paid up:			
	14,00,000 equity shares of ₹ 10 each, fully paid up (W.N.4)			1,40,00,000
	(of the above 10,00,000 shares have been issued for consideration other than cash)			
2.	Long Term borrowings			
	Secured Loans			
	Aakash Limited	25,60,000		
	Ganga Limited	1,44,00,000	1,69,60,000	
	Unsecured Loans		43,00,000	2,12,60,000
3.	Trade Payables (W.N.1)			
	Aakash Limited		44,80,000	
	Ganga Limited		28,80,000	73,60,000
4.	Other current liabilities			
	Statutory Liabilities			
	Aakash Limited		1,44,00,000	
	Ganga Limited		20,00,000	1,64,00,000

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5.	Property, Plant & Equipment		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	Intangible assets		
	Goodwill (W.N.3)		1,54,20,000
7.	Other Current Assets		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. Value of total liabilities taken over by AakashGanga Ltd. **(₹)**

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of ₹ 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of ₹1,72,00,000)		43,00,000		-
		3,17,40,000		2,28,80,000

2. Assets taken over by AakashGanga Ltd. (₹)

	Aakash Limited	Ganga Limited
	₹	₹
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	2,70,40,000

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3. Goodwill / Capital Reserve on amalgamation (₹)

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		1,54,20,000	

4. Equity shares issued by AakashGanga Ltd.

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000
			1,40,00,000
	No. of shares @ ₹ 10		14,00,000

7. Journal Entries in the Books of Z Ltd.

			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			

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(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures payable A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000

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	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d (overdraft)	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	(capital commitment penalty paid)	

		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share Capital A/c	25,00,000
To Bank (reconstruction expenses)	15,000	By 9% Pref. Share Capital A/c	10,00,000
To Goodwill	11,00,000	By Mr. Y (Settlement)	5,78,000
To Patent	5,00,000	By Mr. Z (Settlement)	3,82,000
To P & L A/c	14,60,000	By Trade Payables A/c	1,70,000
To P & M	6,50,000	By Director's loan	60,000
To Furniture and Fixtures	1,00,000	By Bank	1,00,000
To Trade investment	50,000	By Provision for tax	25,000
To Inventory	2,50,000	By Land and Building	2,00,000
To Trade Receivables	1,00,000		
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

8. **Liquidator's Final Statement of Account**

Receipts		₹	Payments	₹
To Sundry Assets Realized:			By Liquidator's Remuneration (46,00,000 × 2%)	92,000
Trade receivable	13,20,000		By Liquidation Expenses	1,72,000
Inventory	6,20,000		By Preferential Creditors:	
Land & Building	12,40,000		As given in Balance Sheet	2,10,000
Plant & Machinery	14,20,000	46,00,000	Income Tax Liability (given)	1,34,000
To Calls from shareholders:			By Debenture holders:	
Call money on 10,000 Equity shares, ₹ 50 paid up at ₹ 2 per Share		20,000	Face Value of Debentures	4,20,000
			Debenture Interest	42,000

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		(for 1 year at 10%)	
		By Unsecured Creditors:	
		Bank Overdraft	9,70,000
		Trade payables	12,00,000
		By Preference Shareholders:	
		Preference Capital	10,00,000
		Arrears of Dividend	
		(10,00,000 × 10% × 3 years)	3,00,000
		By Equity Shareholders:	
		refund on 10,000 Shares ₹60 paid up, at ₹8 per Share	80,000
Total	46,20,000	Total	46,20,000

Working Note:

Calls from Holders of Partly Paid Shares

	Particulars	₹
(a)	Total of Receipts before considering Call Money (from the above account Dr. Side)	46,00,000
(b)	Total Payments before final payments to Equity Shares (92,000 + 1,72,000 + 4,20,000 + 42,000 + 2,10,000 + 1,34,000 + 9,70,000 + 12,00,000 + 10,00,000 + 3,00,000)	45,40,000
(c)	Surplus from above Calls made on Equity Shares (a-b)	60,000
(d)	Notional Call on 10,000 Partly Paid Shares at ₹ 10 each (to make all Shares ₹ 60 Paid up)	1,00,000
(e)	Surplus Cash Balance after Notional Call (c + d)	1,60,000
(f)	Number of Shares deemed to be paid at ₹ 60 per Share (10,000 + 10,000)	20,000
(g)	Hence, Refund on every ₹ 60 Paid up Share (e ÷ f) = ₹ 1,60,000 ÷ 20,000 Shares	₹ 8.00
(h)	So, Required Call on ₹ 50 Paid up Share (₹ 10 Notional Call – ₹ 8 Refund)	₹ 2

9. **(a) Owned fund calculation:**

Paid up share capital: ₹ 200 lakhs

Free reserves: ₹ 150 lakhs

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Compulsory convertible preference shares (CCPS): ₹ 50 lakhs

Securities premium: ₹ 25 lakhs

Capital Reserves : 15 lakhs

Total of all above items : ₹ 440 lakhs reduced by the value of intangible assets ₹ 10 lakhs ie. owned fund is computed as ₹ 430 lakhs.

