

INTERMEDIATE COURSE

PAPER – 1

ADVANCED ACCOUNTING

[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]

BOOKLET ON CASE SCENARIOS



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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| Website | : | www.icaai.org, https://boslive.icaai.org/ |
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PREFACE

Under the New Scheme of Education and Training which was introduced on 1st July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1st July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At the Intermediate level, the **'Booklet on Case Scenarios for Paper 1: Advanced Accounting'** carries integrated case scenarios involving more than one Accounting Standard. It covers a wide range of scenarios covering various provisions of Accounting Standards, ensuring that students gain a thorough and diverse understanding of the subject. These case scenarios-based MCQs are all application-oriented and arise from the facts of the case. One needs to apply the provisions of AS to the facts of the case to choose the correct option. At the end of each Case Scenario followed by MCQs, we have also provided detailed solutions and explanations for each MCQ which will enable students to evaluate their performance and identify areas requiring further attention.

However, you are advised that before working out the case scenarios based MCQs in this booklet, be thorough with the concepts and provisions of Accounting Standards as discussed in the study material. After attaining conceptual clarity, you will be able to apply the concepts learnt in answering the case scenario-based MCQs. The process of learning concepts and

provisions of Accounting Standards will help you attain conceptual clarity and hone your application and analytical skills so that you approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Best wishes for your studies and success in the CA Intermediate
Examination!**

CASE SCENARIO 1

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment of manufacturing of equipments/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 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. Nationalisation 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 ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 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, LPP Media & Creations Ltd (LPP), an advertising agency which prepares and publishes advertisement in newspapers on behalf of its clients. LPP invoices its clients for the commission they are entitled to as well as the media space payable to the newspaper.

MULTIPLE CHOICE QUESTIONS

Based on the above information, answer the following questions.

1. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules. 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.
2. In respect of LPP, how should the revenue be recognized as per Accounting Standards?
 - (a) LPP should record net amount of commission earned by it.
 - (b) LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement

through media and preparation of advertisement material as well as payments to media and expenditure incurred for creation of an advertisement in the notes to accounts.

- (c) LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.
 - (d) LPP may record this on net or gross basis depending on its accounting policy.
3. Please guide the management of RTS Ltd as to which one of the events mentioned above (i to v) after the reporting period provide evidence of conditions that existed at the end of the reporting period?
- (a) ii and v.
 - (b) ii.
 - (c) v.
 - (d) i, iii and iv.
4. 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.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (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.

Reason:

As per AS 9, revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.

2. **Option (c)** LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.

Reason:

As per AS 9, LPP is acting as the principal and hence gross basis of accounting would be followed.

3. **Option (b) ii.**

Reason:

As per AS 4, Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. All the events other than (ii) occurred only after the balance sheet date and those events did not provide any further evidence of conditions that existed at the balance sheet date.

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4. **Option (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.

Reason:

As per AS 12, grants should be utilized only for the purposes for which they have been received by the entity and hence any distribution of dividend in the above mentioned case is inappropriate. Further, land is non-monetary government grant. Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value.

CASE SCENARIO 2

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 ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC 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.

MULTIPLE CHOICE QUESTIONS

1. How much revenue should be recognised by the Company as on March 31, 2024:
 - (a) ₹ 2,25,000
 - (b) ₹ 2,17,500
 - (c) ₹ 2,00,000
 - (d) ₹ 2,30,000
2. How much revenue should be recognised by the Company in the financial year 2024-25:
 - (a) ₹ 5000
 - (b) ₹ 2,20,000
 - (c) ₹ 10,000
 - (d) ₹ 2,40,000
3. What will be the accounting for trade discount:
 - (a) The same will be recognised separately in the profit and loss.
 - (b) The trade discounts are deducted in determining the revenue.

- (c) Trade discount will be recognised after one year, when the warranty will be over.
 - (d) Trade discount will be recognised after installation is complete.
4. Is the Company required to do any accounting for 1 year warranty provided by it:
- (a) No accounting treatment is required till some warranty claim is actually received by the Company.
 - (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.
 - (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.
 - (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 2,17,500

Reason:

As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue will be recognised excluding installation charges. Further, as per AS 9, trade discount are not encompassed with revenue. The revenue for F.Y. 23-24 will be: $5 * (\text{₹ } 45000 - 500 - 1000) = \text{₹ } 2,17,500$

2. **Option (a)** ₹ 5,000

Reason:

As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue pertaining to installation should be recognised when ACs are installed.)

3. **Option (b)** The trade discounts are deducted in determining the revenue.

Reason:

As per AS 9, trade discount should be deducted in determining revenue.)

4. **Option (b)** As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

Reason:

As per paragraph 14 of AS 29, a provision should be recognised when there exists present obligation to act or perform in a certain way and other conditions for its recognition under AS 29 are satisfied. Here, the Company can estimate the amount that it may have to incur considering past trends and make a provision.

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 alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill 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.

MULTIPLE CHOICE QUESTIONS

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
2. How much amount of borrowing cost can be capitalised with the plant:
- (a) ₹ 300,000
 - (b) ₹ 2,00,000
 - (c) ₹ 7,00,000
 - (d) ₹ 6,00,000
3. The total cost of plant as on march 31, 2024 will be:
- (a) ₹ 85,00,000
 - (b) ₹ 98,00,000
 - (c) ₹ 93,00,000
 - (d) ₹ 95,00,000
4. The amount of depreciation to be charged for the year end March 31, 2024
- (a) ₹ 4,30,000
 - (b) ₹ 9,30,000
 - (c) ₹ 9,80,000
 - (d) Nil

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Head office expenses

Reason:

As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Head office is generally used for the overall supervision, planning etc. which are not directly related to construction.

2. Option (b) ₹ 2,00,000**Reason:**

As per Paragraph 17 of AS 16 states that capitalisation of borrowing cost should be suspended during extended periods to which active development is interrupted. Thus, interest cost from November 1, 2023 to February 28, 2024 will not be capitalised. Interest for only 8 months will be capitalised ($\text{₹ } 25,00,000 \times 12\% \times 8/12$)

3. Option (c) ₹ 93,00,000**Reason:**

As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Thus, directly attributable costs in this case are cost of land ₹ 50,00,000, cost of material and direct labour ₹ 35,00,000, devices installed due to government order ₹ 6,00,000 and borrowing cost ₹ 2,00,000 as per paragraph 6 of AS 16.

4. Option (d) Nil**Reason:**

As per paragraph 57 of AS 10, Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As the construction is not yet complete and the asset is not available for use, the depreciation will not start.

CASE SCENARIO 4

Beloved 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 to its wholly-owned subsidiary.
- ◆ The Company paid a total income tax of ₹ 75 lacs for the year.

MULTIPLE CHOICE QUESTIONS

Based on the above information, answer the following questions.

1. In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore 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
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

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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
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
5. Is any specific disclosures required to 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 disclosures are required.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Cash Flow from Operating Activities

Reason:

As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities.

2. Option (a) Cash Flow from Operating Activities**Reason:**

As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. So, it will also be disclosed as cash flow from operating activities

3. Option (b) Cash Flow from Investing Activities**Reason:**

As per paragraph 37 of AS 3, the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. This is acquisition of business, so the same should be disclosed as Cash Flow from investing activities.

4. Option (a) Cash Flow from Operating Activities**Reason:**

As per Paragraph 34 of AS 3 states 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. Here, no information is provided as to which activity the tax belongs so it will be disclosed as cash flow from operating activities

5. Option (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures**Reason:**

As per paragraph 10.1 of AS 18, Related party is defined as parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

CASE SCENARIO 5

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

MULTIPLE CHOICE QUESTIONS

1. The land received from Government, free of cost should be presented at:
 - (a) ₹ 75 Lakhs
 - (b) ₹ 30 Lakhs
 - (c) ₹ 10 Lakhs
 - (d) ₹ 45 Lakhs
2. As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
 - (a) It should be recognised 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 recognised in the financial statements.
3. As per AS 12, how the Government Grant of ₹ 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.
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 ₹ 30 Lakhs
 - (c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
 - (d) None of the above

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 10 Lakhs

Reason:

As per Paragraph 7 of AS 12 states that Non-monetary assets given free of cost are recorded at a nominal value.)

2. **Option (b)** It will be treated as capital reserve

Reason:

As per 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.)

3. **Option (c)** Deferred Income

Reason:

As per Paragraph 8.4 of AS 12 states that under the other method, grants related to depreciable assets are treated as **deferred income** which is

recognised 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

- 4. Option (c)** Government Grant of ₹ 15 Lakhs with a condition to purchase machinery

Reason:

As per Paragraph 8.4 of AS 12 states that grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.

CASE SCENARIO 6

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 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.

MULTIPLE CHOICE QUESTIONS

1. As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:
 - (a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
 - (b) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.
 - (c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
 - (d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.
2. At what amount, the machinery should be recognised in the financial statements:
 - (a) ₹ 400,000
 - (b) ₹ 10,30,000
 - (c) ₹ 600,000
 - (d) ₹ 10,00,000

3. How should the income tax paid on sale of land 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
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

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'

Reason:

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.

2. **Option (d)** ₹ 10,00,000

Reason:

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 capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised 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 capitalised.

3. Option (b) Cash flows from Investing Activities

Reason:

As per 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.

