MOCK TEST PAPER

FINAL OLD COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

SUGGESTED ANSWERS/HINTS

1. (a) An extract of Cash Flow Statement of Gagan Ltd. for the year ended 31.3.20X2

A	**Cash Flow from Operating Activities**	
	Net Profit as per Profit & Loss A/c	-
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	**Cash Flow from Investing Activities**	
	Interest on Investments [35,000-10,500]	24,500
C	**Cash Flow from Financing Activities**	
	Interest on Debentures paid [11,000 - 1,175 + 275]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

(b) (i) Since, the hire-purchaser paid the first instalment due on 31.3.20X1, the notional principal outstanding on 1-4-20X2 was Rs. 50.25 lakhs (refer W.N.).

In the year ended 31.03.20X3, the instalment due of Rs.s16 lakhs has not been received. However, it was due on 31.3.20X3 i.e on the balance sheet date, and therefore, it will be classified as standard asset. Samvedan Ltd. will recognise Rs. 5.24 lakhs as interest income included in that due instalment as this should be treated as finance charge.

(ii) The net book value of the assets as on 31.3.20X2

	Rs. in lakhs
Overdue instalment	16.00
Instalments not due (Rs. 16 lakhs x 3)	48.00
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Provision as per para 9(2)(i) of NBFC prudential norms (Refer point (iii))	(7.49)
Net book value of assets for Samvedan Ltd.	48.00

(iii) Amount of Provision

	Rs. in lakhs
Overdue instalment	16.00
Instalments not due (Rs. 16 lakhs x 3)	48.00
	64.00

Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Depreciated value (cash price less depreciation for two years on SLM @ 20%*)	(48.00)
Provision to be created as per para 9(2)(i) of NBFC prudential norms	7.49

Since, the instalment of Rs. 16 lakhs not paid, was due on 31.3.20X3 only, the asset is classified as standard asset. Therefore, no additional provision has been made for it.

Working Note:

It is necessary to segregate the instalments into principal outstanding and interest components by using I.R.R. @ 10.42%. *(Rs. in lakhs)*

Time	*Opening outstanding amount (a)*	*Cash flow (b)*	*Interest @ 10.42% (c) = (a x 10.42%)*	*Principal repayment (d) = (b – c)*	*Closing outstanding (e) = (a – d)*
31-3-20X1		(60)	-----	---	60.00
31-3-20X2	60.00	16	6.25	9.75	50.25
31-3-20X3	50.25	16	5.24	10.76	39.49
31-3-20X4	39.49	16	4.11	11.89	27.60
31-3-20X5	27.60	16	2.88	13.12	14.48
31-3-20X6	14.48	16	1.52	14.48	0.00

(c) Statement showing calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

S. No.	*Particulars*	*Amount of difference*	*Nature of difference*	*DTA @ 35%*	*DTL @ 35%*
		Rs.		*Rs.*	*Rs.*
(i)	Excess allowable depreciation as per income-tax law	1,22,500	Timing	-	42,875
(ii)	Provision for doubtful debts - disallowed as per income-tax law in the current year but reversible in future years.	54,300	Timing	19,005	-
(iii)	Share issue expenses charged in the accounting books but allowed as deduction in the income-tax law from the next year	6,23,500	Timing	2,18,225	-
(iv)	Disallowed expenses as per income tax law	7,84,500	Permanent	-	-
(v)	Donation debited to Profit & Loss Account				
	Allowed as per income tax	1,00,000	No difference	-	-
	Disallowed as per income tax	1,00,000	Permanent	-	-
				2,37,230	42,875

(d) It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other

* As per NBFC prudential norms laid down by the RBI.

titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

2. **Consolidated Balance Sheet of R Ltd. and its Subsidiaries**

S Ltd. and T Ltd. as on 31st March 20X2

	Particulars	*Note No.*	*Rs. in lakhs*
I	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital	1	325
	(b) Reserve and Surplus	2	1,416.80
	(2) Minority Interest		475.20
	(3) Non-current Liabilities		
	Long term borrowings	3	1,595.00
	(4) Current liabilities		
	Other-current liabilities	4	2,550.00
	Total		6,362.00
(II)	Assets:		
	(1) Non-current assets		
	(a) Fixed Assets		
	(i) Tangible assets	5	2,640.00
	(ii) Intangible assets	6	27.00
	(2) Current assets	7	3,695.00
	Total		6,362.00

