



# **PAPER – 1: ADVANCED ACCOUNTING**

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## **ANNOUNCEMENTS STATING APPLICABILITY FOR SEPTEMBER 2025 EXAMINATION**

### **I. Revised Criteria for classification of Non-company entities for applicability of Accounting Standards**

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
  - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
  - (ii) which is not a bank, financial institution or an insurance company;
  - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
  - (iv) which does not have borrowings in excess of fifty crore

rupees at any time during the immediately preceding accounting year; and

- (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.
4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.
5. This Announcement supersedes the earlier Announcement of the ICAI on 'Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021<sup>1</sup>.
6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind

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<sup>1</sup> The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribed the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.

AS) or Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.

7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

#### **Additional requirements**

- (1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME and has complied with the Accounting Standards insofar as they are applicable to an MSME.
- (2) Where an MSME had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.
- (3) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.
- (4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.
- (5) If an MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.

- (6) An MSME may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead users of financial statements.

**Annexure 1**

**Applicability of Accounting Standards to Non-company Entities** The Accounting Standards issued by the ICAI, as on April 1, 2024, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2024, are:

|       |                                                                                          |
|-------|------------------------------------------------------------------------------------------|
| AS 1  | Disclosure of Accounting Policies                                                        |
| AS 2  | Valuation of Inventories                                                                 |
| AS 3  | Cash Flow Statements                                                                     |
| AS 4  | Contingencies and Events Occurring After the Balance Sheet Date                          |
| AS 5  | Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies |
| AS 7  | Construction Contracts                                                                   |
| AS 9  | Revenue Recognition                                                                      |
| AS 10 | Property, Plant and Equipment                                                            |
| AS 11 | The Effects of Changes in Foreign Exchange Rates                                         |
| AS 12 | Accounting for Government Grants                                                         |
| AS 13 | Accounting for Investments                                                               |
| AS 14 | Accounting for Amalgamations                                                             |
| AS 15 | Employee Benefits                                                                        |
| AS 16 | Borrowing Costs                                                                          |
| AS 17 | Segment Reporting                                                                        |

|       |                                                                               |
|-------|-------------------------------------------------------------------------------|
| AS 18 | Related Party Disclosures                                                     |
| AS 19 | Leases                                                                        |
| AS 20 | Earnings Per Share                                                            |
| AS 21 | Consolidated Financial Statements                                             |
| AS 22 | Accounting for Taxes on Income                                                |
| AS 23 | Accounting for Investments in Associates in Consolidated Financial Statements |
| AS 24 | Discontinuing Operations                                                      |
| AS 25 | Interim Financial Reporting                                                   |
| AS 26 | Intangible Assets                                                             |
| AS 27 | Financial Reporting of Interests in Joint Ventures                            |
| AS 28 | Impairment of Assets                                                          |
| AS 29 | Provisions, Contingent Liabilities and Contingent Assets                      |

**(1) Applicability of the Accounting Standards to Large Non-company entities.**

Large entities are required to comply in full with all the Accounting Standards.

**(2) Applicability of the Accounting Standards and exemptions/relaxations for Micro, Small and Medium sized Non-company entities**

(A) Accounting Standards not applicable to Micro, Small and Medium sized entity (MSME) in their entirety

- (i) Accounting Standards not applicable to all MSMEs in their entirety:
  - AS 3, Cash Flow Statements
  - AS 17, Segment Reporting
  - AS 20, Earnings per Share
  - AS 24, Discontinuing Operations

- (ii) AS 18, Related Party Disclosures and AS 28, Impairment of Assets not applicable in their entirety to MSMEs:
  - (a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
  - (b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and
  - (c) which is not a Holding and subsidiary of an MSME not covered above.

**(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)**

- (i) Accounting Standard (AS) 10, Property, Plant and Equipment MSMEs may not comply with paragraph 87 relating to encouraged disclosures.
- (ii) AS 11, The Effects of Changes in Foreign Exchange Rates MSMEs may not comply with paragraph 44 relating to encouraged disclosures.
- (iii) AS 15, Employee Benefits
  - (1) MSMEs may not comply with the following paragraphs:
    - (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are nonvesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
    - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

- (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
  - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
- (iv) AS 19, Leases
- MSMEs may not comply with paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.
- (v) AS 22, Accounting for Taxes on Income
- (a) MSMEs shall comply with the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.
  - (b) Transitional requirements on the first occasion when an MSME avails this exemption, the accumulated deferred

tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

- (vi) AS 26, Intangible Assets MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.
- (vii) AS 28, Impairment of Assets (a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard. (b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.
- (viii) AS 29, Provisions, Contingent Liabilities and Contingent Assets  
MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.
- (C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.
- (D) AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS

27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

## II. Amendments to AS 22, Accounting for Taxes on Income

Paragraphs 2A, 32A–32D (including their related heading and example after paragraph 32D) and 35 are added.