4. Option (b) Cash flows from Investing Activities

Reason:

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 7

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 ₹ 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 ₹ 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.

MULTIPLE CHOICE QUESTIONS

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.
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.
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.

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 account 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 using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Gross basis.

Reason:

As per the requirements of AS 9, SEAS Ltd is acting as a principal and not an agent. Therefore, it would recognize revenue on gross basis.

2. **Option (d)** Premium on contract will be amortized over the life of the contract.

Reason:

As per the requirements of AS 11, any premium or discount arising at the inception of a forward exchange contract (which is not intended for trading or speculation purposes) should be amortised as expense or income over the life of the contract.

3. **Option (c)** 1 – Not a change in accounting policy. 2 – Not a change in accounting policy

Reason:

Reasoning: As per the requirements of AS 5, the following are not considered as changes in accounting policies:

- (a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., the introduction of a formal retirement gratuity scheme by an employer in place of adhoc ex-gratia payments to employees on retirement; and
- (b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

Schemes (i) and (ii) are the events or transactions which did not occur and are different from previously occurred transactions.

4. **Option (c)** ADI Ltd. would account 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.

Reason:

Since ADI Ltd hold 23% ASOC Ltd, it would do equity accounting in respect of ASOC Ltd as per AS 23.

Since, ADI Ltd is a subsidiary of SEAS Ltd, SEAS Ltd would consolidate ADI Ltd on a line by line basis wherein 23% of ASOC Ltd held by ADI Ltd in ASOC Ltd would automatically get covered. Further, the balance 9% held by SEAS Ltd in ASOC Ltd would also be required to be consolidated using equity method of accounting as per AS 23.

CASE SCENARIO 8

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 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 | 80,000 |
| Employment costs of the construction workers (per month) | 29,000 |
| Purchase of materials for the construction | 21,24,000 |
| Cost of relocating employees to new factory for work | 60,000 |
| Costs of inauguration ceremony on 1 st January, 2023 | 80,000 |
| Overhead costs incurred directly on the construction of the factory (per month) | 25,000 |
| General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 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 ₹ 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 ₹ 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:

MULTIPLE CHOICE QUESTIONS

1. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
 - (a) ₹ 2,00,000 incurred as legal cost
 - (b) ₹ 60,000 – costs of relocating employees
 - (c) ₹ 80,000 costs of inauguration ceremony
 - (d) ₹ 24,000 – allocated general overhead cost
2. What amount of employment cost of construction workers will be capitalized to the cost of factory building?
 - (a) ₹ 2,90,000
 - (b) ₹ 3,48,000
 - (c) ₹ 2,32,000
 - (d) ₹ 29,000
3. What is the amount of net borrowing cost capitalized to the cost of the factory?
 - (a) ₹ 1,89,000
 - (b) ₹ 1,68,000
 - (c) ₹ 1,44,000
 - (d) ₹ 1,64,000

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 31st March, 2023?
- (a) ₹ 30,00,000
- (b) ₹ 57,78,125
- (c) ₹ 27,78,125
- (d) ₹ 58,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 2,00,000 incurred as legal cost

Reason:

Legal costs of 2,00,000 are directly attributable to the acquisition of land and are already included in the cost of the land, not the factory building.

2. **Option (c)** ₹ 2,32,000

Reason:

Employment costs of ₹ 29,000 per month incurred from May 2022 to December 2022 (8 months) would be capitalized, as these are directly attributable to construction. Employment cost capitalized = $29,000 \times 8 = 2,32,000$

3. **Option (d)** ₹ 1,64,000

4. **Option (b)** ₹ 57,78,125

Reason for Answer 3 & 4

| Cost: | |
|---------------------------------------------------|-----------|
| Land | 30,00,000 |
| Preparation, levelling | 80,000 |
| Materials | 21,24,000 |
| Costs of Construction workers (29,000 x 8 months) | 2,32,000 |
| Direct overhead (25,000 x 8 months) | 2,00,000 |

| | |
|--------------------------------------------|------------------|
| Allocated overheads | nil |
| Relocation costs, costs of inauguration | Nil |
| Net borrowing costs (1,89,000 less 25,000) | 1,64,000 |
| Total | 58,00,000 |

Carrying amount:

| | Land | Factory |
|-------------------------------------------------|-----------|------------------|
| | 30,00,000 | 28,00,000 |
| Depreciation: | | |
| Land | Nil | 8,750 |
| Roof (28,00,000 x .25x1/20 x 3/12) | | <u>13,125</u> |
| Remaining factory (28,00,000 x .75x1/40 x 3/12) | - | <u>(21,875)</u> |
| | | 27,78,125 |

CASE SCENARIO 9

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 ₹ 10 each at a price of ₹ 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 ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

MULTIPLE CHOICE QUESTIONS

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

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
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
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

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** 31,250

Reason:

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

Shares Outstanding Test

| Particulars | (Shares) |
|-------------------------------|----------|
| Number of shares outstanding | 1,25,000 |
| 25% of the shares outstanding | 31,250 |

2. Option (d) 39,062**Reason:**

Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

| Particulars | |
|-----------------------------------------------------|------------------|
| Paid up capital (₹) | 12,50,000 |
| Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000) | <u>18,75,000</u> |
| Shareholders' funds (₹) | <u>31,25,000</u> |
| 25% of Shareholders fund (₹) | 7,81,250 |
| Buy-back price per share | ₹ 20 |
| Number of shares that can be bought back (shares) | 39,062 |
| Actual Number of shares for buy-back | 25,000 |

3. Option (c) 28,750**Reason:**

Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

| | Particulars | ₹ |
|-----|------------------------------------------------------------------------------|--------------------------|
| (a) | Loan funds (₹) (18,75,000 + 10,00,000 + 16,50,000) | 45,25,000 |
| (b) | Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2) | 22,62,500 |
| (c) | Present equity/shareholders fund (₹) | 31,25,000 |
| (d) | Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500) | 28,37,500 ^{2F*} |
| (e) | Maximum permitted buy-back of Equity (₹) [(d) – (b)] | 5,75,000 |

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

| | | |
|-----|----------------------------------------------------------------------|------------------|
| (f) | Maximum number of shares that can be bought back @ ₹ 20 per share | 28,750 shares |
| (g) | Actual Buy-Back Proposed | 25,000 Shares |

4. Option (c) 28,750

Reason:

Summary statement determining the maximum number of shares to be bought back

| Particulars | Number of shares |
|-----------------------------------------------------------------------|------------------|
| Shares Outstanding Test | 31,250 |
| Resources Test | 39,062 |
| Debt Equity Ratio Test | 28,750 |
| Maximum number of shares that can be bought back [least of the above] | 28,750 |

CASE SCENARIO 10

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.

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.

MULTIPLE CHOICE QUESTIONS

1. What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
 - (a) ₹ 12,95,000
 - (b) ₹ 21,00,000

- (c) ₹ 32,50,000
(d) ₹ 6,00,000
2. What is the maximum permitted buy-back of equity for Kumar Ltd.?
(a) ₹ 38,85,000
(b) ₹ 42,00,000
(c) ₹ 12,95,000
(d) ₹ 59,85,000
3. How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
(a) 43,000
(b) 1,29,500
(c) 2,00,000
(d) 78,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 21,00,000
2. **Option (a)** ₹ 38,85,000
3. **Option (b)** 1,29,500

Reason: 1,2 & 3:

Debt Equity Ratio Test

| | <i>Particulars</i> | ₹ |
|-----|----------------------------------------------------------------------------------|-----------|
| (a) | Loan funds | 42,00,000 |
| (b) | Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores) | 21,00,000 |
| (c) | Present equity shareholders fund (₹ in crores) | 72,80,000 |

| | | |
|-----|---------------------------------------------------------------------------------------------------|-----------------------------------------|
| (d) | Future equity shareholder fund (₹ in crores) (See Note 2) | 59,85,000 (72,80,000-12,95,000) |
| (e) | Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2) | 38,85,000 (by simultaneous equation) |
| (f) | Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2) | 1,29,500 (by simultaneous equation) |

Working Note:

1. Shareholders' funds

| <i>Particulars</i> | <i>₹</i> |
|-------------------------------------------------|------------------|
| Paid up capital | 30,00,000 |
| Free reserves (32,50,000 + 6,00,000 + 4,30,000) | <u>42,80,000</u> |
| | <u>72,80,000</u> |

2. Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity.

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

$$\text{Equation 2: } \left(\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value} \right)$$

= Nominal value of the shares bought –back to be transferred to CRR

$$= \left(\frac{y}{30} \times 10 \right) = x$$

$$3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y$$

$$= ₹ 38,85,000 \text{ crores}$$

CASE SCENARIO 11

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

MULTIPLE CHOICE QUESTIONS

1. As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed -
 - (a) 20% of its total paid-up capital and free reserves
 - (b) 25% of its total paid-up capital and free reserves
 - (c) 25% of its total paid-up capital
 - (d) 20% of its total paid-up capital

-
2. How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
 - (a) 35,000 shares
 - (b) 42,500 shares
 - (c) 37,500 shares
 - (d) 54,375 shares
 3. What is the maximum number of shares that can be bought back according to the Resources Test?
 - (a) 35,000 shares
 - (b) 42,500 shares
 - (c) 37,500 shares
 - (d) 54,375 shares
 4. According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?
 - (a) 35,000 shares
 - (b) 42,500 shares
 - (c) 37,500 shares
 - (d) 54,375 shares

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** 25% of its total paid-up capital and free reserves

Reason:

As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves.

