

# CA INTER



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## ADVANCED ACCOUNTING

SEP 2025, JAN 2026 & MAY 2026 ONWARDS

**MCQ**  
**Book**



### Coverage of All MCQs of ICAI

- Study Material
- Revision Test Papers (RTP)
- Past Exam Papers
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- ICAI MCQ Book

# Advanced Accounting MCQ Book







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# CHAPTER - 1

## Introduction and Applicability of Accounting Standards

### GENERAL MCQs

1. Accounting Standards for non-corporate entities in India are issued by **[SM]**
  - (a) Central Govt
  - (b) State Govt
  - (c) Institute of Chartered Accountants of India
  - (d) MCA
2. Accounting Standards **[SM]**
  - (a) Harmonise accounting policies and eliminate the non-comparability of financial statements
  - (b) Improve the reliability of financial statements
  - (c) Both (a) and (b)
  - (d) manipulate the data for the management
3. It is essential to standardize the accounting principles and policies in order to ensure **[SM]**
  - (a) Transparency
  - (b) Consistency
  - (c) Comparability
  - (d) All the above
4. Which committee is responsible for approval of accounting standards and their modification for the purpose of applicability to companies? **[SM]**
  - (a) NFRA
  - (b) MCA
  - (c) Central Government Advisory Committee
  - (d) IASB
5. Global Standards facilitate **[SM]**
  - (a) Cross border flow of money
  - (b) Comparability of financial statements
  - (c) Uniformity and Transparency of financial statements
  - (d) All the three
6. Non-corporate entities which are not large entities whose turnover (excluding other income) does not exceeds rupees \_\_\_\_\_ in the preceding accounting year are classified as MSME entities. **[SM]**
  - (a) 250 crores
  - (b) 50 crores
  - (c) 10 crores
  - (d) 2 crores

## Introduction and Applicability of Accounting Standards

7. The following AS is not applicable to Non-corporate Entities falling in MSMSE in its entirety **[SM]**
- (a) AS 10
  - (b) AS 17
  - (c) AS 2
  - (d) AS 13
8. All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as **[SM]**
- (a) MSME
  - (b) Large entity
  - (c) SMC
  - (d) Non-SMC
9. All non-corporate entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees ten crores at any time during the immediately preceding accounting year. **[SM]**
- (a) MSME
  - (b) Large entity
  - (c) SMC
  - (d) Non-SMC
10. "Small and Medium Sized Company" (SMC) means, a company- **[SM]**
- (a) which may be a bank, financial institution or an insurance company.
  - (b) whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
  - (c) whose turnover (excluding other income) does not exceed rupees fifty crores in the immediately preceding accounting year;
  - (d) whose turnover (excluding other income) does not exceed rupees five hundred crores in the immediately preceding accounting year.

### Answer Key

1	2	3	4	5	6	7	8	9	10
c	c	d	b	d	a	b	b	a	b

# CHAPTER - 2

## Framework for Preparation and Presentation of FS

### GENERAL MCQs

1. The 'going concern' concept assumes that **[SM]**
  - (a) The business can continue in operational existence for the foreseeable future
  - (b) The business cannot continue in operational existence for the foreseeable future
  - (c) The business is continuing to be profitable
  - (d) The business cannot continue if it is not able to earn profits
2. Two principal qualitative characteristics of financial statements are **[SM]**
  - (a) Understandability and materiality
  - (b) Relevance and reliability
  - (c) Relevance and materiality
  - (d) Comparability and materiality
3. All of the following are components of financial statements except **[SM]**
  - (a) Balance sheet
  - (b) Statement of Profit and loss
  - (c) Human responsibility report
  - (d) Social responsibility report
4. An accounting policy can be changed if the change is required **[SM]**
  - (a) By statute or accounting standard
  - (b) For more appropriate presentation of financial statements
  - (c) Both (a) and (b)
  - (d) By statute as well as accounting standards
5. Value of equity may change due to **[SM]**
  - (a) Contribution from or Distribution to equity participants
  - (b) Income earned
  - (c) Expenses incurred
  - (d) All the three