Notes to Accounts:

	Particulars			*Rs. in lakhs*
1.	Share Capital			
	30,00,000, Equity Shares of Rs. 10 each fully paid		300.00	
	25,000, 10% Cumulative Preference Shares of Rs. 100 each fully paid		25.00	325.00
2.	Reserve and Surplus			
	Capital Reserve		600.00	
	General Reserve		189.00	
	Profit & Loss A/c		627.80	1,416.80
3.	Long Term Borrowings			
	Secured Loans: 5,000, 11% Mortgage Debenture Bonds of Rs. 1,000 each		50	
	Bank Loans:			
	R Ltd.	765		
	S Ltd.	355		

	T Ltd.	260	1,380	
			1430	
	Unsecured loans:			
	Deposits from public (90 + 60 + 15)		165	1,595
4.	Other Current liabilities			
	R Ltd.		1,570	
	S Ltd.		625	
	T Ltd.		355	2,550
5.	Tangible assets			
	R Ltd.		1,695	
	S Ltd.		625	
	T Ltd.		320	2,640
6.	Intangible Assets			
	Goodwill			27
7.	Current Assets			
	R Ltd.		2,365	
	S Ltd.		850	
	T Ltd.		660	
			3,875	
	Less: Mutual indebtedness:			
	Unsecured loans (75 + 60)	135		
	Inter-company balances	45	(180)	3,695

Working Notes:

1. Shareholding Pattern

	S Ltd.	*T Ltd.*
Total Shares	25,00,000	20,00,000
Held by R Ltd.	15,00,000 i.e. 60%	4,00,000 i.e. 20%
Held by S Ltd.		8,00,000 i.e. 40%
Minority Interest	10,00,000 i.e. 40%	8,00,000 i.e. 40%

S Ltd. is the subsidiary of R Ltd. since the issue of shares by S Ltd.

T Ltd. is the subsidiary of S Ltd. after acquisition of 4,00,000 shares from the market. Thereafter, both S Ltd. and T Ltd. become the subsidiary of R Ltd. Hence, capital profit will be Rs. 65 lakhs (General Reserve Rs. 25 lakhs and Profit & Loss Account Rs. 40 lakhs). 20% of Rs. 65 lakhs i.e. Rs. 13 lakhs which will be considered as Capital Profit (pre-acquisition) for T Ltd. and remaining will be revenue profit (post-acquisition).

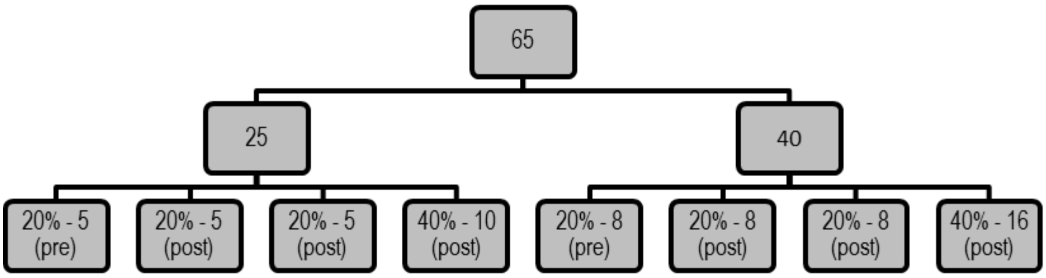
2. Profit on Debentures of R Ltd. held T Ltd.

	Rs. in lakhs
Nominal value of 7500 Debentures of Rs. 1,000 each	75.00
Less: Amount paid for Debentures	(70.00)
Profit to be transferred to Profit & Loss A/c	5.00

Therefore, the balance in Profit and Loss Account of T Ltd. will be (110+5) lakhs, i.e.115 lakhs. The post-acquisition profits will be Rs. 75 lakhs (115 - 40).