2. Option (b) 42,500 shares**Reason:**

According to the Shares Outstanding Test, the maximum number of shares that can be bought back is 25% of the shares outstanding. With 1,70,000 shares outstanding, 25% equals 42,500 shares.

3. Option (c) 37,500 shares**Reason:**

According to the Resources Test, the maximum permitted limit is 25% of the equity paid-up capital plus free reserves. Calculating this gives 25% of ₹ 45,00,000 (₹ 17,00,000 + ₹ 28,00,000), which is ₹ 11,25,000. At ₹ 30 per share, this equals 37,500 shares.

4. Option (d) 54,375 shares**Reason:**

According to the Debt Equity Ratio Test, the maximum number of shares that can be bought back is determined by ensuring that the company's post-buyback loans do not exceed twice the equity shareholders' funds. This calculation shows a maximum buyback of 54,375 shares.

CASE SCENARIO 12

Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

- (i) The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.
- (ii) Assume that there is no opening stock.

Answer the following questions based on above:

MULTIPLE CHOICE QUESTIONS

1. What will be the cost of material:
 - (a) ₹ 36,00,000
 - (b) ₹ 34,00,000
 - (c) ₹ 39,00,000
 - (d) ₹ 31,00,000
2. what will be the value of the closing stock:
 - (a) ₹ 1,70,000
 - (b) ₹ 1,85,500
 - (c) ₹ 2,38,000
 - (d) ₹ 2,59,700
3. What will be the cost per Kg of raw material:
 - (a) ₹ 180
 - (b) ₹ 183.6
 - (c) ₹ 185.5
 - (d) ₹ 189.4

4. How much amount as abnormal loss will be debited in P&L:
- (a) ₹ 72,000 approx
 - (b) ₹ 73,440 approx
 - (c) ₹ 74,200 approx
 - (d) ₹ 75,760 approx

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 36,00,000
2. **Option (d)** ₹ 2,59,700
3. **Option (c)** ₹ 185.5
4. **Option (c)** ₹ 74,200

Reason for 1,2,3 & 4:

Cost of Material

20,000 kg @ ₹ (170-15) = ₹ 31,00,000

Direct cost = ₹ 5,00,000

Total cost = ₹ 36,00,000

Units

Units purchased = 20,000 Kg

Normal loss @3% = 600 Kg

Units received = 19,000 Kg

Abnormal loss = 400 Kg

(20,000-600-19000)

Cost per unit

₹ 36,00,000/19,400 units = ₹ 185.5 per unit

Abnormal loss to be charged to profit and loss

= 400Kg * ₹ 185.5 = ₹ 74,200

Value of closing stock

Closing units = 19,000-17,600 = 1400 units

Value = 1400*₹ 185.5 = 2,59,700

CASE SCENARIO 13

Aazad Ltd. has the following particulars:

| Particulars | ₹ (lakh) |
|------------------------------------------|----------|
| 10% Preference Share Capital (₹ 10 each) | 2,500 |
| Equity Share Capital of ₹ 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 ₹ 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 @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

MULTIPLE CHOICE QUESTIONS

1. The amount of Profit/Loss on Sale of Investment is:
 - (a) ₹ 1,500 lakhs Profit
 - (b) ₹ 1,000 lakhs Profit
 - (c) ₹ 2,000 lakhs Loss
 - (d) ₹ 1,000 lakhs Loss
2. Securities Premium available for Buyback after redemption of Preference Shares
 - (a) ₹ 550 lakhs
 - (b) ₹ 800 lakhs

- (c) Can't utilize securities premium for buyback
 (d) ₹ 350 lakhs
3. Cash balance after buyback
- (a) ₹ 1,150 lakhs
 (b) ₹ 2,200 lakhs
 (c) ₹ 3,250 lakhs
 (d) ₹ 900 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 1,000 lakhs Profit

Reason:

The market value of investment

| | ₹ (lakh) |
|-----------------------------------------------------------------|--------------|
| Sale value of investment | 3,000 |
| Less: The cost value of investment $(3,000/1,500 \times 1,000)$ | <u>2,000</u> |
| Profit | <u>1,000</u> |

2. **Option (a)** ₹ 550 lakhs

Reason:

| | ₹ (lacs) |
|--------------------------------------------------|------------|
| Securities premium | 800 |
| Less: premium on redemption of preference shares | <u>250</u> |
| Balance available | <u>550</u> |

3. **Option (d)** ₹ 900 lakhs

Reason:

Opening Balance + Investment sold + Loan raised - Preference Shares redeemed - Equity Share buy back Lakhs [₹ 1,650 + ₹ 3,000 + ₹ 2,000 - ₹ 2,750 - ₹ 3,000] = ₹ 900 lakhs

CASE SCENARIO 14

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 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 ₹ 2,00,000. The Company recognised 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 Hello Limited for ₹ 7,00,000.

MULTIPLE CHOICE QUESTIONS

1. On which date the Intangible asset should be recognised:
 - (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)
2. At what amount the SAP ERP should be initially recognised as 'intangible asset':
 - (a) ₹ 25,00,000
 - (b) ₹ 26,00,000
 - (c) ₹ 23,00,000
 - (d) ₹ 32,00,000
3. How should the annual maintenance and updation expenses should be accounted for:
 - (a) Should be capitalised with 'Intangible Asset'

- (b) Should be recognised as a separate 'Intangible Asset'
 - (c) Should be recognised as expense in Profit and Loss annually.
 - (d) No accounting is required
4. 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 recognised as an asset 'Intangible asset under development'
 - (c) It will only be disclosed in notes to accounts and will be recognised when complete
 - (d) It will be recognised as an item of Property, Plant and Equipment

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** May 2024 (When the SAP actually got implemented)

Reason:

As per the provision of AS 26.

2. **Option (c)** ₹ 23,00,000

Reason:

₹ 25,00,000 less the amount refunded i.e. ₹ 200,000 = ₹ 23,00,000

3. **Option (c)** Should be recognised as expense in Profit and Loss annually.

Reason:

As per paragraph 59 of AS 26, subsequent expenditure on an intangible asset after its completion should be recognised as expense as it is only normal maintenance expense

4. **Option (b)** It will be recognised as an asset 'Intangible asset under development'.

Reason:

Till the asset is complete it will be recognised as 'intangible asset under development' till the same is available for use.

CASE SCENARIO 15

Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US\$ 1 = ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00,000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US\$ 1 = ₹ 81.1.

On 31st March 2024, exchange rate was US\$ 1 = ₹ 83.3

MULTIPLE CHOICE QUESTIONS

1. What will be the closing balance of Trade Receivables on 31st March 2024:
 - (a) ₹ 700,000
 - (b) ₹ 7,14,978 approx
 - (c) ₹ 7,34,383 approx
 - (d) ₹ 7,50,000 approx
2. How much is the reporting difference (gain or loss) in case of Trade Receivable:
 - (a) Gain of ₹ 34,383 approx
 - (b) Loss of ₹ 34,383 approx
 - (c) Gain of ₹ 19,395 approx
 - (d) Loss of ₹ 19,395 approx
3. What will be the closing balance of Loan as on 31st March 2024:
 - (a) ₹ 10,00,000
 - (b) ₹ 10,27,127 approx
 - (c) ₹ 9,79,002 approx
 - (d) ₹ 10,79,002 approx

4. How much is the reporting difference (gain or loss) in case of Loan:
- (a) Gain of ₹ 48,087 approx
 - (b) Loss of ₹ 48,087 approx
 - (c) Gain of ₹ 27,127 approx
 - (d) Loss of ₹ 27,127 approx

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 7,34,383 approx
2. **Option (a)** Gain of ₹ 34,383 approx
3. **Option (b)** ₹ 10,27,127 approx
4. **Option (c)** Gain of ₹ 27,127 approx

Reason for 1, 2, 3, & 4:

Trade Receivable

| | Foreign Currency Rate | In INR |
|------------------------------------------------------------------------------------------|--------------------------|-----------------|
| Initial recognition of Trade Receivables = US\$ 8816 (7,00,000/79.4) | US \$ 1 = 79.4 | 700,000 |
| Rate on 31 st March | US \$ 1 = 83.3 | 7,34,383 |
| Exchange Difference Gain US \$8816* (83.3-79.4) | | 34,383 |

Loan

| | Foreign Currency Rate | In INR |
|-------------------------------------------------------------------------------|--------------------------|------------------|
| Initial recognition of Loan = US\$ 12330 (10,00,000/81.1) | US \$ 1 = 81.1 | 10,00,000 |
| Rate on 31 st March | US \$ 1 = 83.3 | 10,27,127 |
| Exchange Difference Gain US \$12330* (83.3-81.1) | | 27,127 |

CASE SCENARIO 16

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.