### Scope ...

2A This Standard applies to taxes on income arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the taxes on income arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an enterprise should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

### Presentation and Disclosure

International tax reform—Pillar Two model rules 32A An enterprise should disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 2A). 32B An enterprise should disclose separately its current tax expense (income) related to Pillar Two income taxes. 32C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an enterprise should disclose known or reasonably estimable information that helps users of financial statements understand the enterprise's exposure to Pillar Two income taxes arising from that legislation. 32D To meet the disclosure objective in paragraph 32C, an enterprise should disclose qualitative and

quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an enterprise should instead disclose a statement to that effect and disclose information about the enterprise's progress in assessing its exposure.

Examples illustrating paragraphs 32C–32D Examples of information an enterprise could disclose to meet the objective and requirements in paragraphs 32C–32D include: (a) qualitative information such as information about how an enterprise is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an enterprise's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.

Provided that a Micro, Small and Medium-sized Enterprise (Levels IV, III and II non-company entities) may not apply the disclosure requirements laid down in paragraphs 32C and 32D. ... Effective date 35 International Tax Reform—Pillar Two Model Rules, added paragraphs 2A and 32A–32D. An enterprise should: (a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and (b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2024. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.



## QUESTIONS

### PART – I: Multiple Choice Questions based on Case Scenarios

1. Surat Ltd. has received a grant of ₹ 40 crore for purchase of a qualified machine costing ₹ 90 crores. The residual value is ₹ 2 crore and expected useful life of the machine is 20 years.

Answer the following question as per the requirements of AS 12, Government Grants assuming that the depreciation method is straight line:

- (a) What is the nature of Grant being received by Surat Ltd.?
- (i) Non-Monetary Government Grant
  - (ii) Grant related to specific fixed assets
  - (iii) Grant related to Revenue
  - (iv) Promoter's Contribution
- (b) If Surat Ltd. has the policy to recognise the grant as deduction from the cost of the asset, what will be the amount of depreciation to be charged as expense in statement of profit and loss account every year:
- (i) ₹ 4.5 crores
  - (ii) ₹ 2.5 crores
  - (iii) ₹ 2.4 crores
  - (iv) ₹ 2 crores
- (c) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of grant to be recognised as other income in statement of profit and loss account every year:
- (i) ₹ 4.5 crores
  - (ii) ₹ 2.5 crores

- (iii) ₹ 2 crores
  - (iv) ₹ 1 crores
- (d) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of depreciation to be charged as expense in statement of profit and loss account, every year:
- (i) ₹ 4.5 crores
  - (ii) ₹ 4.4 crores
  - (iii) ₹ 2.5 crores
  - (iv) ₹ 2 crores
2. 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.
- What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?
- (i) 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.
  - (ii) 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.
  - (iii) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
  - (iv) 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.

3. Cost of current investment acquired was ₹ 1000 but the fair value was ₹ 800. The Investment was recorded at ₹ 800. Now the fair value of Investment is ₹ 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.
- (i) No change is required and it will continue at ₹ 800
  - (ii) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.
  - (iii) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.
  - (iv) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account.

## Part II - Descriptive Questions

### Applicability of Accounting Standards

4. As per the revised scheme effective from accounting periods commencing on or after April 1, 2024, classify non-company entities for the purpose of applicability of Accounting Standards. Briefly explain the criteria for each category.

### AS 1 "Disclosure of Accounting Policies"

5. Lion Ltd., engaged in manufacturing and construction contracts, prepares its financial statements for the year ended 31st March 2025. The company follows historical cost for fixed assets, FIFO for inventory valuation, and percentage of completion method for revenue recognition in construction contracts. During the year, the management changes:
- The inventory valuation method from FIFO to Weighted Average due to volatility in raw material prices.
  - The depreciation method from Straight Line Method (SLM) to Written Down Value (WDV) citing better reflection of asset usage.

The company discloses the change in inventory method in notes, but does not disclose the change in depreciation method, stating that it is not material.

Additionally, the company has not disclosed its accounting policy on recognition of government grants, though it has received a significant subsidy this year.

You are required to:

- (a) Identify and explain violations (if any) of AS 1 in the above case.
- (b) Critically evaluate whether "materiality" can be used as a justification for non-disclosure of a change in accounting policy.
- (c) Justify, would the change from FIFO to Weighted Average be treated as a change in accounting estimate or accounting policy under AS 1?

### AS 2 "Valuation of Inventories"

6. The following information is available for Zing Ltd. for the year 2024-25:

Raw Material:

|                       |               |            |
|-----------------------|---------------|------------|
| Closing Stock         | 700 units     |            |
| Cost price            | ₹ 35 per unit |            |
| Replacement cost      | ₹ 20 per unit |            |
| Finished product:     | FP 1          | FP 2       |
| Production (units)    | 3,000         | 1,600      |
| Closing stock (units) | 500           | 300        |
| Material consumed     |               | ₹ 3,20,000 |
| Direct labour         |               | ₹ 1,60,000 |
| Direct expenses       |               | ₹ 78,000   |

Fixed overhead for the year was ₹ 95,000, which includes godown rent of ₹ 15,000. Godown is used for storing finished products.