3. Analysis of profits of T Ltd.

	(Rs. in lakhs)		
	Pre-acquisition	*Post-acquisition*	
	Capital profit	*General Reserve*	*Profit and Loss A/c*
Share of R Ltd. 20%	13	5+5 =10	8+15 =23
Share of S Ltd. 40%		5+10 = 15	8+30 =38
Share of Minority Interest 40%	___	10+10 =20	16 +30 = 46
Total	13	45	107



4. Analysis of profits of S Ltd.

	(Rs. in lakhs)	
	Post-acquisition	
	General Reserve	*Profit & Loss A/c*
Balance on 31.3.20X2	75	170
Add: Share in post-acquisition profits from T Ltd.	15	38
Total	90	208
Share of R Ltd. (60%)	54	124.80
Share of Minority (40%)	36	83.20
Total	90	208.00

5. Cost of Control

	(Rs. in lakhs)		
	R Ltd. in S Ltd.	*R Ltd. in T Ltd*	*S Ltd. in T Ltd*
Cost of investments	150	40	120
Less: Share Capital	(150)	(40)	(80)
Capital Profits	-	(13)	-
Capital Reserve/Goodwill	-	(13)	40
Net Goodwill			27

6. Minority Interest

	(Rs. in lakhs)	
	S Ltd.	*T Ltd.*
Equity Share Capital	100.00	80.00

Capital profit		
General Reserves	36.00	20.00
Profit & loss Account	83.20	46.00
	219.20	146.00
Preference Share Capital	60.00	50.00
Total	279.20	196.00

Total Minority Interest = Rs. (279.20 + 196) lakhs = Rs. 475.20 lakhs.

7. General Reserve & Profit & Loss Account balances in Consolidated Balance Sheet

	General Reserve	*Profit and Loss A/c*
Balance as per books	125.00	480.00
Add: Share in post-acquisition profits from:		
S Ltd.	54.00	124.80
T Ltd.	10.00	23.00
Total	189.00	627.80

3. (a) Projected Profit and Loss Account of EF Ltd. for the period ending 31st March, 20X2

Particulars	*Rs.*
Total Revenue	
Dividend Income [50,000 + 17,600]	67,600
Interest Income	11,250
	78,850
Less: Expenses	
Finance Costs (Interest on Bank Overdraft)	(1,600)
Other Expenses [Directors Fee (7,500) + Administrative Expenses (16,000) + Preliminary expenses (8,000)]	(31,500)
Profit before tax	45,750

(b) Projected Balance Sheet of EF Ltd. as on 31st March, 20X2

	Particulars	Note No.	(Rs.)
I.	Equity and Liabilities		
	(1) Shareholders' Funds		
	(a) Share Capital	1	15,70,000
	(b) Reserves and Surplus	2	3,49,450
	(2) Non-Current Liabilities		
	(3) Current Liabilities		
	(a) Other Current Liabilities	3	23,500
	Total		19,42,950
II.	Assets		
	(1) Non-Current Assets		
	Non-Current Investments	4	14,34,000

	(2) Current Assets		
	(a) Cash and Cash Equivalents (Refer W.N.)		58,950
	(b) Other Current Assets		4,50,000
	Total		19,42,950

Notes to Accounts:

	Particulars		*(Rs.)*
1.	**Share Capital**		
	Authorised share capital		
	4,00,000 Equity shares of Rs. 10 each		40,00,000
	Issued share capital		
	1,57,000 Equity Shares of Rs. 10 each		15,70,000
	(Of the above 1,19,500 shares were issued for consideration other than cash)		
2.	**Reserves and Surplus**		
	Securities Premium [2,39,000 + 1,12,500]		3,51,500
	Profit & Loss Account	45,750	
	Less: Interim dividend (Rs. 11,95,000 x 4%)	(47,800)	(2,050)
			3,49,450
3.	**Other Current Liabilities**		
	Bank Overdraft	16,000	
	Directors Fee	7,500	23,500
4.	**Non-current investment**		
	Investment in shares of AB Ltd. @ Rs. 12	10,50,000	
	Investment in shares of CD Ltd. @ Rs. 12	3,84,000	14,34,000

