<u>Rapid revision for Accounting Standards - CA Final</u>

Important concepts you should know:

PART I – BASIC AS

Introduction to Indian GAAPs:

Meaning of AS, NACAS, Companies A/C Std rules, SMCs and Non – SMCs, Level I/II/III companies, Applicability of AS to Corporate and Non – Corporate

AS-1: Disclosure of AP:

Meaning of AP, Fundamental assumptions, Factors determining APs, Can AP be changed once adopted

AS-2: Inventories

Composition of inventories, Basic valn principle, Cost of RM, Normal / Abnormal goods, joint product by product, Conversion costs, Absorption of fixed and variable costs, Exclusion from costs of FG, CENVAT Cr (GN), Excise duty, Cost Formulae – FIFO, SIM, RIM, WAC, SC, NRV – Valn of WIP and FG and Replacement cost – valn of RM.

AS-3: CFS

Direct / indirect method, Cash from operating activities, cash from investing activities, cash from financing activities, Forex cash flows.

AS-4: Events occurring………

Adjusting events, Non – adjusting events, exceptions.

AS-29: Provisions, Contingent liabilities, Contingent assets.
Meaning of Provision, Why provision is a liability, How to make provision, Rules for Contingent liabilities, Rules for Contingent assets.

AS-5: Composition of NP i.e. ordinary / extra – ordinary ….
Meaning of Ordinary activities, extraordinary activities, exceptional items, PPI, changes in A/C estimates, changes in APs.

AS-6: Depreciation
Provision of companies act on Depn – Method, rates, change in Depn, asset costing Rs 5000 or less, Compulsory charging of Depn.

AS-10: Fixed assets
Purpose of FA, A/C for machinery spare parts / moulds / stand by equipment etc, Cost of FA – including MODVAT Cr (GN), Change in Cost after recognition, Cut –off date, Cost

under special situations and other than purchase – construction of asset / joint cost / HP basis etc, Subsequent expenditure – Capital Vs Revenue, Valuation of FA + Revaluation.

AS-26: Intangible assets
Meaning of assets and then IA, Recognition principles of IA – Those IA which are purchased and those IA which are generated, R & D costs, Amortisation of IA.

AS-7: Construction contracts
Meaning of CC, Applicability, Combining and segmenting contracts, Total Revenue, Total Costs, Stage of Completion, Revenue recognition, Expected loss on contracts para 35, Disclosures as per para 41.

AS-9: Revenue recognition
Meaning of revenue, Role of uncertainty in revenue, Sale of goods criteria, Rendering of services criteria, Use by others enterprises resources criteria.

AS-12: Government grants
What are GG, Exclusions, Grants on Depreciable assets, Non – Depreciable assets, Revenue grants, Promoters contributions.

AS-13: Investments a/c. Government grants
Meaning of investments, Long term, Short term, Dimunition, Valuation aspect, Sale of investments, investment properties. Note: AS-30/31 has an overriding effect on AS-13)

AS-14: Amalgamation / Absorption
Types of amalgamation, PC calculations, Disclosures.

PART II – ADVANCED / MODERN / COMPLEX AS

AS-11: Accounting for Forex changes
Forex transactions – Initial recognition, Valuation on B/S date (monetary or non – monetary), Forex operation – Integral / Non – Integral, Forward Contracts (are now covered by AS-30), Confliction between AS-11 and Companies AS rules (Amendment Act) 2011.

AS-15: Employees Benefits
Short term benefits – a/c / measurement / special reference to bonus / profit sharing / paid leaves, *long term benefits, retirement benefits* – Defined contribution plan / Defined benefit plan – PV of obligation / Fair value of plan assets / Past service costs, *termination benefits.*

AS-16: Borrowing costs
Elements of BC para 4, Eligible borrowings, Eligible / Qualifying asset, Types of borrowings, Measurement of BC, Commencement of BC, Cessation of BC, Suspension of BC.

AS-17: Segment Reporting
Business segment, Geographical segment, Meaning of segment revenue, segment expenses, segment assets, segment liabilities, Criteria’s for reportable segments.

AS-18: Related party

Adverse effect of RP transactions on business, Meaning of related party / Significance influence / substantial interest / control. Analysis of RP para 3, Exceptions to RP, Exemptions to RP, Disclosures.

AS-19: Leases

Meaning of leases, FL / OL / MLP / GRV / UGRV / Gross Inv / Net Inv / UFI, Conditions for FL, Accounting in the books of FL (books of lessor and lessee), Accounting in the books of OL (books of lessor and lessee), Sale and lease back, Manufacturing lease.

AS-20: EPS

Basic EPS – Opening lot shares / Fresh issue/ right issue / buy back / partly paid shares, Diluted EPS, Potential equity shares.

AS-22: Deferred tax

Accounting income, taxable income, current tax, deferred tax, DTA / DTL, How to measure DTA / DTL / Current tax in the following cases – loss making companies, LTCG, Presumptive base taxation, tax holidays, Amalgamation, MAT.