Besides 2 main products, 1000 units of a by-product (BY) also emerged in the production process which was sold @ ₹ 12 per unit after incurring an expense of ₹ 2,500. ₹ 4,800 was realized from sale of scrap. The average market price of FP1 is ₹ 160 per unit and FP2 is ₹ 100 per unit.

Calculate the value of closing stock of Zing Ltd. as per AS 2.

**AS 3 “Cash Flow Statements”**

7. From the following information, prepare cash flow statement of Kiran Ltd. as at 31<sup>st</sup> March, 2025 by using indirect method:

|                      | <b>2024</b><br>₹ | <b>2025</b><br>₹ |
|----------------------|------------------|------------------|
| <b>Liabilities</b>   |                  |                  |
| Share capital        | 12,00,000        | 12,00,000        |
| Profit & Loss A/c    | 8,50,000         | 10,00,000        |
| Long Term Loans      | 10,00,000        | 10,60,000        |
| Trade payables       | <u>3,50,000</u>  | <u>4,00,000</u>  |
|                      | 34,00,000        | 36,60,000        |
| <b>Assets</b>        |                  |                  |
| Fixed Assets         | 17,00,000        | 20,00,000        |
| Investment in shares | 2,00,000         | 2,00,000         |
| Inventory            | 6,80,000         | 7,00,000         |
| Trade receivables    | 7,20,000         | 6,60,000         |
| Cash                 | 60,000           | 70,000           |
| Bills Receivable     | <u>40,000</u>    | <u>30,000</u>    |
|                      | 34,00,000        | 36,60,000        |

**Income Statement for the year ended 31<sup>st</sup> March, 2025**

|                                                |                 | ₹                 |
|------------------------------------------------|-----------------|-------------------|
| Sales                                          |                 | 40,80,000         |
| Less: Cost of sales                            |                 | <u>27,20,000</u>  |
| Gross Profit                                   |                 | 13,60,000         |
| Less: Operating expenses:                      |                 |                   |
| Administrative expenses                        | 4,60,000        |                   |
| Depreciation                                   | <u>2,20,000</u> | <u>(6,80,000)</u> |
| Operating Profit                               |                 | 6,80,000          |
| Add: Non-operating incomes (dividend received) |                 | <u>50,000</u>     |
|                                                |                 | 7,30,000          |
| Less: Interest paid                            |                 | <u>(1,40,000)</u> |

|                   |                   |
|-------------------|-------------------|
| Profit before tax | 5,90,000          |
| Less: Income-tax  | <u>(2,60,000)</u> |
| Profit after tax  | <u>3,30,000</u>   |

**Statement of Retained Earnings**

|                     | ₹                 |
|---------------------|-------------------|
| Opening balance     | 8,50,000          |
| Add: Profit         | <u>3,30,000</u>   |
|                     | 11,80,000         |
| Less: Dividend paid | <u>(1,80,000)</u> |
| Closing balance     | <u>10,00,000</u>  |

8. Garden Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS 3?

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

9. (a) When can an item qualify to be a prior period item as per AS 5?
- (b) The company finds that the stock sheets of 31.3.2024 did not include two pages containing details of inventory worth ₹ 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31<sup>st</sup> March, 2025 with reference to AS 5.

**AS 7 "Construction Contracts"**

10. A company took a construction contract for ₹ 100 lakhs in January, 2024. It was found that 80% of the contract was completed at a cost of ₹ 92 lakhs on the closing date i.e. on 31.3.2025. The company estimates further expenditure of ₹ 23 lakhs for completing the contract. The expected loss would be ₹ 15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2025?

**AS 9 "Revenue Recognition"**

11. Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2024-25:

- (i) On 31<sup>st</sup> December, 2024 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31<sup>st</sup> March, 2025.
- (ii) On 10<sup>th</sup> January, 2025, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11<sup>th</sup> April 2025.
- (iii) On 21<sup>st</sup> March, 2025 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12<sup>th</sup> April, 2025.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2024 -25 in above cases in the context of AS 9.

#### AS 10 "Property, Plant and Equipment"

12. Precision Tools Ltd. provides the following details related to its fixed assets for the year ended 31st March 2025:

The company purchased a machine for ₹ 12,00,000 on 1st October 2024. The following expenses were also incurred:

Freight and insurance: ₹ 60,000

Erection charges: ₹ 40,000

Testing Cost: Raw materials used ₹ 25,000, Wages ₹10,000, Sale of finished goods from testing production ₹ 8,000.

On 1st December 2024, it replaced the motor of an old machine with a new one costing ₹1,20,000, improving the output capacity by 15%. The old motor had a Cost of ₹50,000 and Accumulated Depreciation of ₹ 35,000.

On 15th March 2025, the company shifted a machine from one factory to another. It incurred the following:

Dismantling cost: ₹12,000

Transport and installation: ₹18,000

Loss due to damage in transit: ₹6,000

You are required to calculate the amount to be capitalized for each of the above cases as per AS 10.