(c) Computation of Number of Shares to be issued to former shareholders

Particulars	*AB Ltd.*	*CD Ltd.*
	Rs.	*Rs.*
Future Maintainable EBIT	2,30,000	1,12,000
Less: Interest on Debentures	(20,000)	-
	2,10,000	1,12,000
Less: Income tax @ 50%	(1,05,000)	(56,000)
Profit after tax	1,05,000	56,000
Less: Preference Dividend	-	(8,000)
Profit to Equity Shareholders	1,05,000	48,000
PE Ratio	10	8
Capitalised Earning	10,50,000	3,84,000
Number of shares to be exchanged in EF Ltd.		
@ Rs. 12 (including Premium of Rs. 2 each)	87,500	32,000

Working Note:

Bank Account

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital A/c	3,75,000	By Preliminary Expenses	8,000
To Securities Premium A/c	1,12,500	By Interest on Bank Overdraft	1,600
To Dividends from AB Ltd.	50,000	By Advance to AB Ltd.	2,50,000
To Dividends from CD Ltd.	17,600	By Advance to CD Ltd.	2,00,000
To Interest Income	11,250	By Interim Dividend	47,800
		By Balance c/d (Bal. fig.)	58,950
	5,66,350		5,66,350

4. (a) (i) **Calculation of initial recognition amount of loan to employees**

Year end	Cash Inflow		Total	P.V. factor @10%	Present value
	Principal Rs.	Interest @ 5% Rs.	Rs.		Rs.
20X1	3,20,000	80,000	4,00,000	0.909	3,63,600
20X2	3,20,000	64,000	3,84,000	0.827	3,17,568
20X3	3,20,000	48,000	3,68,000	0.751	2,76,368
20X4	3,20,000	32,000	3,52,000	0.683	2,40,416
20X5	3,20,000	16,000	3,36,000	0.620	2,08,320
Present value or Fair value					14,06,272

(ii) **Calculation of amortised cost of loan to employees**

Year	Amortised cost (Opening balance) [1] Rs.	Interest to be recognised@10% [2] Rs.	Repayment (including interest) [3] Rs.	Amortised Cost (Closing balance) [4] = [1] + [2]–[3] Rs.
20X1	14,06,272	1,40,627	4,00,000	11,46,899
20X2	11,46,899	1,14,690	3,84,000	8,77,589
20X3	8,77,589	87,759	3,68,000	5,97,348
20X4	5,97,348	59,735	3,52,000	3,05,083
20X5	3,05,083	30,917*	3,36,000	Nil

* Rs. 3,05,083 x 10% = Rs. 30,508. The difference of Rs. 409 (Rs. 30,917 – Rs. 30,508) is due to approximation in computation.

(iii) **Journal Entries in the books of Y Ltd.**

For the year ended 31st December, 20X1 (regarding loan to employees)

		Amount (Rs.)	Amount (Rs.)
Staff loan A/c	Dr.	16,00,000	
To Bank A/c			16,00,000
(Being the disbursement of loans to staff)			

Staff cost A/c* Rs. (16,00,000 –14,06,272) [Refer part (ii)] Dr. To Staff loan A/c (Being the write off of excess of loan balance over present value thereof in order to reflect the loan at its present value of Rs. 14,06,272)	1,93,728	1,93,728
Staff loan A/c Dr. To Interest on staff loan A/c (Being the charge of interest @ market rate of 10% on the loan)	1,40,627	1,40,627
Bank A/c Dr. To Staff loan A/c (Being the repayment of first instalment with interest for the year)	4,00,000	4,00,000
Interest on staff loan A/c Dr. To Profit and loss A/c (Being transfer of balance of staff loan Interest account to profit and loss account)	1,40,627	1,40,627