Note: Revaluation reserve to be excluded while computing owned fund.

(b) Calculation of provision required on advances as at year end, as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	***Percentage of provision***	***Provision ₹ in lakhs***
Standard assets	1,26,000	0.25	315.00
Sub-standard assets	10,050	10	1,050.00
Secured portions of doubtful debts–			
– upto one year	2,400	20	480.00
– one year to three years	675	30	202.50
– more than three years	225	50	112.50
Unsecured portions of doubtful debts	727	100	727.00
Loss assets	360	100	360.00
			3,247.00

10.

Star Bank Limited

Profit and Loss Account for the year ended 31st March, 2021

		Schedule	*Year ended 31.03.2021*
			₹
I.	Income:		
	Interest earned	13	1,51,80,640
	Other income	14	19,51,200
	Total		1,71,31,840
II.	Expenditure		
	Interest expended	15	91,81,440
	Operating expenses	16	22,81,360

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	Provisions and contingencies (W.N.1)		46,00,000
	Total		160,62,800
III.	Profits/Losses		
	Net profit for the year		10,69,040
	Profit brought forward		Nil
			10,69,040
IV.	Appropriations		
	Transfer to statutory reserve (25% of 10,69,040)		2,67,260
	Balance carried over to balance sheet		8,01,780
			10,69,040

Profit & Loss Account balance of ₹ 8,01,780 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

		Year ended 31.3.2021 (₹)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N. 2)	1,51,80,640
		1,51,80,640
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	7,60,000
II.	Profit on sale of investment	9,03,200
III.	Rent received	2,88,000
		19,51,200
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	91,81,440
		91,81,440
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees (salaries & allowances)	10,00,000
II.	Rent, taxes paid	4,00,000
III.	Depreciation on assets	1,60,000
IV.	Director's fee, allowances and expenses	1,40,000
V.	Auditor's fee	48,000
VI.	Statutory expenses	1,52,000

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VII.	Postage	2,61,360
VIII.	Preliminary expenses	1,20,000
		22,81,360

Working Notes:

1. **Provisions and contingencies**

	₹
Provision on advance to Mr. G	30,00,000
Provision on other debts	8,00,000
Provision for Income tax	8,00,000
	46,00,000

2. **Interest and discount earned**

	₹
Interest and discount received	1,52,00,640
Add: Rebate on bills discounted on 31.3. 2020	60,000
Less: Rebate on bills discounted on 31.3. 2021	(80,000)
	1,51,80,640

11. Consolidated Balance Sheet of Beta Ltd. and its Subsidiary Gamma Ltd.

as at 31st March, 2021

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		29,99,375
II. Assets		
(1) Non-current assets		
(a) (i) Property, Plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		29,99,375

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Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Gamma Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Gamma Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Beta Ltd.		3,75,000	
	Gamma Ltd.		1,42,500	5,17,500
3.	**Property, Plant & Equipment**			
	Machinery			
	Beta Ltd.		7,50,000	
	Gamma Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture			
	Beta Ltd.		3,75,000	
	Gamma Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,37
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Beta Ltd.		11,00,000	
	Gamma Ltd.		3,75,000	14,75,00

Working Notes:

		₹
1.	**Pre-acquisition profits and reserves of Gamma Ltd.**	₹
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Beta Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of Gamma Ltd.**	
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹ (50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Beta Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of Gamma Ltd.**	
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Beta Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000
4.	**Post -acquisition profits of Gamma Ltd.**	
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875
	Less: Under depreciation on machinery @ 10%	
	on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Beta Ltd.'s share 4/5 × 14,375	11,500
	Minority Interest 1/5 × 14,375	2,875
5.	**Minority Interest**	
	Paid-up value of (2,500 – 2,000) = 500 shares	
	held by outsiders i.e. 500 × ₹ 100	50,000
	Add: 1/5th share of pre-acquisition profits and reserves	20,000
	1/5th share of profit on revaluation	22,500
	1/5th share of post-acquisition reserves	25,000

	1/5th share of post-acquisition profit	2,875
		1,20,375
6.	**Cost of Control or Goodwill**	
	Paid-up value of 2,000 shares held by Beta Ltd. i.e. 2,000 × ₹ 100	2,00,000
	Add: 4/5th share of pre-acquisition profits and reserves	80,000
	4/5th share of profit on the revaluation	90,000
	Intrinsic value of shares on the date of acquisition	3,70,000
	Price paid by Beta Ltd. for 2,000 shares	4,00,000
	Less: Intrinsic value of the shares	(3,70,000)
	Cost of control or Goodwill	30,000

12. Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate. In the given case, financial statements are approved by the approving authority on 30 June 2020. On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2020:

(i) Since on 31 March 2020, Tee Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2020 will be considered as an adjusting event. Hence, Tee Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realizable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be 50 machines x ₹ 4,000 = ₹ 2,00,000.