### AS 12 "Accounting for Government Grants"

13. Zenith Industries Ltd., a manufacturing company, is expanding its operations and has recently undertaken two major initiatives involving government assistance.

- (i) The company received a sum of ₹ 65 lakhs from the local authority to develop medical facilities for its employees at its newly built township near the factory premises.
- (ii) Additionally, it received ₹ 82 lakhs as a subsidy from the Central Government for establishing a new production unit in a notified backward area. This subsidy has been classified as one in the nature of promoters' contribution, intended to support the long-term development of the enterprise.

You are required to explain how the above transactions should be accounted for in the books of Zenith Industries Ltd. in accordance with Accounting Standard (AS) 12 "Government Grants".

### AS 13 "Accounting for Investments"

14. On 1<sup>st</sup> April 2024, Kesar held 75,000 equity shares of Beta Ltd., recorded at a book value of ₹15 per share (with a nominal value of ₹ 10 each). The following transactions took place during the year:

1. On 20th June 2024, Kesar purchased 15,000 additional shares of Beta Ltd. at ₹16 per share.
2. On 1st August 2024, Beta Ltd. declared a bonus issue of one share for every six shares held.
3. On 31<sup>st</sup> October 2024, the company announced a rights issue, offering three shares for every seven held at a price of ₹ 15 per share. Shareholders were allowed to fully or partially renounce their rights.

Kesar sold one-third of his rights entitlement to Megha at ₹ 2 per share and subscribed to the remaining rights on 5<sup>th</sup> November 2024.

You are required to prepare the Investment Account in the books of Kesar for the year ending 31st March 2025.

**AS 14 "Accounting for Amalgamations"**

15. X Co. Ltd. having share capital of ₹50 lakhs divided into equity shares of ₹10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of ₹10,00,000 and Profit and Loss account Cr. ₹5,00,000. Y Co. Ltd. issued 11 equity shares of ₹10 each for every 10 shares of X Co. Ltd.

How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interest method' of amalgamation.

**AS 16 "Borrowing Costs"**

16. Is it permissible to capitalise borrowing costs incurred on assets which are necessary for the construction of qualifying assets? A company is in the process of constructing a large manufacturing plant in a backward area. As a part of this project it has also purchased a residential building, which is to be used for housing the workers engaged in the construction of the plant. The purchase cost of the building is met by raising a long term loan. The company intends to dispose off the building once the construction of the manufacturing plant is complete. If the manufacturing plant meets the definition of a qualifying asset, would the borrowing costs incurred on funds borrowed to purchase the residential building be eligible for capitalisation?

**AS 17 "Segment Reporting"**

17. The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(₹ in Crore)

| Particulars     | A    | B  | C  | D   | E  | Total |
|-----------------|------|----|----|-----|----|-------|
| Segment Assets  | 40   | 15 | 10 | 10  | 5  | 80    |
| Segment Results | (95) | 5  | 5  | (5) | 15 | (75)  |
| Segment Revenue | 310  | 40 | 30 | 40  | 30 | 450   |

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

**AS 18 "Related Party Disclosures"**

18. X Ltd. sold goods to its associate company for the 1<sup>st</sup> quarter ending 30.6.2024. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

**AS 19 "Leases"**

19. On 1<sup>st</sup> April, 2024, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31<sup>st</sup> March, 2025.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

20. Following is the trial balance of ABC Limited as on 31.3.2025.

(Figures in ₹ '000)

| Particulars               | Debit | Particulars                          | Credit |
|---------------------------|-------|--------------------------------------|--------|
| Land at cost              | 800   | Equity capital (shares of ₹ 10 each) | 500    |
| Calls in arrears          | 5     | 10% Debentures                       | 300    |
| Cash in hand              | 2     | General reserve                      | 150    |
| Plant & Machinery at cost | 824   | Profit & Loss A/c (F.Y. 2023-24)     | 75     |
| Trade receivables         | 120   | Securities premium                   | 40     |

|                         |           |                            |               |
|-------------------------|-----------|----------------------------|---------------|
| Inventories (31-3-25)   | 96        | Sales                      | 1200          |
| Cash at Bank            | 28        | Trade payables             | 30            |
| Adjusted Purchases      | 400       | Provision for depreciation | 150           |
| Factory expenses        | 80        | Suspense Account           | 10            |
| Administrative expenses | 45        |                            |               |
| Selling expenses        | 25        |                            |               |
| Debenture Interest      | <u>30</u> |                            | <u>      </u> |
|                         | 2455      |                            | 2455          |

Additional Information:

- (i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- (ii) The company revalued the land at ₹ 9,60,000.
- (iii) Equity capital includes shares of ₹ 50,000 issued for consideration other than cash.
- (iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2024. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes ₹ 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2025 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2025 as per Schedule III. Ignore previous year's figures & taxation.