(b) **Employee Compensation Account**

Year		*Rs.*	*Year*		*Rs.*
20X1-X2	To Provision for Liability (W.N. 3)	1,27,200	20X1-X2	By Profit & Loss A/c	1,27,200
20X2-X3	To Provision for Liability (W.N. 3)	1,52,633	20X2-X3	By Profit & Loss A/c	1,52,633
20X3-X4	To Provision for Liability (W.N. 3)	2,02,867	20X3-X4	By Profit & Loss A/c	2,02,867

Provision for Liability Component Account

Year		*Rs.*	*Year*		*Rs.*
20X1-X2	To Balance c/d	1,27,200	20X1-X2	By Employees Compensation A/c	1,27,200
		1,27,200			1,27,200
20X2-X3	To Balance c/d	2,79,833	20X2-X3	By Balance c/d	1,27,200
				By Employees Compensation A/c	1,52,633
		2,79,833			2,79,833
20X3-X4	To Balance c/d	4,82,700	20X3-X4	By Balance c/d	2,79,833
				By Employees compensation A/c	2,02,867
		4,82,700			4,82,700

If Employee opts for Cash settlement

Provision for Liability Component Account

Year	*Particulars*	*Rs.*	*Year*	*Particulars*	*Rs.*
20X4-X5	To Bank (5,000 x Rs. 96.54)	4,82,700	20X4-X5	By Balance c/d	4,82,700

* This is a level 2 measurement and therefore should be deferred as per paragraph 5.1.2A instead of recognising on day 1.

If employee opts for Equity Settlement

Provision for Liability Component Account

Year	*Particulars*	*Rs.*	*Year*	*Particulars*	*Rs.*
20X4-X5	To ESOP outstanding A/c	4,82,700	20X4-X5	By Balance c/d	4,82,700

ESOP Outstanding Account

Year		*Rs.*	*Year*		*Rs.*
20X4-X5	To Equity Share Capital A/c (6,000 x Rs. 10)	60,000	20X4-X5	By Provision for Liability Component A/c	4,82,700
	To Securities Premium A/c	12,86,700		By Bank (6,000 x Rs. 144)	8,64,000
		13,46,700			13,46,700

Working Notes:

1. Computation of Fair values

Fair value of shares subject to lock in as on 1st April, 20X1	Rs. 60
% of increase in fair value of shares not subjected to lock in	20%
Fair value as on 1st April, 20X1 of shares not subjected to lock in (60 x 120%)	Rs. 72
% increase over previous value in respect of fair value on 31.03.20X2	6%
Fair value of shares not subjected to lock in restriction on 31.03.20X2 (72x106%)	Rs. 76.32
% increase over previous value in respect of fair value on 31.03.20X3	10%
Fair value of shares not subjected to lock in restriction on 31.03.20X3 (76.32 x 110%)	Rs. 83.95
@ increase over previous value in respect of fair value on 31.03.20X4	15%
Fair value of shares not subjected to lock in restriction on 31.03.20X4 (83.95 x 115%)	Rs. 96.54

2. Expense to be recognized in respect of Equity Component

Fair value under equity settlement option (6,000 x Rs. 60)	3,60,000
Less: Fair value under cash settlement (liability component) option (5,000 x Rs. 72)	3,60,000
Equity Component	Nil
Expenses to be recognized each year for Equity Component	Nil

3. Expenses to be recognized for Liability Component

	20X1-X2	*20X2-X3*	*20X3-X4*
Number of shares (A)	5,000	5,000	5,000
Fair value at the end of each year (B)	76.32	83.95	96.54
Fair value of liability component (A x B)	3,81,600	4,19,750	4,82,700
Expenses to be recognized*	1,27,200	1,52,633	2,02,867

*Expenses to be recognized each year has been calculated on the basis:

$$\frac{\text{Fair Value} \times \text{No. of years Expired}}{\text{Vesting Period}} - \text{Expenditure recognised till previous year}$$

