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**AIR 49**



Ria Gupta  
CA Inter May-22

# What Our Students have to Say....

## Aman Mahajan (CA AIR 19)

I really liked your classes, especially the practical linkages explained with amazing graphics. The full subject test series helped a lot in improving my writing speed and presentation skills.

## Sundar Sri Renganathan B (AIR 33)

I took Accounting from IndigoLearn and the classes were really good. They emphasized on conceptual clarity over getting things done quickly, which is really vital to score good marks in practical papers. Other resources like Notes, Quizzes and Forum was beneficial too.

## Dwarakesh

Thank you IndigoLearn team for the guidance and support throughout the past few months. I had great conceptual clarity in all the subjects and the revision classes by Suraj Sir were very helpful. Study planner and Free resources were very useful. Thank you Team IndigoLearn.

## Yug Manoj Kumar Bhattad

I have cleared my CA Foundation examination with the total of 286. And this was not possible without the efforts and support of IndigoLearn. The way of teaching with utmost conceptual clarity is the best thing at IndigoLearn.

## Prakash Bhatt

Superb, one stop solution for All CA and Accountancy students they serve real Education at very very reasonable price

## Naveen Kumar S

Good experience, unlimited views helped a lot in last one month preparation. Looking forward for

## Bhagyasree Chougule

It was only because of IndigoLearn that my concepts became very clear, and I was able to crack the exam. I wasn't 100% prepared I needed more practice but luckily I got through. I'm definitely choosing IndigoLearn for group 2 preparation. A big thanks!

## Mohd Thayyab

Theoretical subjects made easier through story based examples and charts. Concept clarity 100%. Fully exam+practical oriented classes will help not only to retain the concepts during exams but for the longer duration.

## Lalit Chetan Sanpal

IndigoLearn has been fantastic and brilliant. Helped me a lot in my preparations. I cleared both the groups in first attempt with your brilliant classes and notes. Thanks to all the faculties, coordinators, forum admins and everyone at IndigoLearn. Really grateful. Will go for CA Finals at IndigoLearn For sure. Thank you so much IndigoLearn.

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## Abishek M

I'd like to thank IndigoLearn for all the support they've provided me with. Modules were great. They were time saving and straight to the point. I extensively used the materials provided before exams, they were so helpful. Also I'd appreciate them for providing unlimited views as I kept looking into the maths modules till the end.

## Munnur Nandini Sree

Accounting classes I have taken from IndigoLearn. Now I feel that it's a great choice that I have made (after seeing my result ) because only in Accounting I got exemption. Thank you IndigoLearn.

## Harshita G

Thank u so much IndigoLearn for your guidance. This is only possible because of u people... For my finals also my journey will continue with IndigoLearn.

## Bharathsha PS

I purchased Economics, IT, FM, EIS and Audit from IndigoLearn. All your classes are superb and anyone can easily crack the CA exams. What makes u special is your classes help us to understand the concepts very well. Special thanks to the FM faculty, I studied only 2 chapters in economics, and still managed to score exemption in the 8th paper.

## Nayi Mihir kumar

This platform is very helpful in all activity like mcq practise, notes, teaching activities, revisions and the forum interaction with all students which I like the most. If anybody want to clear their exams in first attempt then IndigoLearn is the best platform for them. My all regards to IndigoLearn. Thank you so much.

## Rajalaxmi CA Inter

Can't believe I cleared. Sathya Sir, Suraj Sir, Yogita Mam ... thanks to all my faculties. Basically an Eng student with zero accounts knowledge. Thanks IndigoLearn for making me clear in first attempt.

## Priyanka Udeshi

All the faculties have excellent knowledge of the subject and deliver it in very crisp & effective manner. Also, quick response at Forums never let any of my doubts go unresolved no matter how small they were. Thank you once again to all the teachers & staff at IndigoLearn!

## Naveen Kumar T

It been a great journey with indigo learn team. Thanks to all the facilities and forum friends who support me a lot.