## SUGGESTED ANSWERS/HINTS

### Answer to Case Scenario and MCQ

| Q. No. |     | Hints |
|--------|-----|-------|
| 1.     | (a) | (ii)  |
|        | (b) | (iii) |
|        | (c) | (iii) |
|        | (d) | (ii)  |
| 2.     |     | (iv)  |
| 3.     |     | (ii)  |

### Descriptive Answers

4. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:
  1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
  2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
    - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
    - (ii) which is not a bank, financial institution or an insurance company;
    - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
    - (iv) which does not have borrowings in excess of fifty crore

rupees at any time during the immediately preceding accounting year; and

- (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

5. As per AS 1 "Disclosure of Accounting Policies", the following requirements are relevant:

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- Any change in an accounting policy which has a material effect should be disclosed along with the nature and reasons for such change.
- If the effect of such change is not ascertainable wholly or in part, the fact should be indicated.

Application to Lion Ltd.:

- (a) 1. Change in Inventory Valuation Method (FIFO to Weighted Average): This is a change in accounting policy. The company has disclosed the change in the notes to accounts along with justification, which is in line with the disclosure requirements of AS 1, provided the impact of the change is also disclosed or indicated as unascertainable if applicable.

2. **Change in Depreciation Method (SLM to WDV):** As per AS 10 (Revised), a change in the method of depreciation is considered a change in accounting estimate. However, AS 1 also requires disclosure of material items affecting financial statements. Depreciation affects key financial figures such as profit, asset value, and return ratios. Even if the change is classified as an estimate, if it has a material effect, disclosure is warranted. The company's decision not to disclose the change on the grounds of immateriality may not be appropriate unless supported by clear quantitative evidence.
3. **Non-Disclosure of Accounting Policy for Government Grants:** Lion Ltd. has received a significant subsidy during the year but has not disclosed its accounting policy for government grants. As per AS 1, all significant accounting policies, including those for government grants, should be disclosed. Hence, non-disclosure amounts to a violation of AS 1.

**(b) Evaluation of "Materiality" as Justification for Non-Disclosure**

AS 1 emphasizes that accounting policies that are significant and changes that materially affect the financial statements should be disclosed.

- Materiality is assessed in terms of the potential of an item or change to influence economic decisions of users.
- Change in the method of depreciation affects not only profit and loss but also asset values and tax liabilities. Thus, even if the quantitative impact appears small, its qualitative impact (e.g., on comparability and trend analysis) may be significant.
- Therefore, the company's reliance on "materiality" as a justification for non-disclosure is not valid unless there is concrete evidence showing the impact is indeed immaterial both quantitatively and qualitatively.

**(c) Nature of Change from FIFO to Weighted Average**

The change from FIFO to Weighted Average should be treated as a change in accounting policy and not a change in accounting estimate under AS 1, and its nature and financial impact should be properly disclosed in the financial statements.

6. As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials are often measured at net realizable value and this value is deducted from the cost of the main product.

**(i) Calculation of net realizable value of by-product, BY**

|                                                    |                               | ₹              |
|----------------------------------------------------|-------------------------------|----------------|
| Selling price of by-product BY                     | (1,000 units x ₹ 12 per unit) | 12,000         |
| Less: Separate processing charges of by-product BY |                               | <u>(2,500)</u> |
| Net realizable value of by-product BY              |                               | <u>9,500</u>   |

**(ii) Calculation of cost of conversion for allocation between joint products FP1 and FP2**

|                                                  | ₹              | ₹               |
|--------------------------------------------------|----------------|-----------------|
| Raw material consumed                            |                | 3,20,000        |
| Direct labour                                    |                | 1,60,000        |
| Direct expenses                                  |                | 78,000          |
| Fixed overhead (95,000 – 15,000)                 |                | <u>80,000</u>   |
|                                                  |                | 6,38,000        |
| Less: NRV of by-product BY (See calculation 1)   | (9,500)        |                 |
| Sale value of scrap                              | <u>(4,800)</u> | <u>(14,300)</u> |
| Joint cost to be allocated between FP 1 and FP 2 |                | <u>6,23,700</u> |

**(iii) Determination of “basis for allocation” and allocation of joint cost to FP 1 and FP 2**

|                                                            | <b>FP 1</b>       | <b>FP 2</b>       |
|------------------------------------------------------------|-------------------|-------------------|
| Output in units (a)                                        | 3,000             | 1,600             |
| Sales price per unit (b)                                   | ₹ 160             | ₹ 100             |
| Sales value (a x b)                                        | ₹ 4,80,000        | ₹ 1,60,000        |
| Ratio of allocation                                        | 3                 | 1                 |
| Joint cost of ₹ 6,23,700 allocated in the ratio of 3:1 (c) | <u>₹ 4,67,775</u> | <u>₹ 1,55,925</u> |
| <b>Cost per unit [c/a]</b>                                 | <b>₹155.93</b>    | <b>₹97.45</b>     |

**(iv) Determination of value of closing inventory of Finished Products FP1 and FP2**

|                                             | <b>FP 1</b> | <b>FP 2</b> |
|---------------------------------------------|-------------|-------------|
| Closing inventory in units                  | 500         | 300         |
| Cost per unit                               | ₹ 155.93    | ₹ 97.45     |
| Value of closing inventory (finished goods) | ₹ 77,965    | ₹ 29,235    |