AS-24: Discontinuing operations

What is operation, Method of discontinuing the operation, Para 9 Combination of circumstances leading to discontinuance, initial disclosure events, Brief disclosures regarding DO.

AS-25: Interim FS

Problems in preparing IFR, Views on a/c for IFR – Integral Vs Discrete, Accounting provisions for – cyclical revenue / unplanned expenses / seasonal revenues / inventories / impairment / Depreciation / liabilities / Forex / Tax / retirement benefits.

AS-28: Impairment of FA

Scope, Symptoms if impairment, Measurement of impairment loss – VIU and NSP, Meaning of CGU, Impairment of CGU, Impairment of Goodwill, Bottom up and top down approach, Impairment of Corporate assets. Reversal of impairment loss.

AS-21+23+27: Group Consolidation

Holding + Subsidiary – Basic consolidation, Dividend adjustment, Chain holding, Preference shares, mutual owing, revaluation of assets, unrealized profit , consolidation of profit / loss a/c, sale of shares, cross holding.
Holding + Subsidiary+ Associate – Equity accounting, revaluation of assets in associates, subsequent profits earned by associates, loss making associates, Conversion of subsidiary into associates, Dividend adjustments.
Holding + Subsidiary + JV – Types of JVs – JCO / JCA / JCE, Proportionate consolidation of JCE.

AS-30+31+32 Financial Instruments

Meaning of Fin Ins, Financial Assets, Financial liabilities, Derivative instruments, Equity instruments / Treasury stock, Settlement in own equity shares, Non – Financial contracts, Classification of FA / FL, Initial recognition of FA / FL, Valuation of FA / FL, Derecognition of FA / FL, Impairment, Compound Financial Instruments, Embedded Derivatives, Debt securitization, Hedge accounting.

Some extra problems:

AS-2

Anil Pharma Ltd. Ordered 16,000 kg of certain material at ` 160 per unit. The purchase price includes excise duty Rs10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg. and consumed 13,600 kg of material. Compute cost of inventory under AS 2 and amount of abnormal loss.

(C.A.Final May 2011)

Raw material was purchased at Rs100 per kilo. Price of raw material is on the decline. FG is sold at a loss. Replacement cost of RM is Rs 95 per kg. Value the RM.

Cost of inventories = Rs50/- ,Future estimated costs = Rs 2. Selling commission yet to be paid 10% on sales. Closing stock in units = 2,000 units. Estimated Selling price Rs 55.

AS-3

Explain the impact of the items given below on Cash flow:

(i) Sales made to a foreign party worth $10,000 when exchange rate was 1$ = □ 40. Out of this $8,000 were collected when exchange rate was 1$ = □` 42. The year – end exchange rate is ` 43/$.

(ii) $1,00,000 is kept in foreign bank a/c rate as on 1/4/2011 exchange rate was 1$ = ` 40. The year – end exchange rate is ` 43/$. Assume there is no change in the bank balance throughout the year.

AS-4

Following companies whose FY ended on 31st Dec. 2011, the financial statements were approved by their respective directors on 15th March 2012.

During 2012, the following material events took place:

a. Alpha Ltd. sold a major property which was included in the balance sheet at ` 1,00,000 and for which contracts had been exchanged on 15th Dec. 2011. The sale was completed on 15th Feb. 2012 at a price of ` 2,50,000.

b. On 28th Feb. 2012, the mail order activities of Gamma Ltd. (a retail trading group) were shut down with closure costs amounting to ` 2.5 million.

c. A fire on 2nd Jan. 2012 completely destroyed a manufacturing plant of Epsilon Ltd. It was expected that the loss of `10 million would be fully covered by insurance.

You are required to state, with reasons, how each of the above items numbered (a) to (h) should be dealt with in the financial statement of the various companies for the year ended 31st Dec. 2011.

AS-5

How would you deal with the following in the annual accounts for the year ending 31/03/2005 of ABC Ltd.:

i) The company has to pay delayed cotton clearing charges, over and above the negotiated price, for taking late delivery of cotton from the suppliers godown. Upto the last year the company use to add such charges in closing stock valuation. But for the current year the company wants write off the charges against revenue as the charges are in the nature of interest.

(C.A. Final May 1996)(3 Marks) & (C.A. Final May 2002) (4 Marks)

ii) Fuel surcharge is billed by State Electricity Board at provisional rates. The Final bill for fuel surcharge for `5,30,000 for the period October 2000 – September 2004, has been received and paid in February 2005. **(C.A. Final May 1996) (3 Marks)**

iii) An audit verification during the year revealed that opening stock of the year was understated by `3,00,000 due to wrong counting. **(C.A Final. Nov. 1996) (3 Marks)**

iv) There was a major theft of stores valued at ` 10,00,000 last year which was identified in the current year. **(C.A. Final May 1998) (5 Marks)**

v) During the year 2005 – 2006 stock was written down to its NRV.

(C.A. Final May 2002) (4 Marks)

vi) ABC Ltd. was making provision for non-moving stocks based on no issues for the last 12 months upto 31.3.2005.