# ADVANCED ACCOUNTING

## CASE SCENARIO 1

XY Ltd. agrees to construct a building on behalf of its client GH Ltd, on 1st April 20x1. The expected completion time is 3 years. XY Ltd. incurred a Cost of Rs 30 lakh up to 31st March 20x2. It is expected that additional costs of Rs.90 lakh. Total contract value is Rs 112 lakh. As at 31st March 20x2, XY Ltd. has billed GH Ltd. for Rs.42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2

Question:1

Revenue to be recognized by XY Ltd. for the year ended 31st March 20x2 is 5%

- a) **28**
- b) 42
- c) 30
- d) 32

Question:2

Total expense to be recognized in Year 1 is tent of 75%

- a) 30
- b) 120
- c) 38
- d) **36**

Question:3

Revenue to be recognized for year 2 is

- a) 84
- b) 42
- c) **56**
- d) 28

## Case scenario 2

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipment's /components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

·The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.

·Railways sends an order for a defined quantity

·The Company manufactures the required quantity and informs Railways for carrying out the inspection

·Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker Goods once inspected by Railways, are

marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location

The Company raises an invoice once it dispatches the goods

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect to subsequent events i.e., events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

- i. Nationalization or privatization by government
- ii. Out of court settlement of a legal claim
- iii. Rights issue of equity shares
- iv. Strike by workforce
- v. Announcing a plan to discontinue an operation

The Company has received a grant of Rs. 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed Rs. 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent

RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was Rs. 1,000. The entire quantity of waste was on stock at the end of the financial year

Question: 1

i. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?

- (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
- (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
- (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
- (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

Question: 2

i. In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts?

- A. Rs. 4,700,000.
- B. Rs. 5,000,000
- C. Rs. 4,950,000.
- D. **Rs.4,947,368.**

Question: 3

Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.

- A. Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.
- B. Distribution of dividend out of grant is incorrect. 'In the second case, not recording land in the books of accounts is correct.
- C. Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.
- D. Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

### Case scenario 3

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at x Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- It has acquired land for installing Plant for 50,00,000
- It incurred 35,00,000 for material and direct labour cost for developing the Plant ·The Company incurred 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure
- The Company borrowed 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to 5,00,000 during the year for arranging this loan
- On November 1, 2023, the construction activities of the plant were interrupted as the local people along with the activists have raised issue relating to environmental impact of plant being constructed, Due to agitation the construction activities came to stand still for 3 months. ·With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur 6,00,000 in March 2024
- The rate of depreciation on Plant is 10%

Based on the above information, answer the following questions

Question: 1

Which of the following expenses cannot be included in the cost of plant

- a) Cost of Land
- b) Construction material and labour cost
- c) Head office expenses**
- d) Borrowing cost

Question: 2

How much amount of borrowing cost can be capitalized with the plant:

- a) Rs.300,000
- b) Rs. 2,00,000**
- c) Rs.7,00,000
- d) Rs.6,00,000

Question:3

The total cost of plant as on march 31,2024 will be:

- a) Rs. 85,00,000
- b) Rs.98,00,000
- c) Rs. 93,00,000**
- d) Rs. 95,00,000

Question: 4

The amount of depreciation to be charged for the year end March 31,2024

- a) Rs.4,30,000
- b) Rs. 9,30,000
- c) Rs. 9,80,00
- d) Nil**

#### **CASE SCENARIO 4**

Belaved Finance Ltd is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans

- During the year the Company has lend 50 crores and earned 1.5 crore as interest on loans
  - The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of 20 lacs
  - The Company also acquired a gold loan unit for 10 crore during the year and the Company provided interest free loan of 15 crore lo its wholly-owned subsidiary.
  - The Company paid a total income tax of 75 lacs for the year
- Based on the above information, answer the following questions

Question: 1

In the Cash Flow Statement as per AS 3, the interest income of Rs. 1.5 crore earned on earned on loans given by the Company will be disclosed as:

- a) Cash Flow from Operating Activities**
- b) Cash Flow from Investing Activities
- c) Cash Flow from Financing Activities
- d) Non-cash Items

Question: 2

In the Cash Flow Statement as per AS 3, the interest income of 20 Lacs earned fixed

deposits with bank will be disclosed as:

- a) **Cash Flow from Operating Activities**
- b) Cash Flow from investing Activities
- c) Cash Flow from Financing Activities
- d) Non-cash Items

Question: 3

In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:

- a) Cash Flow from Operating Activities
- b) **Cash Flow from Investing Activities**
- c) Cash Flow from Financing Activities
- d) Non-cash Items

Question: 4

In the Cash Flow Statement as per AS 3, total income tax of 75 lacs paid for the year will be disclosed as:

- a) **Cash Flow from Operating Activities**
- b) Cash Flow from Investing Activities
- c) Cash Flow from Financing Activities
- d) Non-cash Items

Question: 5

Is any specific disclosures required to be made in relation to the interest free loan of 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:

- a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
- b) **Yes, disclosure is required to be made as per AS 18, Related Party Disclosures**
- c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
- d) No specific disclosure are required

### **CASE SCENARIO 5**

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

·Equity Share Capital: The company has a total of 30,00,000 invested in equity shares, each valued at 10 and fully paid.

Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling 49,00,000, comprising contributions from various sources including General Reserve (32,50,000), Security Premium Account

(6,00,000), Profit & Loss Account (4,30,000), and Revaluation Reserve (6,20,000). ·Loan

Funds: The company has acquired loan funds amounting to 42,00,000 to support its operational and growth initiatives

A

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of '30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd, aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations

Based on the above information, answer the following questions

Question: 1

What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?

- a) Rs. 12,95,000
- b) Rs. 21,00,000**
- c) Rs.32,50,000
- d) Rs.6,00,000

Question: 2

What is the maximum permitted buy-back of equity for Kumar Ltd.?

- a) Rs. 38,85,000**
- b) Rs. 42,00,000
- c) Rs. 12,95,000
- d) Rs. 59,85,000

Question:3

How many shares of Kumar Ltd. can be bought back at Rs. 30 per share according to the Debt Equity Ratio Test?

- a) 43,000
- b) 1,29,500**
- c) 2,00,0 00
- d) 78,000

### **CASE SCENARIO 6**

SEAS Ltd., the "Company", is in the business of tours and travels, It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations

associated with the ticket, including remedies to a customer for dissatisfaction with the service

The Company bought a forward contract for three months of US\$ 1,00,000 on 1 March 2024 at 1 US\$- INR 83,10 when exchange rate was US\$ 1- INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US\$ 1= INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

- i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex gratia payments to employees on retirement
  - ii. 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 Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization
- SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of Rs. 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021

Question: 1

What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?

- a) **Gross basis.**
- b) Net basis.
- c) Depends on the accounting policy of the Company.
- d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

Question: 2

Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.

- a) MTM (marked to market value) of contract will be recorded on 31 March 2024
- b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
- c) No accounting will be done during the year ended 31 March 2024.
- d) **Premium on contract will be amortized over the life of the contract**

Question: 3

You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.

- a) 1 - Change in accounting policy. 2-Change in accounting policy.
- b) 1 - Not a change in accounting policy. 2-Change in accounting policy.

c) **1 - Not a change in accounting policy. 2- Not a change in accounting policy.**

d) 1 - Change in accounting policy. 2-Not a change in accounting policy

Question: 4

Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd using the below mentioned options as to which one should be correct.

- a) ADI Ltd. would use equity method of accounting for 23% in ASOC Ltd. SEAS Ltd would consolidate ADI Ltd, and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
- b) ADI Ltd. would account for 23% in ASOC Ltd, as per AS 13. SEAS Ltd would consolidate ADI Ltd, and consequently automatically account 23% and separately account for the balance 9%.
- c) **ADI Ltd, would count for 23% share in ASOC Ltd using equity method of accounting, SEAS Ltd, would consolidate ADI Ltd, and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd using equity method of accounting in consolidated financial statements**
- d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13, SEAS Ltd. would consolidate ADI Ltd. and use equity method of accounting 23% in ASOC Ltd, and separately account for the balance 9% as per AS 13

#### **CASE SCENARIO 7**

On 1st April, 2022, Shubham Limited purchased some land for Rs. 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of Rs. 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

Preparation and levelling of the land Rs.	80,000
Employment costs of the construction workers (per month) Rs.	29,000
Purchase of materials for the construction	Rs. 21,24,000
Cost of relocating employees to new factory for work	Rs. 60,000
Costs of inauguration ceremony on 1st January, 2023	Rs. 80,000
Overhead costs incurred directly on the construction of the factory (per month) Rs.	25,000

General overhead costs allocated to construction project by the Manager is Rs. 30,000. However, as per company's normal overhead allocation policy, it should be Rs. 24,000. The auditor of the company has support documentation for the cost of Rs. 15,000 only and raised objection for the balance amount.