X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

MULTIPLE CHOICE QUESTIONS

1. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
 - (a) ₹ 3,03,000
 - (b) ₹ 2,27,250
 - (c) ₹ 3,00,000
 - (d) ₹ 3,30,000
2. What is the cost of bonus shares:
 - (a) ₹ 1,00,000
 - (b) ₹ 1,10,000
 - (c) Nil
 - (d) ₹ 1,01,000
3. What is the profit on sale of Bonus Shares:
 - (a) ₹ 100,000
 - (b) ₹ 75,750
 - (c) ₹ 34,250
 - (d) ₹ 1,01,000

4. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
- (a) ₹ 2,10,000
 - (b) ₹ 2,27,250
 - (c) ₹ 2,20,000
 - (d) ₹ 3,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. **Option (b)** ₹ 2,27,250
- 2. **Option (c)** Nil
- 3. **Option (c)** ₹ 34,250
- 4. **Option (a)** ₹ 2,10,000

Reason for 1, 2, 3, & 4:

Cost of 3,000 shares = $(3,000 \times 100) + 1\% (3,000 \times 100) = ₹ 3,03,000$

Bonus shares = 1,000 at no cost

Profit on sale of 1,000 shares:

$(110 \times 1,000) - (1,000 / 4,000 \times 3,03,000) = 1,10,000 - 75,750 = ₹ 34,250$

Carrying value of 3000 shares = $3,000 / 4,000 \times 3,03,000$

= ₹ 2,27,250

Market value of shares = $3,000 \times 95 = ₹ 2,85,000$

Cost being lower than the market price, therefore shares are carried forward at cost.

CASE SCENARIO 17

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 5,00,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, Sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

MULTIPLE CHOICE QUESTIONS

1. With respect to relationship between Companies, it can be said that:
 - (a) Star Ltd. is associate of Sun Ltd.
 - (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
 - (c) Moon Ltd. is an associate of Sun Ltd.
 - (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.
2. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?
 - (a) ₹ 5,00,000
 - (b) ₹ 5,80,000
 - (c) ₹ 4,68,000
 - (d) ₹ 5,32,000
3. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?
 - (a) ₹ 9,00,000
 - (b) ₹ 5,88,000
 - (c) ₹ 4,52,000
 - (d) ₹ 6,20,000

4. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- (i) Participation in policy making processes
 - (ii) Interchange of managerial personnel
 - (iii) Right to receive dividend
 - (iv) Provision of essential technical information
 - (a) All the statements are correct
 - (b) Statements (a), (b) and (c) are correct
 - (c) Statements (b), (c) and (d) are correct
 - (d) Statements (a), (b) and (d) are correct

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Moon Ltd. is an associate of Sun Ltd

Reason:

(Sun Ltd. has indirect holding in Star Ltd. of (40% of 40%) 16%), thus, star limited is not associate of Sun Limited.)

2. **Option (c)** ₹ 4,68,000

Reason:

| | |
|-------------------------------------------------------|----------|
| Amount paid for investment in Associate (on 01.07.23) | 5,00,000 |
| Deduct: Pre acquisition dividend (40% x 80,000) | (32,000) |
| Carrying amount of Investment as on 31.03.2024 | 4,68,000 |

3. **Option (b)** ₹ 5,88,000

Reason:

(Carrying amount as per Separate Financial Statements (₹ 4,68,000) plus 9 months share in profit for the year (₹ 4,00,000 x 40% x 9/12) ₹ 1,20,000 = ₹ 5, 88,000)

4. **Option (d)** Statements (a), (b) and (d) are correct

Reason:

(Paragraph 5 of AS 23 does not include right to receive dividend)

CASE SCENARIOS 18

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for ₹ 600 lakhs and FA 2 is being carried at ₹ 300 lakhs.

As at 31st March 2024, the value in use for FA 1 is ₹ 500 lakhs and the net selling price is ₹ 550 lakhs. The Company did upward revaluation last year for ₹ 20 lakhs for FA 1.

As at 31st March 2024, the value in use for FA 2 is ₹ 350 lakhs and the net selling price is ₹ 320 lakhs.

MULTIPLE CHOICE QUESTIONS

1. How much is the total Impairment loss for current year for FA 1:
 - (a) ₹ 100 Lakhs
 - (b) ₹ 50 Lakhs
 - (c) ₹ 30 lakhs
 - (d) Nil
2. How much impairment loss will be charged to profit and loss for current year for FA1:
 - (a) ₹ 100 Lakhs
 - (b) ₹ 50 Lakhs
 - (c) ₹ 30 lakhs
 - (d) Nil
3. How much is the total Impairment loss for current year for FA 2:
 - (a) ₹ 50 Lakhs
 - (b) ₹ 30 Lakhs
 - (c) ₹ 20 lakhs
 - (d) Nil

4. What will be the carrying value on 1st April 2024 for FA 1:
- (a) ₹ 550 Lakhs
 - (b) ₹ 530 Lakhs
 - (c) ₹ 520 lakhs
 - (d) ₹ 500 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. **Option (b)** ₹ 50 Lakhs
- 2. **Option (c)** ₹ 30 lakhs
- 3. **Option (d)** Nil
- 4. **Option (a)** ₹ 550 Lakhs

Reason for 1, 2, 3, & 4:

For FA 1

Recoverable amount

= ₹ 550 lakh (higher of value in use and net selling price)

Impairment Loss : Carried amount – recoverable amount

= ₹ 600 lakhs – ₹ 550 Lakhs = ₹ 50 Lakhs

Impairment Loss charged to Profit and loss

= ₹ 50 lakh – ₹ 20 lakh = ₹ 30 lakh

Carrying Value FA 1

Recoverable Amount = ₹ 550 Lakh

For FA 2

Recoverable amount = ₹ 350 lakh (higher of value in use and net selling price)

Carrying amount = ₹ 300 lakh

When recoverable amount is more than carrying amount, there is no need to provide impairment loss.

CASE SCENARIOS 19

ADI Ltd (the Company), engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment.

Having fulfilled all the conditions under the scheme, the Company on its investment of ₹ 50 crores in capital assets received ₹ 10 crores from the Government in January 2024 (financial year being 2023-24). The Company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31 March 2024.

ADI Ltd holds 51% in SHA Ltd. SHA Ltd is a joint venture of ADI Ltd due to a contractual agreement. ADI Ltd is engaged in the manufacturing business and it entered into a joint venture to get synergies in the same business. ADI Ltd and SHA Ltd hold 10% and 30% respectively in SHB Ltd.

As per the requirements of SEBI, ADI Ltd prepared results/accounts for the quarter ended 30 June 2024 and took following positions in respect of following accounting matters:

- i. Training expenses incurred during the quarter ended 30 June 2024 were allocated equally over the four quarters because the benefit was spread over the entire year and similarly some training expenses expected to be incurred in the last quarter have been estimated and equally allocated over the four quarters.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter.
- iii. Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
- iv. Incentives were provided to the customers if they purchase 1 million kgs of urea on an annual basis. It was expected that at least 50 customers would be able to achieve this target before the end of third quarter. No provision was made for this incentive during the quarter ended 30 June 2024 since ADI Ltd believed that the provision was not yet fructified.

ADI Ltd owns 60% holding in ANI Ltd, an unquoted entity. The government has recently announced an increase in interest rates. The increase will cause a fall in value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment.

SHB Ltd took a loan of USD 10,000 on 1 April 2023 for a specific project at an interest rate of 5% p.a. payable annually. On 1 April 2023, the exchange rate between the currency was ₹ 81 per USD. The exchange rate as at 31 March 2024 was ₹ 82 per USD. The corresponding amount could have been borrowed by SHB Ltd in local currency at an interest rate of 11% per annum as on 1 April 2023.

ADI Ltd follows April to March as the financial year

MULTIPLE CHOICE QUESTIONS

1. In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?
 - (a) Accounting treatment desired by the company is correct.
 - (b) The subsidy should be credited to capital reserve.
 - (c) The subsidy should be treated as a capital grant.
 - (d) The accounting treatment should be as per the accounting policy of the company in relation to any grant. The company can choose any accounting policy in this respect.
2. Please suggest which one of the following options would be correct in respect of consolidated accounts of ADI Ltd as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.
 - (a) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method.
 - (b) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.

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- (c) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
 - (d) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would also be accounted for using equity method.
3. Please share your views in respect of the accounting positions taken by ADI Ltd (Points i to iv) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (a) Position taken in point ii was incorrect.
 - (b) Positions taken in points ii and iv were incorrect.
 - (c) Positions taken in points i and ii were incorrect.
 - (d) Positions taken in points i, ii, iii and iv were incorrect.
4. Will there be any adjustment required in the financial statements of ADI Ltd because of abovementioned event (increase in interest rates by the Government) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (a) The increase is an indication that ADI Ltd's holding in ANI Ltd might have increased. Hence ADI Ltd would require to increase the value of its interest in ANI Ltd.
 - (b) No adjustment is required.
 - (c) The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.
 - (d) Whether to make any adjustment or not will depend on the accounting policy of ADI Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The subsidy should be credited to capital reserve

Reason:

As per AS 12, the grant is in the nature of promoter's contribution. 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.

2. **Option (a)** In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method

Reason: ADI Ltd's investment in SHB Ltd would be treated as any other investment as per the requirements of AS 13. Further, SHB Ltd would be treated as an associate of SHA Ltd as per the requirements of AS 23 and therefore, for such investment equity method of accounting would be required to be followed.