(ii) A fire took place after the balance sheet date i.e. during 2020-2021 financial year. Hence, the financial statements for the year 2019-2020 should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.

(iii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

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13. (a) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2020. Subsequently in 2020-21, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in accounting estimate and is not a change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in accounting estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(b) As per para 35 of AS 7 "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Therefore, the foreseeable loss of ₹ 3 crores (₹ 53 crores less ₹ 50 crores) should be recognized as an expense immediately in the year ended 31st March, 2021. The amount of loss is determined irrespective of

(i) Whether or not work has commenced on the contract;

(ii) Stage of completion of contract activity; or

(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance provisions of AS 7.

14. (a) AS 9 on Revenue Recognition, is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. However, when uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition. Further, as per accrual concept, revenue should be recognized as and when it is accrued i.e. recorded in the financial statements of the periods to which they relate. In the present case, monthly rental towards license fee and variable license fee as a percentage on the turnover of the tenant (though on annual basis) is the income related to common financial year.

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Therefore, recognizing the fee as revenue cannot be deferred simply because the invoice is raised in subsequent period. Hence it should be recognized in the financial year of accrual. Therefore, the contention of the Chief Financial Officer is not in accordance with AS 9.

(b) (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(2) When goods are sold to distributor or others, revenue from such sales can be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

15. (a) AS 17 explains that, "a single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country". Accordingly, to identity geographical segments, Company A needs to evaluate whether the segments reflected in the management information system function in environments that are subject to significantly differing risks and returns irrespective of the fact whether they are within the same country.

The Standard recognizes that, "Determining the composition of a business or geographical segment involves a certain amount of judgement…". Accordingly, while the management information system of the Company provides segment information for rural and urban geographical segments for the purpose of internal reporting, judgement is required to determine whether these segments are subject to significantly differing risks and returns based on the definition of geographical segment. In making such a judgement, aspect like different pricing and other policies, e.g., credit policies, deployment of resources between different regions etc., may be considered for the purpose identifying 'urban and 'rural' as separate geographical segment.

Company A, in making judgment for identifying geographical segments, should also consider the relevance, reliability and comparability over time of segment information that will be reported. The Standard, explains that, "In making that judgement, enterprise management takes into account the objective of reporting financial information by segment as set forth in the standard and the qualitative characteristics of financial statements. The qualitative characteristics include the relevance, reliability and comparability over time of financial information that is reported about

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the different groups of products and services of an enterprise and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the enterprise."

(b) AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

16. (a) The supplier and the company cannot be considered to be related parties merely because the latter is able to influence the transaction price between the parties. Paragraph 3 of AS 18 states that "enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise" are considered to be related party relationships. However, the conditions which define the existence of control, as follows, are not satisfied in the given example.

- 'ownership, directly or indirectly, of more than one-half of the voting power of an enterprise, or
- Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or
- a substantial interest in voting power and the power to direct, by statue or agreement, the financial and/or operating policies of the enterprise".

Paragraph 10 of the standard defines significant influence as "participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies". In the given example, although the supplier and the company have entered into a commercial transaction, the terms of which are influenced by the latter because of its better bargaining power in the specific market for such goods, it cannot be concluded that there is participation in the financial and/or operating policy decisions. Therefore, as the conditions specified by the Standard for being classified as a related party are not satisfied in the given example, the company cannot be said to be related to the supplier. This view is supported by paragraph 4 (b) of the Standard which states that "a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence" would not be deemed to be related parties.

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(b) In context of AS 18, "Key management personnel" are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

17. (a) (i) The lease is a finance lease if X = Y, or if X substantially equals Y.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

(b) As per AS 19, where sale and leaseback results in operating lease, then the accounting treatment in different situations is as follows:

Situation 1: Sale price = Fair Value

Profit or loss should be recognized immediately.