**Determination of value of closing stock of raw material**

|             | <b>FP 1 ₹</b> | <b>FP 2 ₹</b> |
|-------------|---------------|---------------|
| Cost price  | 155.93        | 97.45         |
| Sales price | 160           | 100           |

Since both finished goods FP 1 and FP 2 are sold above cost, raw material will be valued at cost i.e. ₹ 35 per unit (ie) ₹ 24,500 (700 units x ₹ 35)

**(i) Total value of closing inventory**

**(a) Finished products:**

FP 1 ₹ 77,965

|                  |                   |
|------------------|-------------------|
| FP 2             | ₹ 29,235          |
|                  | ₹ 1,07,200        |
| (b) Raw material | ₹ 24,500          |
|                  | <u>₹ 1,31,700</u> |

7. **Cash flow statement of Kiran Ltd.**  
**for the year ended 31<sup>st</sup> March 2025**

|             |                                             | ₹                 | ₹          |
|-------------|---------------------------------------------|-------------------|------------|
| <b>(i)</b>  | <b>Cash flows from operating activities</b> |                   |            |
|             | Profit before tax                           | 5,90,000          |            |
|             | Add: Depreciation (Non-cash expenses)       | 2,20,000          |            |
|             | Interest (Non-operating expenses)           | <u>1,40,000</u>   |            |
|             |                                             | 9,50,000          |            |
|             | Less: Dividend (Non-operating income)       | <u>(50,000)</u>   |            |
|             | Operating Profit                            | 9,00,000          |            |
|             | Add: Decrease in Bills Receivable           | 10,000            |            |
|             | Decrease in Trade receivables               | 60,000            |            |
|             | Increase in Trade payables                  | <u>50,000</u>     |            |
|             |                                             | 10,20,000         |            |
|             | Less: Increase in inventory                 | <u>(20,000)</u>   |            |
|             | Cash flow from operations before tax        | 10,00,000         |            |
|             | Less: Tax paid                              | <u>(2,60,000)</u> |            |
|             | <i>Cash flow from operating activities</i>  |                   | 7,40,000   |
| <b>(ii)</b> | <b>Cash flows from investing activities</b> |                   |            |
|             | Purchase of fixed assets                    | (5,20,000)        |            |
|             | [20,00,000 + 2,20,000 - 17,00,000]          |                   |            |
|             | Dividend on investments                     | <u>50,000</u>     |            |
|             | <i>Cash used in investing activities</i>    |                   | (4,70,000) |

|              |                                             |                   |                   |
|--------------|---------------------------------------------|-------------------|-------------------|
| <b>(iii)</b> | <b>Cash flows from financing activities</b> |                   |                   |
|              | Long term loan taken                        | 60,000            |                   |
|              | Interest paid                               | (1,40,000)        |                   |
|              | Dividend paid                               | <u>(1,80,000)</u> |                   |
|              | <i>Cash used in financing activities</i>    |                   | <u>(2,60,000)</u> |
|              | Net increase in cash during the year        |                   | 10,000            |
|              | Add: Opening cash balance                   |                   | <u>60,000</u>     |
|              | Closing cash balance                        |                   | <u>70,000</u>     |

8. According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furnitures and fixtures.

9. (a) According to para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items refers to those income or expenses, which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period e.g., arrears payable to workers in current period as a result of revision of wages with retrospective effect.
- (b) As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth ₹20 lakhs in 31.3.2024 is a prior period item. As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, ₹20 lakhs must be added to opening stock of 1.4.2024. An alternative approach is to show

such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

10. As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately.

11. (i) **Shoes sent to Mohan Shoes (consignee) for consignment sale**

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2024-25, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.

(ii) **Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date**

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2024-25. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) **Delivery is delayed at buyer's request**

On 21<sup>st</sup> March, 2025, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in

the year 2024-25 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

**12.** As per AS 10, Property, Plant and Equipment, the cost of an item of PPE includes:

- (a) Purchase price including import duties and non-refundable taxes,
- (b) Directly attributable costs to bring the asset to working condition (e.g., transport, installation, trial run),
- (c) Any trial run net costs (i.e., cost – recoverable proceeds).

| Particulars                                   | Amount (₹) |
|-----------------------------------------------|------------|
| Purchase Price                                | 12,00,000  |
| Freight & Insurance                           | 60,000     |
| Erection Charges                              | 40,000     |
| Net Cost of Testing (25,000 + 10,000 – 8,000) | 27,000     |
| Cost of Machinery                             | 13,27,000  |

#### Recognition of Motors Replacement

| Particulars                      | ₹             |
|----------------------------------|---------------|
| Cost of Motors                   | 50,000        |
| Less: Depreciation               | 35,000        |
| <b>Carrying Amount of Motors</b> | <b>15,000</b> |

**Accounting:** The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 15,000. Further, the acquisition cost of new motors of ₹ 1,20,000 would be capitalized as a separate component.