The construction of the factory was completed on 31st December, 2022 and production

could begin on 1st February, 2023, The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building

The construction of the factory was partly financed by a loan of Rs. 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of Rs. 25,000 on the temporary investment of the proceeds

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period

Based on the information given in the above scenario, answer the following multiple choice questions:

Question: 1

Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?

- a) **Rs. 2,00,000 incurred as legal cost**
- b) Rs. 60,000- costs of relocating employees
- c) Rs.80,000 costs of inauguration ceremony
- d) Rs.24,000- allocated general overhead cost

Question: 2

What amount of employment cost of construction workers will be capitalized to the cost of factory building?

- a) Rs. 2,90,000
- b) Rs.3,48,000
- c) **Rs. 2,32,000**
- d) Rs. 29,000

Question: 3

What is the amount of net borrowing cost capitalized to the cost of the factory?

- a) Rs. 1,89,000
- b) Rs. 1,68,000
- c) Rs. 1,44,000
- d) **Rs.1,64,000**

Question: 4

What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31 March, 2023?

- a) Rs. 30,00,000
- b) **Rs. 57,78,125**
- c) Rs. 27,78,125
- d) Rs. 58,00,000

### CASE SCENARIO 8

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of Rs. 10 each at a price of Rs. 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31st March, 2023

- A. Share Capital: Equity share capital (fully paid up shares of Rs. 10 each) - Rs. 12,50,000
- B. Reserves and Surplus: Securities premium Rs. 2,50,000; Profit and loss account Rs. 1,25,000; Revenue reserve Rs. 15,00,000,
- C. Long term borrowings: 14% Debentures- Rs. 28,75,000, Unsecured Loans - Rs. 16,50,000
- D. Land and Building Rs. 19,30,000; Plant and machinery Rs. 18,00,000; Furniture and fitting Rs. 9,20,000 and Other Current Assets - Rs. 30,00,000
- E. Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each)-12,50,000

Question:1

By using the Shares Outstanding Test the number of shares that can be bought back

- a) 1,25,000
- b) **31,250**
- c) 25,000
- d) 30,000

Question: 2

By using the Resources Test determine the number of shares that can be bought back:

- a) 25,000
- b) 31,250
- c) 28,750
- d) **39,062**

Question: 3

By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

- a) 25,000
- b) 31,250
- c) **28,750**
- d) 39,062

Question: 4

On the basis of all three tests determine Maximum number of shares that can be bought back:

- a) 25,000
- b) 31,250
- c) **28,750**
- d) 39,062

### CASE SCENARIO 9

Suman Ltd is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd for its resort. Suman Ltd, sold 5 AC to Beach resort for Rs. 45,000 each which includes installation fees of Rs. 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered Rs. 500 as trade discount, Beach resort placed order on March 15,2024 and made payment on March 20,2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024

Question: 1

How much revenue should be recognized by the Company as on March 31, 2024:

- a) Rs. 2,25,000
- b) **Rs. 2,17,500**
- c) Rs. 2,00,000
- d) Rs. 2,30,000

Question: 2

How much revenue should be recognized by the Company in the financial year 2024-25:

- a) **Rs. 5000**
- b) Rs. 2,20,000
- c) Rs. 10,000
- d) Rs. 2,40,000

Question: 3

What will be the accounting for trade discount:

- a) The same will be recognized separately in the profit and loss
- b) **The trade discounts are deducted in determining the revenue**
- c) Trade discount will be recognized after one year, when the warranty will be over
- d) Trade discount will be recognized after installation is complete

### CASE SCENARIO 10

On April 1, 2022, X Limited approached a software company for implementation of SAP ERP at its organization. The cost of implementation of SAP ERP is Rs. 25,00,000 and the time required is 15 months. The company was also required to pay Rs. 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation

work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded Rs. 2,00,000. The Company recognized the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022), After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to X Limited for Rs. 7,00,000

Question:1

On which date the Intangible asset should be recognized:

- a) April 2022 (When it was decided that SAP ERP is to be implemented)
- b) June 2022 (When the implementation work started)
- c) September 2023 (When the implementation work should have completed as per agreed terms)
- d) May 2024 (When the SAP actually got implemented)**

Question: 2

At what amount the SAP ERP should be initially recognized as 'intangible asset:

- a) Rs. 25,00,000
- b) Rs.26,00,000
- c) Rs. 23,00,000**
- d) Rs. 32,00,000

Question:3

During' the implementation period, how the expenditure incurred will be accounted for:

- a) It will be expensed in profit and loss as and when incurred
- b) It will be recognized as an asset 'Intangible asset under development'**
- c) It will only be disclosed in notes to accounts and will be recognized when complete
- d) It will be recognized as an item of Property, Plant and Equipment

### **CASE SCENARIO 11**

MBB Ltd, has the following particulars:

10% Preference Share Capital (Rs.10 each) 2,500

Equity Share Capital of Rs. 10 each 8,000

Capital Redemption Reserve 1,000

Securities Premium 800

General Reserve 6,000

Profit & Loss A/C 300

Cash 1,650

Investments (Market Value Rs. 1,500 lacs) 3,000

The company decides to redeem all its preference shares at a premium of 10% and buys back 25% of equity shares @Rs. 15 per share, Investments amounting to Market Value of Rs. 1,000 lakhs sold at Rs.3,000 lakhs and raises a bank loan of Rs.2,000 lakhs

Answer the following questions based on above

Question:1

The amount of Profit/Loss on Sale of Investment is

- a) Rs.1,500 lakhs Profit
- b) **Rs.1,000 lakhs Profit**
- c) Rs.2,000 lakhs Loss
- d) Rs.1,000 lakhs Loss

Question: 2

Securities Premium available for Buyback after redemption of Preference Shares

- a) Rs.550 lakhs
- b) **Rs.800 lakhs**
- c) Can't utilize securities premium for buyback
- d) d. Rs.350 lakhs

Question: 3

Total amount to be transferred to Capital Redemption Reserve:

- a) 2,000 lakhs
- b) **4,500 lakhs**
- c) 2,500 lakhs
- d) 1,750 lakhs

Question:4

Cash balance after buyback

- a) 1,150 lakhs
- b) 2,200 lakhs
- c) 3,250 lakhs
- d) **900 lakhs**

#### **CASE SCENARIO 12**

Venus limited received a land free of cost from the Government for developing a factory in outskirts area. The value of the land is 75 lakhs. The Company also received an amount of Rs. 30 lakhs as government grant being 25% of the total investment required to be made for development of factory. The Company also received Rs. 15,00,000 with a condition to purchase machinery. The Government is not expecting any repayment of this grant.

Question:1

The land received from Government, free of cost should be presented at

- a) Rs. 75 Lakha
- b) Rs.30 Lakhs
- c) **Rs. 11 (Nominal Value)**
- d) Nil

**Feedback:** Paragraph 7 of AS 12 states that non-monetary assets given free of cost are recorded at a nominal value.

Question: 2

As per 'AS 12, how the Government Grant of Rs. 30 Lakhs should be presented:

- a) It should be recognized in the profit and loss statement as per the related cost.
- b) **It will be treated as capital reserve**
- c) It will be treated as deferred income
- d) It will not be recognized in the financial statements

**Feedback :** Paragraph 10.1 of AS 12, where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income

Question:3

As per AS 12, how the Government Grant of Rs. 15 Lakhs with a condition to purchase machinery may be presented as:

- a) Capital Reserve
- b) Shareholders Fund
- c) **Deferred Income**
- d) Income in statement of profit and loss as received.

**Feedback:** Paragraph 8.4 of AS 12 states that under the other method, grants related to depreciable assets are treated as deferred income which is recognized in the statement of profit and loss on a systematic and rational basis over the useful life of the asset. As there are two methods of presentation allowed, we have used 'may' in the question

### **CASE SCENARIO 13**

Axis limited is a manufacturing company. It purchased a machinery costing Rs. 10 Lakhs in April'23 It paid Rs. 4 lakhs upfront and paid remaining Rs. 6,00,000 as deferred payment by paying instalment of Rs. 1,05,000 for next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for Rs. 25,00,000 and paid Rs. 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

Question: 1

As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:

- a) Rs. 10 lakhs as 'Cash flows from Investing Activities' and Rs. 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
- b) Rs.10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend

on purchase of machinery.