The company wants to provide during the year ending 31.3.2006 based on technical evaluation:

Total value of stock	` 100 lakhs
Provision required based on 12 months issue	` 3.5 lakhs
Provision required based on technical evaluation	` 2.5 lakhs

AS-6

A plant was depreciated under two different methods as under –

	Straight line method	Diminishing Balance
1st Year	3.90	10.69
2nd Year	3.90	7.90
3rd Year	3.90	5.84
4th Year	3.90	4.32
	15.60	28.75
5th Year	3.90	3.19

Required

(a) If the company followed diminishing balance for first four years and decides to switch over to SLM, what would be the amount of resultant surplus/deficiency?

AS-7

Following is the information relating to a contract for 3 years:

Particulars	**31.03.2004**	**31.03.2005**	**31.03.2006**
Costs incurred to date (cumulative)	15,00,000	32,00,000	45,00,000
Estimated future Costs yet to be incurred	28,00,000	11,00,000	-
Total Contract Price	51,00,000	52,00,000	52,50,000

Progress Billings	12,50,000	30,00,000	42,00,000
Cash Collections	9,50,000	28,00,000	38,00,000

You are required to determine the profit to be recognised for the three years as per the requirements of AS-7 (Revised). Also show the disclosures.

On 01.12.2005 Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for ` 85,00,000. On 31.03.2006 the company found that it had already spent ` 64,99,000 on the construction. Prudent estimates of additional cost for completion was for ` 32,01,000. What is the additional provision for foreseeble loss, which must be made in the final accounts for the year ended 31.03.2006 as AS-7 (Revised)? Also draw extract of P/L? **(C. A. Final Nov. 2003, May 2010) (Advanced Accounts Marks 5)**

AS-9

M Ltd. deals in manufacture parts for Steel Plants. It quotes prices in various tenders issued by Steel plant companies. As per terms of contract, full price of machinery is not released by the steel plants companies, but 10% is retained. The company accounts for 90% of the invoice value as revenue and balance 10% on receipt basis. Advise.

(Final C.A. May 2002) (5 Marks)

Advise to Pentagon Ltd. about the treatment of the following in the final statement of account for the year ended on 31st March, 2012.

A claim lodged with the Railways in March 2000 for loss of goods of ` 2,00,000 had been passed for payment in March 2012 for `1,50,000. No entry was passed in the books of the company, when the claim was lodged. **(Final C.A. Nov. 1993) (2 Marks)**

X Limited has recognized `10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of ` 50 lakhs held by it as at the end of the finance year 31st March, 2003. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2003. The dividend was proposed on 10th April, 2003 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked with reference to provisions of Accounting Standard. **(PE II Nov. 2003) (4 Marks)**

#Faaltoo Limited entered into an agreement with Paltoo Limited for sale of goods costing ` 4,00,000 at (Cost + 20%). The sale transaction took place on 15th February, 2005. On the same day Faaltoo Limited entered into another agreement with Paaltoo Limited for repurchasing the same goods at ` 5,40,000 on 15th August 2005. Pass entries in the books of both the companies for the year 31st March 2005. **(CA Final New Syll)**

AS-10

#The company has written up its fixed asset by ` 50 lacs. The total depreciation of ` 10lacs stands transferred to P/L accounts The BOD seeks your advice in the finalisation of accounts for the year ended June 2005. **(C.A. Final Audit Nov. 1999) (3 Marks)**

J Ltd. purchased machinery from K Ltd. on 30.09.2007. The price was `370.44 lakhs after charging 8% Sales-tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of ` 300 lakhs was taken from the bank on which interest at 15% per annum was to be paid.

Expenditure incurred on the trial run was Materials ` 35,000, Wages ` 25,000 and Overheads ` 15,000.

Machinery was ready for use on 1.12.2007. However, it was actually put to use only on 1.5.2008. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1.12.2007 to 1.5.2008. The entire loan amount remained unpaid on 1.5.2008.

(C.A. Final Nov. 2003, Nov 2010 NS) (7/5 Marks)

Your client is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by your client, it was noticed that the production lines output was not of the desired quality. However, your client has taken a decision to manufacture and sell the sub-standard product over the next one-year due to huge investment involved. Advise your client on the cut-off date for the purpose of capitalization.

(CA Final May 2007) (Marks 4)

Welcome Ships Limited incurred dry-docking of its ship (major repairs and overhaul expenses) of ` 2 crores for the year 2006-07. Advise WS Ltd. on the treatment of the dry – docking expenses?

AS-11

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2005, when the exchange rate was ` 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2005, when the exchange rate was ` 47 per US Dollar. However on 31st March. 2005, the rate of exchange was ` 48 per US dollar. The company passed an entry on 31st March, 2005 adjusting the cost of raw materials consumed for the difference between ` 47 and ` 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct ? Discuss. **(C. A. Final Nov. 2006) (4 Marks)**

A Ltd purchased Fixed Assets costing ` 2,544 Lakhs on 1st April 2012 and the same was fully financed by foreign currency loan in U.S. Dollars, repayable in four equal annual instalments. Exchange Rate at the time of purchase was 1 US Dollar = ` 42.40. The first instalment was paid on 31st March 2013 when 1 US Dollar fetched ` 45.40. The entire loss on exchange was included in cost of goods sold of normal business operation. A Ltd provides depreciation on their Fixed Assets at 20% on WDV basis. Show the correct accounting treatment with reference to relevant accounting standards. Also state your answer as per Companies Act. If A Ltd was a co-operative society what would be your answer?