Costs of relocating or reorganising part or all of the operations of an enterprise are not included in the carrying amount of an item of PPE. Hence Costs of relocation of ₹ 36,000 (12,000 + 18,000 + 6,000) of PPE are not capitalized. Thus, entire expense to be charged off to Profit and Loss A/c.

Thus, total capitalization (net off derecognition) = 14,32,000 (13,27,000 + 1,20,000 - 15,000).

13. (i) In the books of Zenith Industries Ltd ₹ 65 lakhs received from the local authority for providing medical facilities to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 65 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.
- (ii) As per AS 12 'Accounting for Government Grants', where the government grants are in 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 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. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 82 lakhs should be credited to capital reserve.

14.

**In the books of Kesar**

**Investment Account  
(Equity shares in Beta Ltd.)**

| Date    | Particulars                        | No. of shares | Amount (₹) | Date    | Particulars     | No. of shares | Amount (₹) |
|---------|------------------------------------|---------------|------------|---------|-----------------|---------------|------------|
| 1.4.24  | To Balance                         | 75,000        | 11,25,000  | 31.3.25 | By Balance      | 1,35,000      | 18,15,000  |
| 20.6.24 | b/d<br>To Bank A/c                 | 15,000        | 2,40,000   |         | c/d (Bal. fig.) |               |            |
| 1.8.24  | To Bonus issue (W.N.1)             | 15,000        | -          |         |                 |               |            |
| 5.11.24 | To Bank A/c (right shares) (W.N.4) | 30,000        | 4,50,000   |         |                 |               |            |
|         |                                    | 1,35,000      | 18,15,000  |         |                 | 1,35,000      | 18,15,000  |

**Working Notes:**

- (1) Bonus shares =  $\frac{75,000 + 15,000}{6} = 15,000$  shares
- (2) Right shares =  $\frac{75,000 + 15,000 + 15,000}{7} \times 3 = 45,000$  shares
- (3) Sale of rights =  $45,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 30,000$  to be credited to statement of profit and loss
- (4) Rights subscribed =  $45,000 \text{ shares} \times \frac{2}{3} \times ₹ 15 = ₹ 4,50,000$

**15.**
**In the books of Y Co. Ltd.**
**Journal Entries**

|                                                                                                                                                                                         |     | ₹         | ₹                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|-----------------------------------|
| Business Purchase A/c<br>To Liquidator of X Co. Ltd.<br>(Being business of X Co. Ltd. purchased)                                                                                        | Dr. | 55,00,000 | 55,00,000                         |
| Assets A/c (Bal. Fig.)<br>To Business Purchase A/c<br>To General Reserve A/c*<br>(10,00,000 – 5,00,000)<br>To Profit and Loss A/c<br>(Being assets and reserves and surplus taken over) | Dr. | 65,00,000 | 55,00,000<br>5,00,000<br>5,00,000 |
| Liquidator of X Co. Ltd.<br>To Equity share capital A/c<br>(Being purchase consideration discharged through equity shares of Y Co. Ltd.)                                                | Dr. | 55,00,000 | 55,00,000                         |

**Working note:**

|                                         |             |
|-----------------------------------------|-------------|
| *Purchase consideration (11/10*50 lakh) | ₹ 55,00,000 |
| Less: Share capital of X Co. Ltd.       | ₹ 50,00,000 |
| To be adjusted from general reserve     | ₹ 5,00,000  |

16. As per para 3 of AS 16 "Borrowing Costs" a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, para 5 of the AS explains that "Assets that are ready for their intended use or sale when acquired also are not qualifying assets".

In the given case, prima facie, it may appear that the residential building is ready for use when acquired, and thus, borrowing costs incurred on purchase of residential building should not be capitalised. However, since in the present case provision of housing facilities is necessary for the construction of the plant, the borrowing costs incurred are, in substance, directly attributable to the construction of the manufacturing plant. Accordingly, the company should capitalise, as a part of the cost of the manufacturing plant, borrowing costs incurred on funds borrowed to acquire the residential building upto the period the manufacturing plant is ready for its intended use.

17. As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
  - (ii) Its segment **result** whether profit or loss is 10% or more of:
    - (1) The combined result of all segments in profit; or
    - (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
  - (iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

- (a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.
- (b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

18. As per para 23 of AS 18 on 'Related Party Disclosures', transactions of X Ltd., with its associate company for the first quarter ending 30.6.2024 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not to be disclosed as related party transaction

19. (a) Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is ₹ 8,53,600 [₹ 1,60,000 x 5.335 (Annuity factor of ₹ 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 6,72,800 (Sale value ₹ 8,52,800 less carrying amount ₹ 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of ₹ 1,06,600 per annum for 8 years (₹ 8,52,800/8) and amortise profit of ₹ 6,72,800 over the lease term of 8 years, i.e. ₹ 84,100 p.a.