3. **Option (d)** Positions taken in points i, ii, iii and iv were incorrect

Reason:

- i. Training expenses incurred during the quarter ended 30 June 2024 should be expensed in the same quarter and should not be deferred as per the accrual basis of accounting. Further, any future costs should not be recognized.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter is a future cost which should not be recognized.
- iii. Depreciation should be computed based on useful life and not budgets.
- iv. Provision for expense around incentives should have been recognized.

-
4. **Option (c)** The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.

Reason: Due to increase in the interest rates, there will be a fall in the value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment. This is an indicator for impairment as per AS 28 due to which ADI should do an impairment testing in respect of its investment in ANI Ltd

CASE SCENARIOS 20

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 ₹ 20,00,000. The annual lease rent is ₹ 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of ₹ 1,25,000 and an expected residual value of ₹ 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.

MULTIPLE CHOICE QUESTIONS

1. What is the total amount of the minimum lease payments over the lease term?
 - (i) ₹ 20,00,000
 - (ii) ₹ 25,00,000
 - (iii) ₹ 26,25,000
 - (iv) ₹ 27,50,000
2. What is the present value of the minimum lease payments using the implicit interest rate?
 - (a) ₹ 20,00,000
 - (b) ₹ 18,55,850
 - (c) ₹ 19,50,000
 - (d) ₹ 17,80,000
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) ₹ 20,00,000
 - (b) ₹ 18,55,850

- (c) ₹ 19,50,000
 (d) ₹ 17,80,000
4. What is the present value of the lease payments for the 1st year?
- (a) ₹ 6,25,000
 (b) ₹ 5,43,500
 (c) ₹ 4,72,563
 (d) ₹ 4,10,937

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 26,25,000
 2. **Option (b)** ₹ 18,55,850
 3. **Option (b)** ₹ 18,55,850
 4. **Option (b)** ₹ 5,43,500

Reason for 1, 2, 3, & 4:

| Year | Minimum Lease Payment in (₹) | Implicit interest rate (Discount rate @15%) | Present value (₹) |
|-------|------------------------------|---------------------------------------------|-------------------|
| 1 | 6,25,000 | 0.8696 | 5,43,500 |
| 2 | 6,25,000 | 0.7561 | 4,72,563 |
| 3 | 6,25,000 | 0.6575 | 4,10,937 |
| 4 | <u>7,50,000*</u> | 0.5718 | <u>4,28,850</u> |
| Total | <u>26,25,000</u> | | <u>18,55,850</u> |

Present value of minimum lease payments ₹18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹18,55,850 as per AS 19.

* Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹1,25,000.

CASE SCENARIOS 21

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4,000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1,000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods.

Mr. Vikram used 1,500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹ 15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Questions :

MULTIPLE CHOICE QUESTIONS

1. What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?
 - (a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
 - (b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
 - (c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000

-
- (d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000
2. Cost of Self Constructed Asset as per AS 10 will be ?
- (a) ₹ 2,92,500
- (b) ₹ 2,77,500
- (c) ₹ 3,05,000
- (d) ₹ 2,90,000
3. As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?
- (a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c
- (b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
- (c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
- (d) Whole of ₹ 40,000 interest to be charged to Profit & Loss A/c.
4. What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?
- (a) Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.
- (b) Carrying amount of Investment as on 31st March, 2024 is ₹ 90,000 and the dividend is credited to Profit & Loss A/c.
- (c) Carrying amount of Investment as on 31st March, 2024 is ₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.
- (d) Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Closing Stock of Raw Material ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000

Reason:

If the finished good cost is more than the expected selling price then Raw material is valued at Replacement cost. So Value of Raw Material will be 500 units @ ₹ 100 per unit and value of finished Goods will be ₹ 1,000 units @ 300 per unit

Cost of finished Goods

2,000 units of Raw Material @ 125 pe unit = ₹ 2,50,000

Labour Charges = ₹ 1,00,000

For 1,000 units = ₹ 3,50,000

Per unit Cost is ₹ 350 per unit so NRV is considered

2. **Option (c)** ₹ 3,05,000

Reason:

Cost of Self Constructed Asset:

Cost of raw material consumed

1500 units @ 125 per unit = ₹ 1,87,500

Add: Labour Charges = ₹ 90,000

Add: Installation cost = ₹ 15,000

Add: Borrowing cost

1,87,500 x 10% for 8 months = ₹ 12,500

₹ 3,05,000

3. **Option (a)** ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c

Reason:

₹ 12,500 interest to be capitalised and ₹ 27,500 interest to be charged to profit & Loss A/c

Loan Proceeds ₹ 6,00,000 out of this ₹ 1,87,500 used for qualifying Assets and balance for Non qualifying Asset.

So Interest on ₹ 1,87,500 i.e. ₹ 12,500 capitalised to cost of Asset and interest on ₹ 4,12,500 i.e. ₹ 27,500 charged to profit and loss account.

4. **Option (d)** Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment

Reason:

Carrying amount of Investment as on 31st March 2024 is ₹ 82,000 and the dividend is deducted from the cost of investment.

CASE SCENARIOS 22

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1st February 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31st March, 2024 is ₹ 75,000.

Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Questions

MULTIPLE CHOICE QUESTIONS

1. What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?
 - (a) ₹ 23,50,000
 - (b) ₹ 1,50,000
 - (c) ₹ 23,00,000
 - (d) ₹ 1,00,000

2. What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?
 - (a) Create a Provision for ₹ 5,45,000
 - (b) Create a Provision for ₹ 5,00,000
 - (c) Create a Provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000
 - (d) Make a disclosure of contingent liability of 5,45,000
3. What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4?
 - (a) An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.
 - (b) An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.
 - (c) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.
 - (d) A Non- adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 23,50,000

Reason:

Goods sold and delivery pending at the request of buyer is recognized as revenue and out of goods sold on approval basis ₹ 2,00,000, only 25% were not accepted by the buyer. Rest are treated as revenue.

So total revenue recognized is ₹ 22,00,000+ ₹ 1,50,000 = ₹ 23,50,000

2. **Option (c)** Create a provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000

Reason:

There are remote chances of payment of damages to the buyer so claim of ₹ 5,00,000 treated as contingent liability and provision is made for legal charges as these charges will be incurred.

3. **Option (a)** An Adjusting Event, full provision of ₹ 75,000 should be made in the Final accounts for the year ended 31 March 24.

Reason:

The earthquake occurred before 31st March and at the time of the bankruptcy of Sheetal enterprises, there was sufficient evidence that the amount due from the buyer was not recoverable.

CASE SCENARIOS 23

Jay Ltd. submits the following data extracted from the Final Accounts as on 31st March, 2023:

| | ₹ |
|--------------------------------------------------------------|----------|
| Equity Share Capital 50,000 Equity shares of ₹ 10 each | 5,00,000 |
| Profit & Loss (Dr. balance) | (50,000) |
| 9% Debentures | 2,00,000 |
| Loan from Bank | 3,00,000 |
| Advance given to suppliers of goods | 45,000 |
| Provision for tax | 14,000 |
| Plant & Machinery | 4,50,000 |
| Furniture & Fixtures | 85,000 |
| Investment in Star Ltd. 10,000 equity shares of ₹ 10 each | 1,25,000 |
| Sundry Debtors | 70,000 |
| Cash & Bank Balance | 65,500 |

Additional information given by Jay Ltd.:

On 31st March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

- 9% Debentures to be settled in full by issuing them 15,000 Equity shares of ₹ 10 each.
- Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.
- Balance of Profit & Loss to be written off.
- Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2023:

- Interest is received on advances given to suppliers of goods ₹ 3,000.

- (b) Taxation liability is settled at ₹ 14,000.
- (c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.
- (d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.
- (e) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Questions :

MULTIPLE CHOICE QUESTIONS

1. The amount of Cash Flow from operating activity is:
 - (a) ₹ 2,000
 - (b) ₹ 5,000
 - (c) ₹ 12,000
 - (d) ₹ 15,000
2. The amount of Cash Flow from investing Activity is
 - (a) ₹ 28,000
 - (b) ₹ 25,000
 - (c) ₹ 15,000
 - (d) ₹ 22,000
3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2023?
 - (a) ₹ 1,92,500
 - (b) ₹ 92,500
 - (c) ₹ 1,27,000
 - (d) ₹ 1,98,500

4. The Balance of Equity Share Capital after internal reconstruction is :
- (a) ₹ 6,50,000
 - (b) ₹ 4,50,000
 - (c) ₹ 5,50,000
 - (d) ₹ 7,50,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 5,000

Reason:

$$₹ 3,000 + ₹ 16,000 - ₹ 14,000 = ₹ 5,000$$

2. **Option (d)** ₹ 22,000

Reason:

₹ 10,000 (Dividend) + ₹ 12,000 (Proceeds from Sale of Plant and Machinery)

3. **Option (a)** ₹ 1,92,500

Reason:

| | ₹ |
|-----------------------------------------------------|-----------------|
| Opening Cash | 65,500 |
| Operating cost flows (₹ 3,000+ ₹ 16,000- ₹14,000) | 5,000 |
| Investing Cash flows (₹10,000+ ₹ 12,000) | 22,000 |
| Financing Cash flows Closing cash + Cash Equivalent | <u>1,00,000</u> |
| | 1,92,500 |

4. **Option (c)** ₹ 5,50,000

| | ₹ |
|----------------------------|-------------------|
| Opening Capital | 5,00,000 |
| New capital issued | 1,00,000 |
| Issued to Debenture holder | 1,50,000 |
| Capital Surrendered | <u>(2,00,000)</u> |
| | <u>5,50,000</u> |

CASE SCENARIO 24

On 31st March, 20X1, seven companies finalized their financial statements, which were approved on 15th June, 20X1. During the financial year 20X1-20X2, several material events occurred, as detailed below. You are required to analyze each situation and decide how they should be treated in the financial statements for the year ended 31st March, 20X1, based on AS 4: Contingencies and Events Occurring After the Balance Sheet Date.