(***CA Final Nov 2010 OS)***

AS-12

A Company receives a grant from the State Government as compensation for loss of stocks due to unseasonal floods. The entire grant received is credited to "Capital Reserve". Comment on the accounting treatment. **(CA FINAL AUDIT)**

On 1st April 2010 Sizzler Ltd purchases an asset at Rs 10,00,000, Salvage value Rs 1,00,000, life 5 years. Government grant recd in September 2010 Rs. 3,00,000. Due to non – compliance of some conditions attached with the asset the whole grant become refundable in the year 2012-13. Compute Depreciation in the year 2012-13.

AS-13

The company had subscribed to shares of associate company amounting to ` 5 crores. These associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The company does not want to provide for the loss. **(C.A. Final May 2001) (Marks 5)**

AS-15

Salary / wages per day = ` 200. Leaves utilized during the year say 150days. Leaves unutilized at Balance sheet date are non-accumulating 100days and accumulating are 250days out of which 40% are vesting. 60% of the non – vesting leaves are expected to be utilized in future years. Calculate relevant figures.

Following information is given about a funded benefit plan. The PV of obligation and the FV of assets planned were both ` 1,000 as on April 2009.

	2009-10	**2010-2011**	**2011-12**
Discount rate	10%	9%	8%
Expected return on plan assets at the start of the year	12%	11.10%	10.30%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
PV of obligations on 31/3	1,141	1,197	1,295
FV of plan assets on 31/3	1,092	1,109	1,093
A vg remaining life of employees	10	10	10

In year 2, the plan was amended to provide additional benefits effective from year 1. The PV at the end of year 1 for additional benefits is ` 50 vested and ` 30 non - vested benefits. On 1/4/2010 the enterprise estimated that the avg period until non -vested benefits would become vested was 3 years; the past service cost arising from non vesting benefit should be w-off on SLM basis over 3 years. The past service cost arising from vesting benefit should be immediately w-off.

You are required to:

Complete the following table, Compute Actuarial loss 1 gain, Ledger account of Pension Fund Account, Amt charged to P /L account.

	2009-10	**2010-11**	**2011-12**

Opening PV of obligation			
Interest cost			
Current service cost			
Past service cost (non vested benefits)			
Past service cost (vested benefits)			
Benefits paid			
SUBTOTAL			
Closing PV of obligation (actuarial valuation)			
Actuarial gain / loss ……(a)			
FV of plan assets as on 1/4			
Expected return on plan assets			
Contributions paid			
Benefit paid			
SUB TOTAL			
FMV of plan assets			
Actuarial gain /(loss)….. (b)			
Net Actuarial gain / (loss) a+b			

At 01.04.2009 the FV of plan assets was ` 10,000. On 30.09.2009, the plan paid benefits of ` 1,900 and received contributions of ` 4,900. At 31.03.2010, the FV of the plan assets was ` 15,000 and the PV of the defined benefit obligation was ` 14,792. Actuarial losses on the obligation for 2009-2010 were ` 60.

At 01.04.2009, the reporting enterprise made the following estimates, based on the market prices at that date:

Interest and dividends (after tax by the fund)	9.25%
Realized and unrealized gains on plan assets (after tax)	2.00%
Administration costs	(1.00)%
Expected rate of return	10.25%

For 2009-10, Find out: Expected and actual return on plan assets Actuarial gain /(loss) to be recognized in 2009-10. (**CA Final Nov 2009 / May 2011) (Marks 4)**

AS-16

On April 1, 2005, MGH constructions undertook construction of a factory building for expansion purpose. Total cost of project was ` 3,00,00,000. The building was completed by end of March 2006 and during the period following payments were made :

Payment made	**Amount**
1st April 2005	20,00,000
30th June 2005	60,00,000
31st December 2005	1,80,00,000
31st March 2006	40,00,000

Total	**3,00,00,000**

MGH constructions borrowings as at March 31, 2006 were as follows :

a) 9% term loan amounting to ` 80,00,000 taken on December 31, 2004. Simple interest is payable annually. Amount outstanding as at March 31, 2005 and during 05-06 is ` 80,00,000. The loan was taken specifically for the project. b) 11% debentures issued on March 31, 2004 with simple interest payable annually. Amount outstanding for the year 05-06 is ` 1,50,00,000. 10% bonds issued on December 31, 2003 amounting to ` 1,70,00,000. Simple interest payable at annual rest. Amount outstanding for the year 05-06 is `1,60,00,000.

How much borrowing cost should be capitalized for construction of the building as per AS-16 “Borrowing Cost”?