### Answer Key

1	2	3	4	5
A	b	c	c	d

# CHAPTER – 3

## AS 1: Disclosure of Accounting Policies

### GENERAL MCQs

- Which of the following is not a major consideration in selection of accounting policies? **[SM]**
  - Prudence
  - Comparability
  - Materiality
  - Substance over form
- Adoption of different accounting policies by different companies operating in the same industry affects which of the qualitative characteristics the most? **[SM]**
  - Comparability
  - Relevance
  - Faithful representation
  - Reliability
- Which of the following statement would not be correct in relation to disclosures to be made in the financial statements after making any change in an accounting policy? **[SM]**
  - Any change in an accounting policy which has a material effect should be disclosed
  - The amount by which any item in the financial statements is affected by such change should be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated
  - If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted
  - If a change is made in an accounting policy which has material effect on the financial statements for the current period and is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed only in the later periods i.e. year(s) next to the year in which the change is adopted
- In the books of Modi 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? **[Booklet/RTP Sept 25/MTP2 Sept 25]**
  - 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
  - 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

## AS 1: Disclosure of Accounting Policies

- (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 Key

1	2	3	4
b	a	d	d



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# CHAPTER – 4

## AS 2: Valuation of Inventory

### GENERAL MCQs

- Which item of inventory is under the scope of AS 2 (Revised)? **[SM]**
  - WIP arising under construction contracts
  - Raw materials
  - Shares
  - Debentures held as stock in trade.
- Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be **[SM]**
  - Sold at or above cost
  - Sold above cost
  - Sold less than cost
  - Sold at market value (where market value is more than cost)
- All of the following costs are excluded while computing inventory value except? **[SM/MTP1 May 24]**
  - Selling and Distribution costs
  - Allocated fixed production overheads based on normal capacity
  - Abnormal wastage
  - Storage costs (which is not necessary part of the production process)
- Identify the statement(s) which is/are incorrect. **[SM]**
  - Storage costs which is a necessary part of the production process is included in inventory valuation
  - Administration overheads are never included in inventory valuation
  - Full amount of variable production overheads incurred are included in inventory valuation
  - Administration overheads are always included in inventory valuation
- In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Which of the following is not an example of such costs: **[MTP 1 Sept 24]**
  - Abnormal amounts of wasted materials, labour, or other production costs
  - Storage costs, unless the production process requires such storage
  - Raw Material cost
  - Selling and distribution costs
- The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula **[MTP 2 Sept 24]**
  - By specific identification of their individual costs
  - First-in, First-out (FIFO) Method
  - Weighted average cost formula
  - The formula used should reflect the fairest possible approximation to the cost incurred in bringing

the items of inventory to their present location and condition

7. Most by-products as well as scrap or waste materials, by their nature, are immaterial. Thus, these are measured at: **[RTP May 25]**
- (a) Cost
  - (b) Cost or Net Realisable Value whichever is lower
  - (c) Nil
  - (d) Net realisable value
8. As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following: **[RTP Sept 24/MTP2 May 25]**
- (a) Secondary Packing material required for transporting and forwarding the material
  - (b) Spare parts, servicing equipment and standby equipment
  - (c) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.
  - (d) Publicity material
9. On 31st March 2024, Sri Radhey shyam Enterprise finds that the cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2024-25 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 8% brokerage on the selling price.
- Sri Radhey shyam Enterprise seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2024 for preparation of final accounts. The partly finished unit cannot be sold in semi- finished form and its NRV is zero without processing it further. **[MTP2 Jan 25]**
- (a) ₹ 470
  - (b) ₹ 380
  - (c) ₹ 500
  - (d) ₹ 440

**Answer Key**

1	2	3	4	5	6	7	8	9
b	a	b	d	c	a	d	c	b

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [Booklet/MTP2 Sept 24]**

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:

- 1.1 What will be the cost of material:
- (a) ₹ 36,00,000  
 (b) ₹ 34,00,000  
 (c) ₹ 39,00,000  
 (d) ₹ 31,00,000
- 1.2 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
- 1.3 What will be the cost per Kg of raw material:
- (a) ₹ 180  
 (b) ₹ 183.6  
 (c) ₹ 185.5  
 (d) ₹ 189.4
- 1.4 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

**Answer Key**

1.1	1.2	1.3	1.4
a	d	c	c

**Detailed Solution**

**Question 9**

	₹
Selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (8% of 750)	(60)
<b>Net Realisable Value</b>	<b>380</b>
Cost of inventory	530
<b>Value of inventory (Lower of cost and net realisable value)</b>	<b>380</b>

**Case Scenario 1**

	₹
Purchase price (20,000 Kg. x ₹ 170)	34,00,000
Less: Input Tax Credit (20,000 Kg. x ₹ 15)	(3,00,000)
	31,00,000
Add: Direct transit cost	5,00,000
Total material cost <b>[1.1]</b>	<b>36,00,000</b>
Number of units normally received = 97% of 20,000 Kg.	19,400 Kg.
Normal cost per Kg. [36,00,000/19,400 Kg] <b>[1.3]</b>	<b>185.5</b>
Closing Stock Cost [19,000 – 17,600] x 185.5 <b>[1.2]</b>	<b>2,59,700</b>
Value of abnormal loss [19,400 – 19,000] x 185.5 <b>[1.4]</b>	<b>74,200</b>



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# CHAPTER – 5

## AS 3: Cash Flow Statement

### GENERAL MCQs

1. Crown Ltd. wants to prepare its cash flow statement. It sold equipment of book value of ₹ 60,000 at a gain of ₹ 8,000. The amount to be reported in its cash flow statement under operating activities is **[SM]**
  - (a) Nil
  - (b) ₹ 8,000
  - (c) ₹ 68,000
  - (d) ₹ 60,000
2. While preparing cash flows statement, an entity (other than a financial institution) should disclose the dividends received from its investment in shares as **[SM]**
  - (a) Operating cash inflow
  - (b) Investing cash inflow
  - (c) Financing cash inflow
  - (d) Cash & cash equivalent
3. XYZ Co. is a financial enterprise, in its CFS, interest paid and dividends received should be **[SM]**
  - (a) Classified as operating cash flow
  - (b) Classified as financing cash flows
  - (c) Not shown in cash flow statement
  - (d) Classified as investing cash flows
4. In the cash flow statement, 'cash and cash equivalents' do not include **[SM]**
  - (a) Bank balances
  - (b) Short-term investments readily convertible into Cash are subject to an insignificant risk
  - (c) Cash balances
  - (d) Loan from bank
5. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the "Cash flow from Operating activities"? **[SM]**
  - (a) Interest income
  - (b) Gain on sale of a fixed asset
  - (c) Depreciation
  - (d) Gain on sale of inventory
6. While preparing cash flow statement, conversion of debt to equity **[SM]**
  - (a) Should be shown as a financing activity
  - (b) Should be shown as an investing activity
  - (c) Should not be shown as it is a non-cash transaction
  - (d) Should not be shown as operating activity

7. Which of the following would be considered a 'cash-flow item from an "investing" activity'? **[SM]**
- (a) Cash outflow to the government for payment of taxes
  - (b) Cash outflow to purchase bonds issued by another company
  - (c) Cash outflow to shareholders as dividends
  - (d) Cash outflow to make payment to trade payables
8. All of the following would be included in a company's operating activities except: **[SM]**
- (a) Income tax payments
  - (b) Collections from customers or Cash payments to suppliers
  - (c) Dividend payments
  - (d) Office and selling expenses
9. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm? **[SM]**
- (a) Operating Activities
  - (b) Investing Activities
  - (c) Financing Activities
  - (d) Non-cash transaction
10. As per AS 3 cash received by a manufacturing company from sale of shares of ABC Ltd. should be **[SM]**
- (a) Operating activity
  - (b) Financing activity
  - (c) Investing activity
  - (d) Non-cash transaction
11. How the dividend paid by the Company is disclosed in the Cash Flows Statement: **[MTP 2 Jan 25]**
- (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
12. XYZ Co. Ltd is a financial institution and has given loans and advances to its subsidiary and earned interest of Rs. 5 lacs on that loan. Interest earned by XYZ Co. Ltd is shown as **[Portal]**
- (a) Operating cash flow
  - (b) Investing cash flow
  - (c) Financing cash flow
  - (d) Cash and cash equivalent
13. Which of the following items is not considered as cash or cash equivalent? **[Portal]**
- (a) Cash on hand
  - (b) Cash at Bank
  - (c) Securities deposits for 4 months
  - (d) Investments with a maturity of two months from the date of acquisition