Situation 2: Sale Price < Fair Value

Profit should be recognized immediately. The loss should also be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Situation 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Following will be the treatment in the situations given in the question:

(i) When fair value of leased machinery is ₹ 45 lakhs & sale price is ₹ 39 lakhs, then loss of ₹ 1 lakh (40 – 39) to be immediately recognized by Viral Ltd. in its books provided loss is not compensated by future lease payment.

(ii) When fair value is ₹ 40 lakhs & sale price is ₹ 49 lakhs then, profit of ₹ 9 lakhs is to be deferred and amortized over the lease period.

(iii) When fair value is ₹ 46 lakhs & sale price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 less 40) to be immediately recognized in its books and balance profit of ₹4 lakhs (50-46) is to be amortized/deferred over lease period.

18. (a) The current method of calculating Diluted EPS adopted by AB limited is not in accordance with AS 20. The calculation of Diluted EPS should include all potential equity shares, i.e., all the stock options granted at the balance sheet date, which are dilutive in nature, irrespective of the vesting pattern. The options that have lapsed during the year should be included for the portion of the period the same were

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outstanding, pursuant to the requirement of the standard.

AS 20 states that "A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares". Options including employee stock option plans under which employees of an enterprise are entitled to receive equity shares as part of their remuneration and other similar plans are examples of potential equity shares. Further, for the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

(b) As per AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations". As income from continuing ordinary operations, ₹ 2,40,000 would be considered and not ₹ (1,20,000), for ascertaining whether 200 potential equity shares are dilutive or anti-dilutive. Accordingly, 200 potential equity shares would be dilutive potential equity shares since their inclusion would decrease the net profit per share from continuing ordinary operations from ₹ 240 to ₹ 200. Thus the basic E.P.S would be ₹ (120) and diluted E.P.S. would be ₹ (100).

19. (a) Impact of various items in terms of deferred tax liability/deferred tax asset as per AS 22

Transactions	*Analysis*	*Nature of difference*	*Effect*	*Amount*
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Timing difference	Reversal of DTA	₹ 20 lakh × 30% = ₹ 6 lakh
Interest to financial institutions	It is allowed as deduction under IT Act, if the payment is made before the due date of filing the return of income	No timing difference	Not applicable	Not applicable
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable

(b) (i) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per AS 17 'Segment Reporting';

(c) the date and nature of the initial disclosure event;

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(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(ii) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

(i) Gradual or evolutionary phasing out of a product line or class of service;

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

20. (a) AS 26 'Intangible Assets" provides that an intangible asset should be measured initially at cost. After initial recognition, an intangible asset should be carried at cost less any accumulated amortization and any accumulated impairment losses. The amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life for computing amortization. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. It must be ensured that the value of brand is amortized in accordance with AS 26, as brand is considered to be intangible asset. The contention of PQR Ltd. that Brand is very popular and famous, hence no amortization needs to be provided is not correct as there is no persuasive evidence that the useful life of the intangible asset will exceed 10 years.

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(b) As per AS 26 on Intangible Assets, expenditure on an intangible item should be recognized as on expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. An intangible asset should be recognized if, and only if: (i) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (ii) the cost of the asset can be measured reliably. In the given case, no intangible assets or other asset is acquired or created that can be recognized, the accounting treatment by the company to amortize the entire expenditure over the period in which it expects the benefits to flow is not correct and the same should be debited to the profit and loss statement during the year ended 31st March, 2021.

(c) **Principles for recognition of provisions:** As per AS 29, "a provision shall be recognised when:

(i) an entity has a present obligation (legal or constructive) as a result of a past event;

(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(ii) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised."

Accounting treatment under the given scenarios:

(i) On 31st March, 2020, since it is evident to the lawyer that Chaos Limited may lose the case and also a reliable estimate of the outflow can be made as ₹ 3,00,000, there is a present obligation. Hence, provision should be recognised for ₹ 3,00,000 for the amount which may be required to settle the obligation.

(ii) Under new regulation, an entity is required to upgrade its facilities by 31st March, 2021. However, on 31st March, 2020, i.e. at the end of the reporting period, there is no obligation because there is no obligating event either for the costs of upgrading the facilities or for fines under the regulations. Hence, no provision should be recognized on 31st March, 2020 for upgrading the facilities by 31st March, 2021.

(iii) The obligating event is the sale of health care equipment with a warranty, which gives rise to a legal obligation. Here, an outflow of resources embodying economic benefits in settlement is probable for the warranties as a whole. Hence, a provision is recognized for the best estimate of the costs of making good under the warranty products sold before the end of the reporting period as follows:

Probability of warranty cases for the entity where repair/replacement may be required as per past experience = 1% of ₹ 5,00,00,000 = ₹ 5,00,000

Estimated cost of repair / replacement = ₹ 5,00,000 x 10% = ₹ 50,000.

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