AS-17

The Chief Accountant of Sports Ltd. gives the following Data regarding its six segments:

` in Lakhs

Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	40	80	30	20	20	10	200
Segment results	50	-190	10	10	-10	30	-100
Segment Revenue	300	620	80	60	80	60	1,200

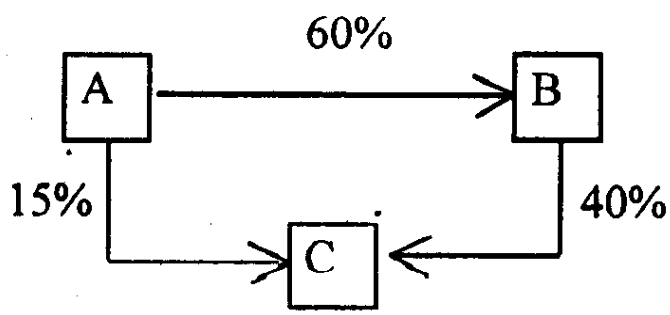
The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss. **(Final C.A. May 2006) (4 Marks)**

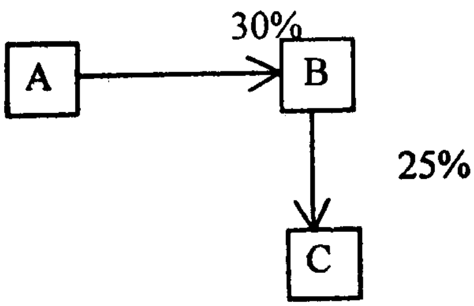
P.11. The management of Airways Ltd provides you the information related to one of its segment. You are required to calculate Segment assets from the given information Plant, property, equipments = ` 24,00,000, Inventories = ` 7,00,000, Loans to employees = ` 4,00,000, Accounts receivable = ` 5,00,000, DTA = ` 45,000

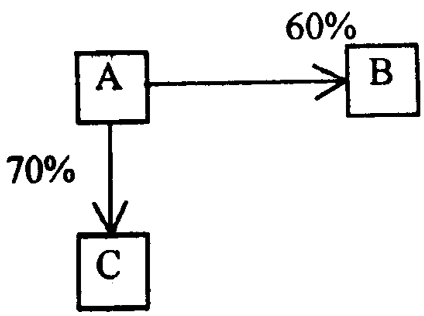
(C.A. Final NS) (5 marks)

AS-18

#







Narmada Limited sold goods for ` 90 lakhs to Ganga Limited during 31.3.2006. The Managing Director of Narmada Limited owns 100% of Ganga Limited.

Sales are made to Ganga Limited at Normal Selling Price. The Chief Accountant of Narmada Limited contends that no disclosure is required transactions are at arm length price. **(C A Final May 2006)**

AS-19

P.3. Lessee Ltd. acquired a machinery from Lessor Ltd. The following information is available to you:

Lease term	5 years
Fair value at the inception of lease	`45,00,000
Fixed Lease Rent paid at the end of every year : Year 1	` 11,00,000
Year 2	` 13,00,000
Year 3	` 16,00,000
Year 4	` 13,00,000
Year 5	` 11,00,000
The above lease payments includes ` 1,00,000 for maintenance and services to be reimbursed by lessee.	
GRV (by lessee)	` 1,75,000
Estimated residual value	` 2,75,000

Lessor IRR (SLM)	@11.16% p.a.
Depreciation charged on similar assets (SLM)	19% p.a.

At the end of year 5 Lessee Ltd. purchased machinery @Market Value of ` 2,60,000 from the Lessor. Lessee Ltd. immediately sold the asset at the same value.

Show the journal in the books of Lessee Ltd. and Lessor Ltd. for all the years.

Soln :

BOOKS OF LESSEE (LESSEE LTD.)

(Rs In lakhs)

STEP I) Calculation of PV of MLP : **STEP I) Calculation of Finance Charges :**

Year	**MLP**	**PVF@ 11.16%**	**PV(MLP)**		**Installment =**	**(Principal**	**+ interest)**	**O / S. Principal**
0	-	-	-		-	-	-	**44.41**
1	10	0.900	9.00		10	5.04	4.96	39.37
2	12	0.809	9.71		12	7.61	4.39	31.76
3	15	0.728	10.92		15	11.46	3.54	20.30
4	12	0.655	7.86		12	9.73	2.27	10.57
5	11.75 (10+1.75)	0.589	6.92		11.75	10.57	1.18	nil
Total	**60.75**		**44.41**		**60.75**	**16.34**	**44.41**	

Journal Entries for the first year :

(In lakhs)

YEAR 1 :

Initial recognition:

Machinery Dr. 44.41 (Full Cash Price without finance costs)

To Lessor A/C. 44.41

At the end of the year :

Maintenance Charges Dr. 1 (maitn. Exp due)

Finance Expense Dr. 4.96 (fin. Cost due)

To Lessor A/C. 5.96

Lessor A/C. Dr. 11 (installment paid) = Maintenance + Finance chs + Principal

To Bank 11

Depreciation Dr. 8.44

To Machinery A/C. 8.44

(Finance expense and Depreciation will be then transferred to P/L).