## Answer Key

1	2	3	4	5	6	7	8	9	10	11	12	13
a	b	a	d	d	c	b	c	a	c	c	a	c

**CASE SCENARIO BASED MCQs****Case Scenario 1 [Booklet/SA Sept 24]**

Jay Ltd. submits the following data extracted from the Final Accounts as on 31 March, 2023:	₹
Equity Share Capital 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 31 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.
- Taxation liability is settled at ₹ 14,000.
- A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.
- Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.
- 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 Question

1.1 The amount of Cash Flow from operating activity is:

- ₹ 2,000
- ₹ 5,000

- (c) ₹ 12,000  
(d) ₹ 15,000
- 1.2 The amount of Cash Flow from investing Activity is  
(a) ₹ 28,000  
(b) ₹ 25,000  
(c) ₹ 15,000  
(d) ₹ 22,000
- 1.3 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
- 1.4 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



**Answer Key**

1.1	1.2	1.3	1.4
b	d	a	c

**Case Scenario 2 [SA Jan 25]**

The following summary cash account has been extracted from the Next space Limited's accounting records:

		₹
Cash Balance as on 01-04-2023		72,000
Cash Sales	15,56,000	
Trade Receivable	7,40,000	
Rent from Property held as investment	64,000	
Income tax refund	25,000	
Loan from Bank	5,00,000	
Issue of Shares	2,50,000	
Sale of Investment	49,500	31,84,500
<b>Outflow of Cash</b>		
Trade Payable	19,60,000	
Office and Selling Exp.	1,20,000	
Trade Commission	40,500	
Underwriting Commission	25,000	

Redemption of Preference shares	8,00,000	
Brokerage on Sale of Investment	9,200	
Interest on long term borrowings	85,600	
Payment for Overheads	46,000	
Purchases of Goodwill	50,000	(31,36,300)
Balance as on 31-03-24		1,20,200

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

2.1 What would be the value of Cash Flow from Operating Activities?

- (a) ₹ 1,29,500
- (b) ₹ 1,54,500
- (c) ₹ 1,45,300
- (d) ₹ 4,04,000

2.2 What would be the value of Cash Flow from Investing Activities?

- (a) ₹ 54,300
- (b) ₹ 1,04,300
- (c) ₹ 29,300
- (d) ₹ (500)

2.3 What would be the value of Cash Flow from Financing Activities?

- (a) ₹ (50,000)
- (b) ₹ (1,35,600)
- (c) ₹ 54,300
- (d) ₹ (1,60,600)

2.4 Which of the following would be considered as a 'Cash Flow item from an Investing Activities?

- (a) Underwriting Commission
- (b) Trade Commission
- (c) Purchase of Goodwill
- (d) Interest on Long Term Borrowings

**Answer Key**

2.1	2.2	2.3	2.4
b	a	d	c

**Case Scenario 3 [Booklet/MTP2 May 24]**

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. Based on the above information, answer the following questions.

- 3.1 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:
- Cash Flow from Operating Activities
  - Cash Flow from Investing Activities
  - Cash Flow from Financing Activities
  - Non-cash Items
- 3.2 In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
- Cash Flow from Operating Activities
  - Cash Flow from Investing Activities
  - Cash Flow from Financing Activities
  - Non-cash Items
- 3.3 In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
- Cash Flow from Operating Activities
  - Cash Flow from Investing Activities
  - Cash Flow from Financing Activities
  - Non-cash Items
- 3.4 In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year is disclosed as:
- Cash Flow from Operating Activities
  - Cash Flow from Investing Activities
  - Cash Flow from Financing Activities
  - Non-cash Items

**Answer Key**

3.1	3.2	3.3	3.4
a	a	b	a

**Case Scenario 4 [Booklet/ MTP1 Sept 24]**

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.