The net effect is a debit of (₹ 1,06,600-84,100) ₹ 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

**20.**
**ABC Limited**
**Balance Sheet as at 31<sup>st</sup> March 2025**

| Particulars                       | Note No. | (₹ in '000)     |
|-----------------------------------|----------|-----------------|
| A. Equity and Liabilities         |          |                 |
| 1. Shareholder's funds            |          |                 |
| (a) Share Capital                 | 1        | 495.00          |
| (b) Reserves and Surplus          | 2        | 971.00          |
| 2. Non-Current Liabilities        |          |                 |
| (a) Long Term Borrowings          | 3        | 300.00          |
| 3. Current Liabilities            |          |                 |
| (a) Trade Payables                |          | <u>30.00</u>    |
| Total                             |          | <u>1,796.00</u> |
| B. Assets                         |          |                 |
| 1. Non-Current Assets             |          |                 |
| (a) Property, Plant and Equipment | 4        | 1,550.00        |
| 2. Current Assets                 |          |                 |
| (a) Inventories                   |          | 96.00           |
| (b) Trade Receivables             |          | 120.00          |

|                               |   |                 |
|-------------------------------|---|-----------------|
| (c) Cash and Cash equivalents | 5 | <u>30.00</u>    |
| Total                         |   | <u>1,796.00</u> |

**ABC Limited**
**Statement of Profit and Loss for the year ended 31<sup>st</sup> March 2025**

| Particulars                                  | Note No. | (₹ in '000)     |
|----------------------------------------------|----------|-----------------|
| I. Revenue from Operations                   |          | 1200.00         |
| II. Other Income                             | 6        | <u>6.00</u>     |
| III. Total Revenue                           |          | <u>1,206.00</u> |
| IV. Expenses:                                |          |                 |
| Purchases                                    |          | 400.00          |
| Finance Costs                                | 7        | 30.00           |
| Depreciation (10% of 800)                    |          | 80.00           |
| Other expenses                               | 8        | <u>150.00</u>   |
| Total Expenses                               |          | <u>660.00</u>   |
| V. Profit / (Loss) for the period (III – IV) |          | 546.00          |

**Notes to Accounts**

|   | Particulars                                                                        |            | (₹ in '000) |
|---|------------------------------------------------------------------------------------|------------|-------------|
| 1 | Share Capital                                                                      |            |             |
|   | Equity Share Capital                                                               |            |             |
|   | Authorised                                                                         |            |             |
|   | 80,000 Shares of ₹ 10/- each                                                       |            | <u>800</u>  |
|   | Issued, Subscribed and Called-up                                                   |            |             |
|   | 50,000 Shares of ₹ 10/- each                                                       | 500        |             |
|   | (Out of the above 5,000 shares have been issued for consideration other than cash) |            |             |
|   | Less: Calls in arrears                                                             | <u>(5)</u> | 495         |

|   |                                      |              |              |
|---|--------------------------------------|--------------|--------------|
| 2 | Reserves and Surplus                 |              |              |
|   | Securities Premium Account           |              | 40           |
|   | General Reserve                      |              | 150          |
|   | Profit & Loss Balance                |              |              |
|   | Opening Balance                      | 75           |              |
|   | Add: Profit for the period           | <u>546</u>   | 621          |
|   | Revaluation Reserve ₹ (960 – 800)    |              | <u>160</u>   |
|   |                                      |              | <u>971</u>   |
| 3 | Long-Term Borrowings                 |              |              |
|   | 10% Debentures                       |              | 300          |
| 4 | PPE                                  |              |              |
|   | Land                                 |              |              |
|   | Opening Balance                      | 800          |              |
|   | Add: Revaluation adjustment          | <u>160</u>   |              |
|   | Closing Balance                      |              | 960          |
|   | Plant and Machinery                  |              |              |
|   | Opening Balance                      | 824          |              |
|   | Less: Disposed off                   | <u>(24)</u>  |              |
|   |                                      | 800          |              |
|   | Less: Depreciation ₹ (150 – 20 + 80) | <u>(210)</u> |              |
|   | Closing Balance                      |              | <u>590</u>   |
|   | Total                                |              | <u>1,550</u> |
| 5 | Cash and Cash Equivalents            |              |              |
|   | Cash at Bank                         |              |              |
|   | With scheduled banks                 | 23           |              |
|   | With others (Abhay Bank Limited)     | 5            |              |
|   | Cash in hand                         | <u>2</u>     | 30           |

|   |                                            |            |     |
|---|--------------------------------------------|------------|-----|
| 6 | Other Income                               |            |     |
|   | Profit on sale of machinery                |            |     |
|   | Sale value of machinery                    | 10         |     |
|   | Less: Book value of machinery<br>(24 – 20) | <u>(4)</u> | 6   |
| 7 | Finance Costs                              |            |     |
|   | Debenture Interest                         |            | 30  |
| 8 | Other Expenses:                            |            |     |
|   | Factory expenses                           | 80         |     |
|   | Selling expenses                           | 25         |     |
|   | Administrative expenses                    | <u>45</u>  | 150 |