BOOKS OF LESSOR (LESSOR LTD.)

(In lakhs)

STEP I) Calculation of PV of MLP : STEP I) Calculation of Finance Charges :

Year	**MLP**	**PVF @14.97%**	**PV(MLP)**		**Installment =**	**(Principal**	**+interest)**	**O / S. Principal**
0	-	-	-		-	-	-	**45.00**
1	10	0.900	9.00		10	4.98	5.02	40.02
2	12	0.809	9.71		12	7.53	4.47	32.49
3	15	0.728	10.92		15	11.38	3.62	21.11
4	12	0.655	7.86		12	9.64	2.36	11.47
5	11.75 (10+1.75)	0.589	6.92		12.75	11.47	1.28	Nil
Total	**60.75**		**44.41**		**61.75**	**45.00**	**16.75**	
ugrv	**1.00**	**0.589**	**0.59**					
			45.00					

Accounting treatment in the books of Lessor :

Journal Entries for the first year :

YEAR 1 :

Initial recognition:

Lessee Ltd Dr. 45.00

To Machine 45.00 (Net Investments)

At the end of the year :

Lessee Ltd Dr. 6.02 (Income due)

To Finance income 5.02

To Maintenance Chs 1.00

Bank Dr. 11.00 (installment received)

To Lessee Ltd 11.00

(Finance income and maintenance chs will be transferred to P/L)

AS-20

From the Books of Bharati Ltd., following information is available as on 1.4.2001 and 1.4.2002 :

nos

(1) Equity shares of `10 each 1,00,000

(2) Partly paid Equity Shares of ` 10 each `5 paid 1,00,000

(3)	Options outstanding at an exercise price of ` 60 for one equity share of `10 each. Average Fair Value of equity share during both years ` 75	10,000
(4)	10% convertible preference shares of `100 each. Conversion ratio 2 equity shares for each preference share	80,000
(5)	12% convertible debentures of ` 100. Conversion ratio 4 equity shares for each debenture	10,000

(6) 10% dividend tax is payable for the years ending 31.3.2003 & 31.3.2002.

(7) On 1.10.2002 the partly paid shares were fully paid up

(8) On 1.1.2003 the company issued 1 bonus share for 8 shares held on that date.

Net profit attributable to the equity shareholders for the years ending 31.3.2003 and 31.3.2002 were ` 10,00,000. Tax = 30%

Calculate :

i. Earnings per share for years ending 31.3.2003 and 31.3.2002.

ii. Diluted earnings per share for years ending 31.3.2003 and 31.3.2002.

iii. Adjusted earnings per share and diluted EPS for the year ending 31.3.2002, assuming the same information for previous year, also assume that partly paid shares are eligible for proportionate dividend only.

(C.A. Final May 2003) (14 Marks)

As on 01.01.2006 Pistons Limited had 5,00,000 shares. It issued 1 right share for every 5 shares held at ` 15/- on 01.03.2006. Market price per share just before the right issue is ` 21. Net profit for 2005 was `11,00,000 and for 2006 `15,00,000.

Calculate EPS for 2006 and restated EPS for 2005.

AS-22

Following is the P/L Statement for two years of BAPTISTA Limited.

<table>
<tr><td></td><td>2004 – 2005</td><td>2005 – 2006</td></tr>
<tr><td>Net Profit before taxes</td><td>3,35,000</td><td>3,55,000</td></tr>
<tr><td colspan="3">1) Depreciation as per I. Tax is 75000 & 25000 for two years. Depreciation as per Co. Act is 50,000 each year.
2) Sales Tax provided in 2004-2005 but deduction received in 2005-06 ` 35,000.<br>3) Penalties not allowed under I. Tax ` 10,000 – For the year 2005-2006
4) Company received Income from Bonds ` 10,000 in the year 2004-2005 (exempt).
5) Tax rate 40%.</td></tr>
</table>

You are required to: (1) Compute Timing Differences, (2) Deferred Taxes, (3) Tax expenses, (4) Pass necessary journals.

Following is the P/L Statement for two years of PQR Limited.

	31.03.2001	31.03.2002	31.03.2003
Net Profit before taxes	(200000)	100000	120000

1)	Losses can be c/f. in the next 8 years as per I. Tax.
2)	By the end of 31.03.2001 company feels that in future sufficient taxable income is available.
3)	Tax rate 40%.

You are required to: (1) Compute Timing Differences, (2) Deferred Taxes, (3) Tax expenses, (4) Pass necessary journals. **(C. A. Final Nov. 2003) (Marks 4)**

AS-24

Kapada Emporium Ltd. has a large network of retail shops which sell various types of clothes. It is trading in clothes and carries on activities through retail outlets all over the country. It wishes to discontinue Kanjeevaram silk sarees. There would be no retrenchment of employees. Does it have to report Kanjeevaram silk sarees as discontinuing operations?