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

- (a) ₹ 10 lakhs as '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 'Investing Activities' as entire amount is spend on purchase of machinery.
- (c) ₹ 10 lakhs as 'Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
- (d) ₹ 10.30 lakhs as 'Financing Activities' as the machinery has been purchased on finance.
- 4.2 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
- 4.3 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
- 4.4 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

**Answer Key**

4.1	4.2	4.3	4.4
c	d	b	b

**Detailed Solution**

**Case Scenario 1**

Interest is received on advances given to suppliers of goods	₹ 3,000
Collection from debtor (40,000 × 40%)	₹ 16,000
Taxation liability paid	<u>(₹ 14,000)</u>
<b>Operating Activity [1.1]</b>	<b>₹ 5,000</b>
Dividend received on investment (10,000 equity share × 1)	₹ 10,000
Sale of plant and machinery (₹ 15,000 – ₹ 3,000)	<u>₹ 12,000</u>
<b>Investing Activity [1.2]</b>	<b>₹ 22,000</b>
Opening balance	₹ 65,500
Add:	
Interest received	3,000
Issue of share for cash	₹ 1,00,000

### AS 3: Cash Flow Statement

Collection from debtor	₹ 16,000
Dividend received	₹ 10,000
Sale of machinery	<u>₹ 12,000</u>
	₹2,06,500
Less: Tax paid	<u>(₹ 14,000)</u>
<b>Closing cash and cash equivalent [1.3]</b>	<b>₹1,92,500</b>
<b>Alternative solution</b>	
Opening balance	₹ 65,500
Inflow by operating activity	₹ 5,000
Inflow by investing activity	₹ 22,000
Inflow by financing activity (issue of shares for cash)	<u>₹ 1,00,000</u>
<b>Closing cash and cash equivalent [1.3]</b>	<b>₹1,92,500</b>

Opening balance	₹ 5,00,000
Less: 40% give up in exchange of debentures	(₹ 2,00,000)
Add:	
Issued to debenture holders	₹ 1,50,000
Issue of share for cash	<u>₹ 1,00,000</u>
<b>Closing Share capital [1.3]</b>	<b>₹ 5,50,000</b>

#### Case Scenario 2

Cash sales	15,56,000	
Cash receipts from Trade Receivable	7,40,000	
Trade Payable	(19,60,000)	
Office and Selling Exp.	(1,20,000)	
Trade Commission	(40,500)	
Payment for Overheads	(46,000)	
Income tax refund	25,000	
<b>Net cash from operating activities [2.1]</b>		<b>1,54,500</b>
Rent from Property held as investment	64,000	
Brokerage on Sale of Investment	(9,200)	
Sale of Investment	49,500	
Purchases of Goodwill [2.4]	(50,000)	
<b>Net cash used in investing activities [2.2]</b>		<b>54,300</b>
Issue of Shares	2,50,000	
Loan from Bank	5,00,000	
Underwriting Commission	(25,000)	
Redemption of Preference shares	(8,00,000)	
Interest on long term borrowings	(85,600)	
<b>Net cash used in financing activities [2.3]</b>		<b>(1,60,600)</b>

**Case Scenario 3 Booklet/MTP2 May 24 [AS 3]**

As per Para 30 of AS 3 Cash flows arising from **interest paid and interest and dividends received** by a **financial enterprise** should be classified as cash flows arising from **operating activities** [3.1] & [3.2]

As per para 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. [3.3]

Here, no information is provided as to which activity the tax belongs so it will be disclosed as cash flow from operating activities [3.4]