5. (a) **Value Added Ltd.**

Value Added Statement for the year ended 31st March, 20X1

	Rs. ('000)	*Rs. ('000)*	%
Turnover		29,872	
Less: Cost of bought in materials and services:			
Operating expenses (26,741 –14,761)	11,980		
GST	1,952		
Interest on Cash Credit	151	(14,083)	
Value added by manufacturing and trading activities		15,789	
Add: Other income		1,042	
Total value added		16,831	
Application of value added:			
To Pay to employees:			
Salaries, wages and other employee benefits		14,761	87.70
To Pay to Government:			
Corporation tax (376 – 54)		322	1.91
To Pay to providers of capital:			
Interest on 8% Debentures	987		
Dividends	125	1,112	6.61
To Provide for maintenance and expansion of the company:			
Depreciation	342		
Assets Replacement Reserve	65		
Deferred Tax Account	54		
Retained Profit	175	636	3.78
		16,831	100

Note: Deferred tax account could alternatively be shown as an item 'To pay to government'.

Reconciliation between total value added and profit before taxation

	Rs. ('000)		Rs. ('000)
Profit before tax			741
Add back: Depreciation	342		
Wages, salaries and other benefits	14,761		
Debenture interest	987		16,090
Total Value Added			16,831

(b) Calculation of Economic Value Added

	Rs.
Net Operating Profit After Tax	25,00,000
Less: Cost of capital employed (Refer W.N.)	(6,00,000)
Economic Value Added	19,00,000

Economic value added is greater than zero. Therefore, the company qualifies for the loan.

Working Note:

Calculation of Cost of Capital employed	*Rs.*
Average total assets	75,00,000
Less: Average current liabilities	(15,00,000)
Capital employed	60,00,000

Cost of capital = Capital employed x Weighted average cost of capital

$$= \text{Rs. } 60{,}00{,}000 \times \frac{10}{100} = \text{Rs. } 6{,}00{,}000$$

6. Valuation of goodwill: Super profits method

Particulars	*Rs.*	*Rs.*
Net trading assets attributable to equity share holders		
As computing in (W.N.1)	23,18,506	
Less: Preference share Capital	(2,25,000)	20,93,506
Normal Rate of Return (NRR) to equity share holders		10%
Normal Profit available to equity shareholders (a x b)		2,09,351
Future Maintainable Profits (FMP) to equity share holders		
As computed in (W.N.3)	3,75,096	
Less: Preference dividend* (8% of 2,25,000)	(18,000)	3,57,096
Super profits to equity share holders (FMP – Normal profit)		1,47,745
Goodwill (1,47,745 x 3)		4,43,235

*Since, NRR is given as percentage of net assets attributable to equity shareholders, preference share capital and preference share dividend have been deducted from the net assets and future maintainable profit respectively.

Value Per Equity Share

Net Trading Assets attributable to equity shareholders	Rs. 20,93,506
Add: Goodwill	Rs. 4,43,235
	Rs. 25,36,741

Number of Equity Shares = 9,500 shares

$$\text{Value per share} = \frac{25{,}36{,}741}{9{,}500} = \text{Rs. } 267 \text{ (approx.)}$$

Working Notes:

1. **Computation of net trading assets**

Particulars		*Rs.*	*Rs.*
Sundry assets			
i	Land & Building (62,400 ÷ 8%)	7,80,000	
ii	Plant and Machinery	4,55,000	
iii	Inventory	3,80,000	
iv	Trade receivables (4,25,620 ÷ 92%)	4,62,630	
v	Bank balance (given balance 5,20,520 + Sale of investment 4,95,200 - Redemption of debentures 5,60,000 × 75%)	5,95,720	26,73,350
Less: Outside liabilities:			
i	Current Liabilities	3,25,640	
ii	Contingent Liability now to be accounted for	25,000	
iii	Tax provision (WN 2)	4,204	(3,54,844)
Net assets			23,18,506

2. **Calculation of tax provision**

	Rs.
Profit on reversal of provision for bad debts	37,010
Loss on recognizing omitted claim (assuming tax deductible)	(25,000)
Net incremental profit on which tax is payable	12,010
Tax provision 35%	4,204

3. **Computation of future maintainable profit for the year ended on 31st March**