A cosmetic producing Company provides the following information -

Particulars	Cold Cream	Vanishing Cream
January 2006 –September 2006 p.m.	2,00,000	2,00,000
October 2006 –December 2006 p.m.	1,00,000	3,00,000
January 2007 – March 2007 p.m.	0	4,00,000

The Company has enforced a gradual change in product-line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March 2006 to this effect. The Company follows calendar year as its accounting year. Should this be treated as a discontinuing operation? Give reasons in support of your answer.

(CA Final May 2008)

AS-25

Your client is a listed company is in the process of preparing first quarter accounts as required by its stock exchange. Advise your client on its following position.

(a) Training expenses incurred in the first quarter will be allocated equally over the four quarters because the benefit is spread over the entire year

(b) Training expenses expected to be incurred in the last quarter will be estimated and equally allocated to all the four quarters

(c) A donation of ` 5 million is expected to be made in the second quarter, provision will be made in the first quarter.

(d) Incentives are provided to customers if they purchase 1 million kg of urea on an annual basis, it is expected that atleast 30 customers would be able to achieve this target before the end of the third quarter. No provision is made for the incentive in the first quarter, since the client believes that the provision has not yet fructified

(e) 70% of the clients revenue comes in the second quarter. The client wants to spread this revenue to all the four quarters, else the quarterly accounts will fluctuate significantly

(f) A major repair is planned of the plant in the fourth quarter, which is absolutely certain. The estimated repair expenditure will be accounted for in the first quarter itself

(g) Over the years the client has been unfailingly giving bonuses to staff in the third quarter. This has become its constructive obligation. The client does not wish to charge a proportionate amount of bonus in the current quarter.

For the First quarter ending 31st March, 2005, I—Corp. gives you the following information:

	` crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter 'I—Corp.' wants to defer ` 21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure, considering the seasonal nature of business. The expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company's view.
(C.A. Final May 2005) (4 Marks)

#. An enterprise reports quarterly, estimates an annual income of ` 10 lakhs. Assume tax rates on 1st ` 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ` 75,000, ` 2,50,000, ` 3,75,000 and ` 3,00,000.
Calculate the tax expense to be recognized in each quarter.

(C.A.Final May 2011) (4 Marks)

AS-26

An enterprise has a portfolio of customers and a market share and expects that, due to its efforts in building customer relationships and loyalty, the customers will continue to trade with the enterprise. Can it recognise portfolio customers, market shares, customer relation-ships, customer loyalty as intangible assets ?

Logifirms Pvt. Limited is developing a new production process. During the year 2006, expenditure incurred was ` 10 lakhs, of which ` 9 lakhs was incurred before 1st December, 2006 and 1 lakh was incurred between 1st December, 2006 and 31st December, 2006. The enterprise is able to demonstrate that, at 1st December, 2006, the production process met the criteria for recognition as an intangible asset. Comment ?

(C.A. Final May 2008)

AS-28

Picalo Groups products had a sudden fall in the market. The assets were immediately implemented for deprecation. The position on 31/3/2010 is as follows:

Asset which is carried in the B/S on 31-03-2010 Rs 400lakhs, Revaluation reserve Rs 100lakhs, Value in use is ` 250 lakhs. Calculate amount charged to profit /loss account due to impairment.

NARANG PVT. LTD. has 3 UNITS (CGUs) A, B, C. Goodwill appearing in the books of Narang Ltd is ` 40 crores. Compute Impairment Loss for CGU:
i) Assuming goodwill is allocable

ii) Goodwill is not allocable.

Assets	**A**	**B**	**C**	**Narang Ltd**
Carrying amount	150	100	150	400
Recoverable amount	115	105	175	395
Goodwill				40

AS-29

An airline is required by law to overhaul its aircraft once every three years. This is the third year of use. Is a provision required to be recognised? ***(CA Final Nov 2010 OS)***

After a wedding in 2008-09, ten people died, possibly as a result of food poisoning from products sold by the enterprise. Legal proceedings are started seeking damages from the enterprise but it disputes liability. Up to the date of approval of the financial statements for the year 31 March, 2009 the enterprise's lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year 31 March, 2010 its lawyers advise that, owing to developments in the case, it is probable that the enterprise will be found liable. How this should be dealt with in financial statement?

Samsung Limited has ` 4.50 crores in sales tax demand relating to previous year against which the company has gone into appeal for the year 2008-09. The ground of appeal dealt with points covering ` 3.50 crores of demand. Show how the matter will have to be dealt with the final accounts for the year 2008-09. **(C.A. Final Nov. 2009 OS)**

K Ltd has at its financial year ended 31st March, 2004 fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the possible outcomes as below:

Result	*Probability*	*Amount of loss*
For first ten cases:		`
Win	0.6	—
Lose-low damages	0.3	90,000
Lose-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	—
Lose-low damages	0.3	60,000
Lose-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. **(C.A. Final May 2004)**

Mini Ltd. took a factory premises on lease on 01.04.07 for ` 2,00,000 per month. The lease is operating lease. During March 2008, Mini Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2010. The Lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Ltd seeks your advice.