**Case Scenario 4 Booklet/ MTP1 Sept 24 [AS 3]**

As per AS 3, **Interest paid**  $[5,000 \times 6] = 30,000$  [4.1] for acquiring fixed asset under instalment basis should be presented as **financing activities** and Principal sum payment  $[4,00,000 + 6,00,000] = 10,00,000$  for acquisition of fixed assets should be presented as **investing activities**. [4.1] & in such case asset is **recognised at principal amount i.e. 10,00,000 only unless it is qualifying asset** [4.2]

The **sale of PPE is cash flow from investing** activities and accordingly, tax paid on same should be disclosed as **investing** activities. [4.3]

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. [4.4]



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# CHAPTER - 6

## AS 4: Contingencies and Events Occurring After the Balance Sheet Date

### GENERAL MCQs

1. As per Accounting Standards, events occurring after the balance sheet date are **[SM]**
  - (a) Only favourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors
  - (b) Only unfavourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors
  - (c) 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
  - (d) Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are not approved by the Board of directors
2. AS 4 does not apply to **[SM]**
  - (a) Obligation under retirement benefit plans
  - (b) Commitments arising from long term lease contracts
  - (c) Liabilities of life assurance and general insurance enterprises arising from policies issued
  - (d) All of the above
3. Sahil Ltd agreed to sell its factory in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all risks and rewards of ownership) on 1.2.2024. But transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized? **[MTP2 May 24]**
  - (a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024
  - (b) Both sale and gain should be recognized on 30.5.2024
  - (c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024
  - (d) Both sale and gain should be recognized on 4.12.2023
4. Cash amounting to ₹ 4 lakhs, stolen by the cashier in the month of March 20X1, was detected in April, 20X1. The financial statements for the year ended 31st March, 20X1 were approved by the Board of Directors on 15th May, 20X1. As per Accounting Standards, this is for the financial statement's year ended on 31st March, 20X1. **[SM]**
  - (a) An Adjusting event
  - (b) Non-adjusting event
  - (c) Contingency
  - (d) Provision

## AS 4: Contingencies and Events Occurring After the Balance Sheet Date

5. A Ltd. sold its building for ₹ 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is ₹ 30 lakhs. As on 31st March, 20X1, the documentation and legal formalities are pending. For the financial year ended 31st March, 20X1 [SM]
- (a) The company should record the sale
  - (b) The company should recognise the profit of ₹ 20 lakhs in its profit and loss account
  - (c) Both (a) and (b)
  - (d) The company should disclose the profit of ₹ 20 lakhs in notes to accounts

### Answer Key

1	2	3	4	5
c	d	a	a	c

### CASE SCENARIO BASED MCQs

#### Case Scenario 1 [Booklet]

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.
- 1.1 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
- 1.2 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

## AS 4: Contingencies and Events Occurring After the Balance Sheet Date

- 1.3 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
- 1.4 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
- 1.5 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.

### Answer Key

1.1	1.2	1.3	1.4	1.5
a	c	c	b	b

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# CHAPTER - 7

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

### GENERAL MCQs

1. A change in the estimated life of the asset, which necessitates adjustment in the depreciation is an example of **[SM]**
  - (a) Prior period item
  - (b) Ordinary item
  - (c) Extraordinary item
  - (d) Change in accounting estimate
2. Which of the following is considered as an extraordinary item as per AS 5? **[SM]**
  - (a) Write down or write-off of receivables, inventory and intangible assets
  - (b) Gains and losses from sale or abandonment of equipment used in a business
  - (c) Effects of a strike, including those against competitors and major suppliers
  - (d) Flood damage from unusually heavy rain or a normally dry environment
3. Which one of the following is an example of extraordinary item? **[SM]**
  - (a) The write down of inventories to their net realisable value
  - (b) Reversal of write down of inventories
  - (c) Government grants become refundable
  - (d) Reversal of provisions
4. Extraordinary items are income or expenses **[SM]**
  - (a) That arise from events clearly distinct from the ordinary activities of the enterprise
  - (b) That are not expected to recur frequently or regularly
  - (c) Both (a) and (b)
  - (d) None of the three
5. An audit stock verification during the year ended 31st March, 20X1 revealed that opening stock of the year was understated by ₹ 5 lakhs due to wrong counting. Your opinion will be **[SM]**
  - (a) It is not a prior period item and no separate disclosure is required
  - (b) It is as a prior period item and separately disclosed in the current year's financial statement
  - (c) The adjustment of ₹ 5 lakhs in both opening stock of current year and profit brought forward from previous year should be made
  - (d) Both (b) and (c)