1. A Ltd. entered into a contract to sell a property valued at ₹ 1,00,000 in its balance sheet on 15th March, 20X1. The sale was finalized on 15th May, 20X1, for ₹ 2,50,000.
2. B Ltd.'s 100% subsidiary declared a dividend of ₹ 3,00,000 on 30th April, 20X1, for the year ended 31st March, 20X1.
3. C Ltd. decided to close its mail order activities on 31st May, 20X1, incurring closure costs of ₹ 2.5 million.
4. D Ltd. discovered, on 1st July, 20X1, that sand at a major civil engineering project site increased project costs by 25%, with no recovery from the customer.
5. On 2nd April, 20X1, a fire destroyed E Ltd.'s manufacturing plant. The estimated loss of ₹ 10 million is expected to be fully covered by insurance.
6. F Ltd. received a ₹ 8 million damage claim for breach of patent before 31st March, 20X1. Legal advice suggests the claim is baseless, though legal fees are expected.
7. G Ltd. experienced an 8% foreign exchange rate change between 1st April, 20X1, and 1st June, 20X1, reducing the value of its foreign assets by ₹ 1.3 million.

MULTIPLE CHOICE QUESTIONS

1. For A Ltd., how should the sale of property be treated in the financial statements?
 - (a) Recognize ₹1,50,000 profit in the 20X0-20X1 financial statements.
 - (b) Disclose the sale as a non-adjusting event.

-
- (c) Exclude the sale from the financial statements entirely.
 - (d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.
2. For B Ltd., how should the dividend declaration be treated?
- (a) Recognize the dividend in the 20X0-20X1 financial statements.
 - (b) Treat it as an adjusting event.
 - (c) Disclose it as a non-adjusting event in the notes to accounts.
 - (d) Ignore the event entirely.
3. For C Ltd., how should the closure of mail order activities be treated?
- (a) Recognize the closure costs in the 20X0-20X1 financial statements.
 - (b) Treat it as an adjusting event.
 - (c) Disclose it as a non-adjusting event in the financial statements.
 - (d) Ignore the closure since it occurred after the approval date.
4. For E Ltd., what should be the treatment of the fire incident?
- (a) Recognize the ₹ 10 million loss in the 20X0-20X1 financial statements.
 - (b) Disclose it as a non-adjusting event with a note about insurance coverage.
 - (c) Ignore the incident since it occurred after the year-end.
 - (d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.
5. For F Ltd., how should the damage claim for breach of patent be treated?
- (a) Provide ₹ 8 million for the claim in the 20X0-20X1 financial statements.
 - (b) Disclose it as a contingent liability and provide for estimated legal fees.
 - (c) Recognize the full amount as an expense in the financial statements.
 - (d) Ignore the claim since it is deemed baseless.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Recognize ₹1,50,000 profit in the 20X0-20X1 financial statements.

Reason:

The contract exchange occurred before 31st March, 20X1, making it an adjusting event. The sale's impact must be reflected in the financial statements for 20X0-20X1.

2. **Option (c)** Disclose it as a non-adjusting event in the notes to accounts.

Reason:

The dividend was declared after 31st March, 20X1. As per AS 4, it is a non-adjusting event and must be disclosed in the notes.

3. **Option (c)** Disclose it as a non-adjusting event in the financial statements.

Reason:

The closure decision was made after 31st March, 20X1, and is a non-adjusting event requiring disclosure to ensure user understanding.

4. **Option (b)** Disclose it as a non-adjusting event with a note about insurance coverage.

Reason:

The fire occurred after 31st March, 20X1, making it a non-adjusting event. Disclosure is required, especially given the insurance coverage.

5. **Option (b)** Disclose it as a contingent liability and provide for estimated legal fees.

Reason:

The claim is considered baseless but must be disclosed as a contingent liability per AS 4. Legal fees should be provided if not recoverable.

CASE SCENARIO 25

Energy Ltd. acquired a generator on 1st April, 20X1, for ₹100 lakh. The company applied for a subsidy from the Indian Renewable Energy Development Authority (IREDA) on 2nd April, 20X1. The subsidy was granted in June, 20X2, after the accounts for the financial year 20X1-20X2 were finalized. The company did not account for the subsidy in the financial statements for the year ended 31st March, 20X2.

Additionally, consider the following scenarios:

1. The sanction letter for the subsidy was received in June, 20X2, before the Board of Directors approved the accounts for the year 20X1-20X2.
2. Energy Ltd. had previously made similar applications for subsidies and received them every time without exception.

MULTIPLE CHOICE QUESTIONS

1. In the original scenario, how should the subsidy granted in June, 20X2, be treated in the financial statements?
 - (a) Recognize it as income for the financial year 20X1-20X2.
 - (b) Treat it as a prior period item in the financial year 20X2-20X3.
 - (c) Deduct it from the cost of the generator in the financial year 20X2-20X3.
 - (d) Ignore it as it relates to a past financial year.
2. If the subsidy sanction letter was received before the accounts for 20X1-20X2 were approved by the Board of Directors, how should the subsidy be treated?
 - (a) Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.
 - (b) Disclose it as a contingent asset in the notes for 20X1-20X2.

- (c) Recognize it as deferred income in the financial year 20X2-20X3.
 - (d) Ignore it as the event occurred after 31st March, 20X2.
3. If Energy Ltd. had a history of receiving subsidies on all similar applications in the past, how should the subsidy for 20X1-20X2 be treated?
- (a) Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.
 - (b) Recognize it as deferred income for the financial year 20X2-20X3.
 - (c) Treat it as a prior period item in the financial year 20X2-20X3.
 - (d) Disclose it as a contingent asset in the notes for 20X1-20X2.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Deduct it from the cost of the generator in the financial year 20X2-20X3.

Reason:

As per AS 12, a grant can only be recognized when there is reasonable assurance of compliance with conditions and receipt of the subsidy. Since the subsidy was sanctioned after 31st March, 20X2, and after accounts for 20X1-20X2 were approved, it cannot be treated as an adjusting event for 20X1-20X2. It must be accounted for in 20X2-20X3 by deducting it from the cost of the generator.

2. **Option (a)** Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.

Reason:

As per AS 4, events occurring after the balance sheet date but before approval of accounts by the Board of Directors are adjusting events if they confirm conditions existing at the balance sheet date. Receipt of the sanction letter confirms the condition that the subsidy application was valid, and hence, the subsidy should be adjusted in the financial statements for 20X1-20X2.

3. **Option (a)** Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.

Reason:

If the company has consistently received subsidies for similar applications in the past, there is reasonable assurance as required by AS 12. In such cases, the subsidy should have been recognized in the financial statements for 20X1-20X2, as the past pattern provides assurance of receipt.

CASE SCENARIO 26

A company is engaged in refining, transportation, and marketing of petroleum products. During the financial year ended 31st March, 20X1, it acquired a controlling interest in another public sector undertaking from the Government of India at ₹ 1,551 per share. The book value and market value of the shares as of 18th February, 20X1, were ₹ 192.58 and ₹ 876 per share, respectively. The company paid a strategic premium of ₹ 675 per share due to various tangible and intangible factors.

The company classified the acquired shares as long-term strategic investments and accounted for them at cost, i.e., ₹ 1,551 per share, in its financial statements. No provision for diminution in value was made. However, Schedule III of the Companies Act, 2013, requires the aggregate market value of quoted shares to be disclosed, and this has been reflected.

On 28th March, 20X1, the market price of the acquired shares was ₹ 880 per share. By 18th July, the price had dropped to ₹ 300. Management believes that the decline in value is not permanent, given the strategic and synergy benefits expected, and hence, no provision for diminution has been made.

MULTIPLE CHOICE QUESTIONS

1. Is the accounting treatment of recording the investment 'at cost' without providing for diminution correct as per AS 13?
 - (a) Yes, as the investment is classified as long-term.
 - (b) Yes, provided the decline in value is not other than temporary.
 - (c) No, the market value must always be considered for long-term investments.
 - (d) No, a provision for diminution must be made regardless of the cause of decline.
2. How should the company assess whether the decline in market value is other than temporary?
 - (a) Based solely on the market price on the balance sheet date.

- (b) Based on a comparison of the market price with the book value of the shares.
 - (c) By considering all relevant factors, such as the financial health of the investee and expected benefits.
 - (d) By applying a uniform threshold for decline across all investments.
3. If a provision for diminution in value is required, how should it be treated in the financial statements?
- (a) As a charge to the profit and loss account.
 - (b) As deferred expenditure amortized over five years.
 - (c) Directly adjusted against the investment account.
 - (d) As a disclosure note without impacting the financial statements.
4. Can the premium paid for strategic benefits be accounted for separately from the cost of investment?
- (a) Yes, it should be recorded as a separate intangible asset. ₹
 - (b) Yes, it can be disclosed as goodwill in the balance sheet.
 - (c) No, it must be included in the cost of investment as per AS 13.
 - (d) No, it must be expensed immediately in the profit and loss account.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Yes, provided the decline in value is not other than temporary.