Particulars		20X2	20X3	20X4
Profit after tax		3,25,000	4,99,000	2,95,000
Less:	Non-recurring profits (after tax) (20% of 20X3 Profit)	-	(99,800)	-
Less:	Claims not recorded (after tax) [25,000 x (1-35%)]	-	-	(16,250)
Add:	Provision no longer required (net of tax) [4,25,620 × 8/92 × (1-35%)]	-	-	24,057
Adjusted profits after tax		3,25,000	3,99,200	3,02,807

Simple average of the profits (as profits are fluctuating)		3,42,336
Adjustments for items which will not be reflected in future		
Add:	Debenture interest (net of tax) [5,60,000 × 9% × (1 – 0.35)]	32,760
Future maintainable profit [for shareholders- both preference and equity)		3,75,096

7. **(a) As per Ind AS 16 'Property, Plant and Equipment' and Ind AS 41 'Agriculture'**

Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than one period; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

As per Ind AS 41, following are **not bearer plants**:

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(iii) annual crops (for example, maize and wheat).

Biological Asset is a living animal or plant.

(b) Allocation of Earnings

	Old Unit Holders	*New Unit Holders*	*Total*
	[18 Lakh Units]	*[2 Lakh Units]*	
	Rs. in Lakhs	*Rs. in Lakhs*	*Rs. in Lakhs*
First half year (Rs. 5 per unit)	90.00	Nil	90.00
Second half year (Rs. 3.60 per unit)	64.80	7.20	72.00
	154.80	7.20	162.00
Add: Equalization payment recovered	-	-	5.00
Total available for distribution			167.00

Equalization Payment: Rs. 90 lakhs ÷ 18 Lakhs = Rs. 5 per unit.

Distribution of earning per unit	*Old Unit Holders*	*New Unit Holders*
	Rs.	*Rs.*
Dividend distributed	8.60	8.60
Less: Equalisation payment	-	(5.00)
	8.60	3.60

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				(*Rs. in lakhs)*
30.9.20X1	Bank A/c	Dr.	150.00	
	To Unit Capital A/c			20.00
	To Reserve A/c			120.00
	To Dividend Equilisation A/c			10.00
	(Being the amount received on sale of 2 lakhs unit at a NAV of Rs. 70 per unit)			
31.3.20X2	Dividend Equalization A/c	Dr.	10.00	
	To Revenue A/c			10.00
	(Being the amount transferred to Revenue Account)			

30.9.20X2	Revenue A/c Dr. To Bank A/c (Being the amount distributed among 20 lakhs unit holders @ Rs. 8.60 per unit)	172.00	 172.00

(c) Valuation of closing stock

	Rs.
Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	(20,000)
Value of inventory	4,30,000

Working Notes:

1. Adjustment for Coats

	Rs.
Cost included in Closing Stock	2,20,000
NRV of Coats	(2,00,000)
Adjustment to be made as NRV is less than Cost	20,000

2. No adjustment required for skirts and shirts as their NRV is more than their cost which was included in value of inventory.

(d) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		***Rs.***
Purchase Price	Given (Rs. 1,58,34,000 x 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific / Attributable overheads for 3 months (See Note) (45,000 x 3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total cost of asset		1,45,00,140

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10.

(ii) Internally booked profits should be eliminated in arriving at the cost of machine.

Note: The above solution is given on the basis that IGST credit is availed by Shristhi Limited.

(e) As per AS 9 'Revenue Recognition', revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched.

In the given case, if trade discount allowed by X Ltd. is given in the ordinary course of business, X Ltd. should record the sales at Rs. 6,09,500 (after deducting 8% trade discount from 6,62,500) and goods returned worth Rs. 77,500 are to be recorded in the form of sales return.

However, when trade discount allowed by X Ltd. is not in the ordinary course of business, X Ltd. should record the sales at gross value of Rs. 6,62,500. Discount of Rs. 53,000 in price and return of goods worth Rs. 77,500 are to be adjusted by suitable provisions. X Ltd. might have sent the credit note of Rs. 1,30,500 to Y Ltd. to account for these adjustments.

In both the cases, the contention of the accountant to book the sales for Rs. 5,32,000 is not correct.