- c) **Rs. 10 lakhs as 'Cash flows from Investing Activities' and Rs. 30,000 as 'Cash flows from Financing Activities'.**
- d) Rs. 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

**Feedback:** As per AS 3, Interest paid to vendor for acquiring fixed asset under deferred payment basis should be presented as financing activities and Principal sum payment under deferred payment basis for acquisition of fixed assets should be presented as investing activities

Question: 2

At what amount, the machinery should be recognized in the financial statements:

- a) Rs. 400,000
- b) Rs. 10,30,000
- c) Rs. 600,000
- d) **Rs. 10,00,000**

**Feedback:** As per paragraph 6 of AS 16, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. In this case, the machinery has been purchased and it is readily usable, thus, it is not a qualifying asset and thus, interest cost should not be capitalized

Question:3

How should the income tax paid on sale of land should Cash flows from Operating Activities

- a) Cash flows from Operating Activities
- b) **Cash flows from Investing Activities**
- c) Cash flows from Financing Activities
- d) No disclosure in Cash Flow Statement

**Feedback:** Paragraph 34 of AS 3, Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. The sale of PPE is cash flow from investing activities and accordingly, taxes paid on same should be disclosed as investing activities

Question: 4

How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

- a) Cash flows from Operating Activities

- b) **Cash flows from Investing Activities**
- c) Cash flows from Financing Activities
- d) No disclosure in Cash Flow Statement

**Feedback:** These interest pertain to income taxes and are not arising from the principle revenue-producing activities, therefore, should be disclosed as per paragraph 30 of AS 3

#### **CASE SCENARIO 14**

Ketan Private Limited has entered into a finance lease agreement with Mehra Ltd. for acquiring machinery. The lease term is four years, and the machinery's fair value at the inception of the lease is Rs. 20,00,000. The annual lease rent is Rs. 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of Rs. 1,25,000 and an expected residual value of Rs. 3,75,000. The implicit interest rate for the lease is 15%, The discounted rates for the first to fourth years are 0.8696, 0.7561, 0.6575, and 0.5718, respectively

Question:1

What is the total amount of the minimum lease payments over the lease term?

- a) Rs.20,00,000
- b) Rs. 25,00,000
- c) **Rs. 26,25,000**
- d) Rs. 27,50,000

Question:2

What is the present value of the minimum lease payments using the implicit interest rate?

- a) Rs.20,00,000
- b) **Rs. 18,55,850**
- c) Rs. 19,50,000
- d) Rs. 17,80,000

Question: 3

At what value should the lease asset and corresponding lease liability be recognized in the books of Ketan Private Limited at the inception of the lease?

- a) Rs. 20,00,000
- b) **Rs. 18,55,850**
- c) Rs. 19,50,000
- d) Rs. 17,80,000

Question: 4

What is the present value of the lease payments for the 1st year?

- a) Rs. 6,25,000
- b) **Rs. 5,43,500**
- c) Rs.4,72,563

d) Rs. 4,10,937

Question:5

What would be the impact on the Profit & Loss account at the end of the first year?

- a) Interest expense of Rs. 2,78,377
- b) Depreciation expense of Rs. 4,63,962.50 and interest expense of Rs. 2,78,377**
- c) Lease rent expense of Rs. 6,25,000
- d) Depreciation expense of Rs. 4,63,962.50

### CASE SCENARIO 15

Venus limited received a land free of cost from the Government for developing a factory in outskirts area. The value of the land is 75 lakhs. The Company also received an amount of Rs. 30 lakhs as government grant being 25% of the total investment required to be made for development of factory. The Company also received Rs. 15,00,000 with a condition to purchase machinery. The Government is not expecting any repayment of this grant.

Question: 1

The land received from Government, free of cost should be presented at:

- a) Rs. 75 Lakhs
- b) Rs. 30 Lakhs
- c) Rs. 11 (Nominal Value)**
- d) Nil

Question: 2

As per AS 12, how the Government Grant of Rs. 30 Lakhs should be presented:

- a) It should be recognized in the profit and loss statement as per the related cost.
- b) It will be treated as capital reserve.**
- c) it will be treated as deferred income.
- d) It will not be recognized in the financial statements.

### Feedback:

Question: 3

As per AS 12, how the Government Grant of Rs. 15 Lakhs with a condition to purchase machinery may be presented as:

- a) Capital Reserve
- b) Shareholders Fund
- c) Deferred Income**
- d) Income in statement of profit and loss as received

Question: 4

Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:

- a) Land received as Grant
- b) Government Grant of Rs. 30 Lakhs
- c) **Government Grant of Rs. 15 Lakhs with a condition to purchase machinery**
- d) None of the above

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