Reason:

As per **AS 13**, long-term investments are recorded at cost unless there is a **decline other than temporary** in their value. If the management can substantiate that the decline in market value is temporary, there is no need to create a provision for diminution.

2. **Option (c)** By considering all relevant factors, such as the financial health of the investee and expected benefits.

Reason:

Per **paragraph 17 of AS 13**, the company must consider all relevant factors, such as the financial and operational performance of the investee,

the expected benefits from the investment, and external economic conditions, to assess whether the decline is other than temporary.

3. **Option (a)** As a charge to the profit and loss account.

Reason:

AS 13 requires that any provision for diminution in the value of investments be charged to the **profit and loss account**. It cannot be treated as deferred expenditure or amortized over future periods.

4. **Option (c)** No, it must be included in the cost of investment as per AS 13.

Reason:

As per AS 13, long-term investments are recorded at **cost**, which includes any premium paid. There is no provision in AS 13 to account for the premium separately, even if it is paid for strategic benefits.

CASE SCENARIO 27

Sigma Builders Pvt. Ltd. enters into a contract with Alpha Developers Ltd. on 1st January 20X1 to construct a 5-storied residential complex. The construction is to be completed within three years, by 31st December 20X3. The contract terms include the following provisions:

- ◆ Fixed Price: ₹ 5 crore
- ◆ Material Cost Escalation: 20% of the increase in material costs during the contract period.
- ◆ Labour Cost Escalation: 30% of the increase in minimum wages during the contract period.
- ◆ Early Completion Incentive: ₹ 50 lakh if the project is completed in less than 2 years and 10 months.
- ◆ Delay Penalty: ₹ 20 lakh if the project is delayed beyond 3 years and 2 months.

At the start of the project, Sigma believes it can complete the construction in 2 years and 8 months. The project was ultimately completed in 2 years and 9 months.

The following additional details are relevant:

- ◆ Labour Cost: Initially estimated at ₹ 1.20 crore based on minimum wages but increased by 25% during the project period.
- ◆ Material Cost: Increased by 40% during the project due to market conditions, resulting in a total increase of ₹ 80 lakh.

In 20X2, Alpha Developers requested Sigma Builders to increase the scope of the project by constructing an additional floor, leading to an increase in the fixed contract fee by ₹ 1 crore. Sigma incurred ₹ 20 lakh in obtaining local authority approvals for this variation, which it will recover from Alpha Developers in addition to the fixed fee increase.

MULTIPLE CHOICE QUESTIONS

1. What is the total contract revenue excluding variations, claims, and incentives?
(a) ₹ 5 crore

- (b) ₹ 5.40 crore
 - (c) ₹ 5.70 crore
 - (d) ₹ 6.20 crore
2. How should Sigma Builders account for the early completion incentive of ₹ 50 lakh?
- (a) Recognize only after the project is completed.
 - (b) Recognize as revenue progressively since the completion date is predictable.
 - (c) Recognize at the end of the project if Sigma Builders is eligible for it.
 - (d) Do not recognize, as it depends on external factors.
3. What is the revised total contract revenue after considering variations and claims?
- (a) ₹ 6.40 crore
 - (b) ₹ 7.20 crore
 - (c) ₹ 7.40 crore
 - (d) ₹ 7.60 crore
4. How should Sigma Builders account for the ₹20 lakh spent on obtaining approvals for the additional floor?
- (a) Capitalize the cost as part of the project expense.
 - (b) Charge it to the profit and loss account.
 - (c) Include it as a claim recoverable from Alpha Developers.
 - (d) Record it separately as deferred expenditure.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** ₹6.20 crore

Reason:

The total revenue includes the fixed price (₹ 5 crore) plus adjustments for material and labour cost escalations and the early completion incentive:

- ◆ Fixed Price: ₹ 5 crore
- ◆ Material Cost Recovery: (to the extent of) 20% = ₹ 0.40 crore
- ◆ Labour costs recovery (Actual increase is less than 30%) (1.20 crore x 25%) = ₹ 0.30 crore
- ◆ Early Completion Incentive: ₹ 0.50 crore
- ◆ Total: ₹ 6.20 crore

2. **Option (b)** Recognize as revenue progressively since the completion date is predictable.

Reason:

As per AS 7 Construction Contracts, incentives for early completion can be recognized as revenue when the company has sufficient evidence of achieving the performance condition (completion in less than 2 years and 10 months). Since Sigma reasonably estimated early completion, progressive recognition is appropriate.

3. **Option (c)** ₹ 7.40 crore

Reason:

The total revenue includes the base contract revenue and adjustments for additional scope and recoverable claims:

- Base Revenue: ₹ 6.20 crore
- Variation for Additional Floor: ₹ 1 crore
- Claims for Local Authority Approvals: ₹ 20 lakh
- Total: ₹ 7.40 crore

4. **Option (c)** Include it as a claim recoverable from Alpha Developers.

Reason:

The ₹ 20 lakh spent for approvals is recoverable as per the contract terms, so it should be accounted as a claim receivable and added to the total contract revenue.

CASE SCENARIO 28

AB Ltd. is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March.

Additional details for the financial year ending 31st March 2024 are provided below:

Segment Information

AB Ltd. has identified five segments. The details are as follows:

| Segment | Sale | | Total sale | Profit | Asset |
|---------|-------------|-----------|--------------------|------------------|---------------------|
| | Export | Domestic | | | |
| K | 54,00,000 | - | 54,00,000 | 4,50,000 | 9,00,00,000 |
| L | 1,12,50,000 | 36,00,000 | 1,48,50,000 | 13,50,000 | 2,25,00,000 |
| M | 2,02,50,000 | - | 2,02,50,000 | 22,50,000 | 3,15,00,000 |
| M | 1,21,50,000 | 27,00,000 | 148,50,000 | 13,50,000 | 4,50,00,000 |
| O | 18,00,000 | 22,50,000 | <u>40,50,000</u> | <u>9,00,000</u> | <u>6,75,00,000</u> |
| | | | <u>5,94,00,000</u> | <u>63,00,000</u> | <u>25,65,00,000</u> |

Additional Information

1. Machinery Purchase

On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year 2. The applicable tax rate is 30%.

2. Trademark and Process Development:

AB Ltd. introduced a new manufacturing process and incurred the following costs:

- ◆ Trademark acquisition: ₹70,00,000

- ◆ Product promotion: ₹2,00,000
- ◆ Employee benefits for testing: ₹3,00,000

3. Government Grant:

AB Ltd. was engaged in the process of development of a manufacturing unit in one of the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution

MULTIPLE CHOICE QUESTIONS

1. Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?
 - (a) Segment M
 - (b) Segment M, N & L
 - (c) Segment L, M, N & O
 - (d) All Segment
2. What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1st April 2023?
 - (a) Create DTA ₹ 75,000
 - (b) Reverse DTA ₹ 75,000
 - (c) Create DTL ₹ 75,000
 - (d) Reverse DTL ₹ 75,000
3. What is the total cost that should be capitalized for a trademark related to the new process?
 - (a) ₹ 75,00,000
 - (b) ₹ 73,00,000

- (c) ₹ 72,00,000
 (d) ₹ 70,00,000
4. How should subsidy received be accounted in the books of the company?
- (a) Credit into capital reserve
 (b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.
 (c) Both A & B are permitted
 (d) Credit it to General Reserve.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** All Segment

Reason:

Based on the 10% quantitative threshold: Revenue (L, M, N are reportable), Profit (L, M, N, O are reportable), Assets (K, M, N, O are reportable). Hence, all segments qualify as reportable.

2. **Option (c)** Create DTL ₹ 75,000

Book value of machinery at the end of year 1: ₹15,00,000 – depreciation ₹ 7,50,000 = ₹ 7,50,000. Tax base: ₹ 15,00,000 – ₹ 10,00,000 = ₹ 5,00,000. Temporary difference: ₹ 2,50,000. DTL is created @ 30% on ₹ 2,50,000 = ₹ 75,000.

3. **Option (b)** ₹ 73,00,000

Cost to be capitalized for trademark:

| | |
|------------------|------------------|
| Cost | 70,00,000 |
| Testing expenses | <u>3,00,000</u> |
| | <u>73,00,000</u> |

Expenses on promoting the new product are not capitalized

4. **Option (a)** Credit into capital reserve

As the grant is a promoter's contribution, it is credited to the capital reserve.

CASE SCENARIO 29

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.

G Ltd. incurred the following costs:

| | |
|-----------------------------------------------------------------------------------|-------------|
| The basic price of machinery | ₹ 50,00,000 |
| Initial delivery & handling cost | ₹ 10,00,000 |
| Cost of site preparation | ₹ 5,00,000 |
| The interest charge for deferred credit paid to the supplier | ₹ 1,00,000 |
| The present value of estimated dismantling costs to be incurred after 15 years is | ₹ 5,00,000. |

Operating losses after commercial production ₹ 4,00,000. The plant was ready for its intended use on 1st July 2023 but commercial production started on 1st August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US \$ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under::

| | |
|-------------|-----------------|
| On 1.4.2023 | 1 US \$ = ₹ 80 |
| 31.03.2024 | 1 US\$ = ₹82.50 |

G Ltd. acquired a machine on 1st April, 2018 for ₹ 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.

G Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular

Share capital 15,00,000

Reserve & Surplus (includes current year profit for 3 months) 8,50,000

Build Ltd. paid a dividend of ₹ 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to ₹ 4,80,000 (assume profit to be accure evenly)

MULTIPLE CHOICE QUESTIONS

1. What is the carrying value of machinery on 31.3.2024 installed in the plant?
 - (a) ₹ 65,33,333
 - (b) ₹ 64,75,000
 - (c) ₹ 69,06,667
 - (d) ₹ 68,45,000
2. What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?
 - (a) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan.
 - (b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan.
 - (c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan.
 - (d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

3. What is the amount of impairment loss on 31.3.2024?
- (a) ₹ 5.5 lakh
(b) ₹ 7.2 lakh
(c) ₹ 4.8 lakh
(d) ₹ 3 lakh
4. What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?
- (a) ₹ 14,00,000
(b) ₹ 8,22,500
(c) ₹ 13,47,500
(d) ₹ 14,52,500

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option b** ₹ 64,75,000

Reason:

| | ₹ |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Cost of machinery to be capitalized | 70,00,000 |
| (except interest as the asset is not qualified & operating loss) (50,00,000+10,00,000+5,00,000+5,00,000). Machinery ready for intended use on 1.7.2023 and life is 10 year therefore depreciation for 9 months will be $70,00,000 \times \frac{1}{10} \times \frac{9}{12} = 5,25,000$ | |
| Carrying value of machine as on 31.3.2024 | 64,75,000 |

2. **Option (d)** ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

Reason:

$$\text{Exchange loss} = 62,500 \times 2.50 = 1,56,250$$

This loss will be added to the value of the foreign loan amount. So, the foreign loan amount will be increase by ₹ 1,56,250.

3. Option (c) ₹ 4.8 lakh**Reason:**

| | Rs in lakh |
|-----------------------------------------------------|--------------|
| Cost of the asset on 1.4.2017 | 25 |
| Less: Depreciation for 4 years (2017-18 to 2020-21) | (12.5) |
| Carrying amount as on 31.3.2021 | <u>12.5</u> |
| Add: upward revaluation | <u>5.5</u> |
| (credited to revaluation reserve) | 18 |
| Less: depreciation of 2 years | <u>(7.2)</u> |
| i.e 2021-22, 22-23 | |
| Carrying amount as on 31.3.2023 | <u>10.8</u> |
| Less: recoverable amount | <u>(6)</u> |
| Impairment loss | <u>4.8</u> |

4. Option (c) ₹ 13,47,500**Reason:**

Carrying amount of investment in the separate financial statement, of G Ltd. as on 31.3.2024

| | |
|------------------------------------------|-------------------|
| Amount paid for investment in Build Ltd. | ₹ 14,00,000 |
| Less: pre acquisition dividend | <u>₹ (52,500)</u> |
| Carrying amount as on 31.3.2024 | ₹ 13,47,500 |

CASE SCENARIO 30

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

| | Particulars | (₹) | |
|-----|-------------------------------------------------------|-----------------|-----------|
| (1) | Equity Share Capital (Shares of ₹ 10 each fully paid) | - | 24,00,000 |
| (2) | Reserves and Surplus | | |
| | General Reserve | 20,50,000 | - |
| | Securities Premium Account | 7,50,000 | - |
| | Profit & Loss Account | 2,00,000 | - |
| | Infrastructure Development Reserve | 20,00,000 | |
| | Revaluation reserve | <u>1,70,000</u> | 51,70,000 |
| (3) | Loan Funds | | 52,00,000 |

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.20X1 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is ₹ 25 .

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy-back is completed by 09.12.20X1,

MULTIPLE CHOICE QUESTIONS

1. What is the maximum number of shares to be bought back as per debt-equity ratio?
 - (a) 1,12,000 shares
 - (b) 80,000 shares
 - (c) 54,000 shares
 - (d) 60,000 shares
2. What is the maximum permitted equity as per debt- equity ratio test.
 - (a) 20,00,000 shares
 - (b) 28,00,000 shares
 - (c) 15,00,000 shares
 - (d) 13,50,000 shares
3. What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?
 - (a) 48,000
 - (b) 48,60,000
 - (c) 42,80,000
 - (d) 46,00,000
4. What is the maximum number of shares that can be buy back as per resource test?
 - (a) 54,000
 - (b) 75,700
 - (c) 55,700
 - (d) 74,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** 80,000 shares
2. **Option (a)** 20,00,000 shares
3. **Option (d)** 46,00,000
4. **Option (a)** 54,000

Reason: Common for 1, 2, 3, 4

Shares Outstanding Test

| Particulars | (Shares) |
|-------------------------------|----------|
| Number of shares outstanding | 2,40,000 |
| 25% of the shares outstanding | 60,000 |

Resources Test

| Particulars | |
|----------------------------------------------------------------|-------------------------|
| Paid up capital (₹) | 24,00,000 |
| Free reserves (₹) | <u>30,00,000</u> |
| Shareholders' funds (₹) | <u>54,00,000</u> |
| 25% of Shareholders fund (₹) | ₹ 13,50,000 |
| Buy-back price per share | ₹ 25 |
| Number of shares that can be bought back (shares in crores) | 54,000 shares |

Debt Equity Ratio Test

| | Particulars | When loan fund is |
|-----|----------------------------------------------------------------------------------|-------------------|
| (a) | Loan funds (₹) | 52,00,000 |
| (b) | Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) | 26,00,000 |
| (c) | Present equity shareholders fund (₹ in crores) | 54,00,000 |

| | | |
|-----|--------------------------------------------------------------------------------------|--------------------------------------|
| (d) | Future equity shareholder fund (₹ in crores) | (54,00,000-8,00,000) 46,00,000 |
| (e) | Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] | 20,00,000 (by simultaneous equation) |
| (f) | Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) | 80,000 (by simultaneous equation) |

$$(54,00,000 - x) - 26,00,000 = y \quad 0020$$

$$= \left(\frac{y}{25} \times 10 \right) = x$$

$$x = ₹ 8,00,000$$

$$y = ₹ 20,00,000$$

CASE SCENARIO 31

P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

MULTIPLE CHOICE QUESTION

1. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?
 - (a) Q Ltd.
 - (b) R Ltd.
 - (c) Q Ltd. and R Ltd.
 - (d) Neither of Q Ltd. or R Ltd.

ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (c)** Q Ltd. and R Ltd.

Reason:

P Ltd. has 60% voting right in Q Ltd. Thus, P Ltd control over Q Ltd

Q Ltd. has 20% voting rights in R Ltd. Q Ltd has significant influence over R. Ltd. P Ltd. directly enjoys voting right of 14% in R Ltd. P Ltd and Q Ltd, together hold 34% of the shares in R Ltd. So, P Ltd has significant influence over R Ltd.

CASE SCENARIO 32

A Machinery was given on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

| | |
|----------|---------------|
| Year I | 50,000 units |
| Year II | 60,000 units |
| Year III | 40,000 units |
| Year IV | 65,000 units |
| Year V | 85,000 units. |

MULTIPLE CHOICE QUESTION

1. Compute Annual Lease Rent.
 - (a) ₹ 30,000
 - (b) ₹ 60,000
 - (c) ₹ 50,000
 - (d) ₹ 36,000

ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (b)** ₹ 60,000

Reason:

$$\begin{aligned}\text{Total lease rent} &= 120\% \text{ of ₹ } 3,00,000 \times \frac{\text{Output during lease period}}{\text{Total output}} \\ &= ₹ 3,60,000 \times \frac{1,50,000 \text{ units}}{3,00,000 \text{ units}} = ₹ 1,80,000\end{aligned}$$

$$\text{Annual lease rent} = ₹ 1,80,000 / 3 = ₹ 60,000$$

CASE SCENARIO 33

A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024.

MULTIPLE CHOICE QUESTION

1. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:
 - (a) 1,34,500 shares
 - (b) 1,65,500 shares
 - (c) 1,76,167 shares
 - (d) 1,23,833 shares

ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (b)** ₹ 1,65,500 shares

Reason:

$$(1,50,000 \times 7/12) + (2,00,000 \times 3/12) + (1,68,000 \times 2/12) = 1,65,500 \text{ shares}$$

CASE SCENARIO 34

A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

MULTIPLE CHOICE QUESTION

1. As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:
 - (a) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.
 - (b) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.
 - (c) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.
 - (d) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (c)** Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.

Reason:

As per Schedule III ₹ 16,00,000 as a secured loan under long-term borrowings and interest accrued but not due will be shown under other current liabilities.

CASE SCENARIO 35

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.

MULTIPLE CHOICE QUESTION

1. What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?
 - (a) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
 - (b) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
 - (c) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
 - (d) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (d)** The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement

Reason:

'The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost i.e. ₹ 8,80,000

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus A Ltd. should disclose the change in valuation method of inventory and its effect on financial statements.