(CA Final May 2008)

AS-30/31/32

#

A party enters into forward contract for trading or speculation. Contract is to sell $ 100000 due on 30.06 @ ` 47.50. Today (1st January) spot @ is ` 47. On 31st March (yearend) the forward contract for 3 months (i.e. remaining maturity period upto 30.06) to sell $ is available @ ` 47.55. Rate on 30.06 is ` 47.60. Journalise the entries as per AS- 11 [R].

On 1st February 2009, Future Ltd entered into a contract with Son Ltd, to receive the Fair Value of 1000 Future Ltd's Own Equity Shares Outstanding as on 31-01-2010 in exchange for payment of Rs.1,04,000 in cash, i.e. Rs.104 per Share. The contract will be settled in net cash on 31-01-2010.

The Fair Values of this forward contract on the different dates were:

Fair Value of forward on 01-02-2009 Nil

Fair Value of forward on 31-12-2009 ` 6,300,

Fair Value of forward on 31-01-2010 ` 2,000

Presuming that Future Ltd, closes its books on 31st December each year, pass entries – If net settled in cash. If net is settled by Son Ltd, by delivering Shares of Future Ltd.

A Lld. purchases equity shares of B Ltd. The fair value of the asset was Rs.20 Lacs on initial recognition. A Ltd classifies them as available for sale financial asset. On end of year the fair value of shares was Rs.18 lacs. On end of year 2, the fair market value is 12 lacs. However, by applying valuation model it assesses that fair value of shares should be Rs.14 lacs. The market has over reacted to the bad news. As per market report, B Ltd. may recover from there as well. Accordingly A Ltd. has decided to charge Rs.4 lacs as impairment loss. At end of year 3 the fair market value was Rs.8 lacs because of management fraud and heavy loss incurred by B Ltd is highly likely that B Ltd will dissolved and shareholders will get only residual value. A Ltd has estimated that based on residual value the financial asset should be valued at Rs.9 lacs. Journalize the above transitions in the books of A Ltd.

ABC Ltd grants loan ` 10,00,000 to its employees on January 1, 2008 at a concessional interest rate of 4% p.a. loan will be repaid in 5 equal annual installments along with interest. Market rate of interest for such loan is 10% p.a. Pass journals for first 2 years.

On 1st April 2008 Delta Ltd issued ` 30,00,000 6% Convertible debentures of Rs 100 per debenture @par. The debentures will be redeemed on 31/3/2012 10% premium or given an option to the holder to convert it into equity shares. The interest rate without conversion option will be 10% for similar debentures.

Split the compound financial instruments into equity and debenture.

Solution:

PV of Redemption amount (3300000 x 0.68)	2244000
PV of interest payments (180000*3.17)	570600
PV of liability	2814600
Less: Cash received	3000000
Equity Component	185400

Cash Dr 3000000

To Debt 2814600

To Equity 185400

AS-21+23+27

 # Comprehensive Problem on AS-21+AS-23+AS-27

Balance Sheet of H Limited, S Limited, A Limited and JV Limited as on 31/3/2010 before consolidation is given below: **(` in lacs)**

Liabilities	`	Assets	`
Share Capital (` 10)	1000	Fixed Assets	1000
Profit/ Loss A/C.	700	Investments in S Ltd. (60%)	500
Other Reserves	300	Investments in A Ltd. (20%)	150
Long term	200	Investments in JV Ltd. (40%)	300
Current Liabilities	300	Current Assets	550
	2500		**2500**

Liabilities	S	A	JV	Assets	S	A	JV
Share Capital (`10)	500	400	600	Fixed Assets	600	400	700
Profit /Loss A/C.	150	100	200	Current Assets	150	200	200
Sundry Liabilities	100	100	100				
	750	**600**	**900**		**750**	**600**	**900**

H Limited acquired all the investments as on 31/3/2009. Following is the nature of investments:

Investments in S Ltd Long term investments: Subsidiary Co.

Investments in A Ltd Long term investments: Associate Co.

Investments in JV Ltd Long term investments: Joint Venture (JCE).

The balance of Profit/loss account as on that date (31/3/2009) was:

S Ltd ` 100 lacs

A Ltd ` 70 lacs

JV Ltd ` 140 lacs

Following are the mutual owings between inter companies:

Debtors of H Ltd. includes ` 5 lacs receivable from S Ltd.

Debtors of H Ltd. includes ` 7 lacs receivable from A Ltd.

Debtors of H Ltd. includes ` 6 lacs receivable from JV Ltd.

Following is the stock unsold out of the transactions between inters companies:

Stock of H Ltd. includes ` 3 lacs supplied by S Ltd. at Cost + 20%.

Stock of H Ltd. includes ` 2 lacssupplied by A Ltd. at Cost + 25%.

Stock of H Ltd. includes ` 3 lacs supplied by JV Ltd. at Cost + 20%.

Stock of S Ltd. includes ` 2 lacs supplied by H Ltd. at Cost + 25%.

Stock of A Ltd. includes ` 1 lacs supplied by H Ltd. at Cost + 25%.

Stock of JV Ltd. includes ` 5 lacs supplied by H Ltd. at Cost + 25%.

Show Consolidated Balance Sheet of the group.