### Answer Key

1	2	3	4	5
d	d	c	c	d

# CHAPTER - 8

## AS 7: Construction Contracts

### GENERAL MCQs

1. When fixed-price construction contracts require more than one accounting period for completion, and the contract costs can be reasonably estimated, revenue should be recognized [**Portal**]
- (a) When title to the project is transferred to the buyer  
(b) As per percentage of completion  
(c) At the completion of contract  
(d) When cash is received from the buyer
2. LP Contractors undertakes a fixed price contract of ₹ 200 lakh. Transactions related to the contract include:
- Material purchased: ₹ 80 lakh  
Unused material: ₹ 30 lakh  
Labour charges: ₹ 60 lakh
- Machine used for 3 years for the contract. Original cost of the machine is ₹ 100 lakh. Expected useful life is 15 years. Estimated future costs to be incurred to complete the contract: ₹ 80 lakh. Loss on contract to be recognised is: [**SM**]
- (a) ₹ 40 lakh  
(b) ₹ 10 lakh  
(c) ₹ 90 lakh  
(d) ₹ 50 lakh
3. AB Contractors undertakes a fixed price contract of ₹ 350 Lakhs. Information related to contract is given as under:
- Material purchased ₹ 125 lakhs  
Labour charges ₹ 95 lakhs  
Unused material ₹ 22 lakhs  
Estimated future costs to be incurred to complete the contract ₹ 115 Lakhs  
Payment received as part payment of contract ₹ 50 Lakhs
- Machinery used for 4 years for the contract. Original cost of the machine is ₹ 210 Lakhs. Expected life of machinery is 20 years. What will be the Profit/Loss on the contract? [**SA Jan 25**]
- (a) Loss on contract ₹ 5 lakhs  
(b) Loss on contract ₹ 49 Lakhs  
(c) Profit on contract ₹ 45 Lakhs  
(d) Profit on contract ₹ 26.5 Lakhs

### Answer Key

1	2	3
b	b	a

**CASE SCENARIO BASED MCQs****Case Scenario 1 [SM]**

M/s AV has presented the information for Contract No. XY123:

Total contract value	₹ 370 lakh
Certified work completed	₹ 320 lakh
Costs incurred to date	₹ 360 lakh
Progress Payments received	₹ 300 lakh

Expected future costs to be incurred ₹ 50 lakh. The revenue to be recognised based on the certified work completed.

1.1 Revenue to be recognised by M/s AV is

- (a) ₹ 320 lakh
- (b) ₹ 370 lakh
- (c) ₹ 360 lakh
- (d) ₹ 400 lakh

1.2 Total expense to be recognised by M/s AV is

- (a) ₹ 380 lakh
- (b) ₹ 400 lakh
- (c) ₹ 320 lakh
- (d) ₹ 360 lakh

**Answer Key**

<b>1.1</b>	<b>1.2</b>
a	d

**Case Scenario 2 [SM]**

XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 20X1. The expected completion time is 3 years. XY Ltd. incurred a cost of ₹ 30 lakh up to 31st March 20X2. It is expected that additional costs of ₹ 90 lakh. Total contract value is ₹ 112 lakh. As at 31st March 20X2, XY Ltd. has billed GH Ltd. for ₹ 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

2.1 Revenue to be recognized by XY Ltd. for the year ended 31st March 20X2 is

- (a) ₹ 28 lakh
- (b) ₹ 42 lakh
- (c) ₹ 30 lakh
- (d) ₹ 32 lakh

2.2 Total expense to be recognised in Year 1 is

- (a) ₹ 30 lakh
- (b) ₹ 120 lakh
- (c) ₹ 38 lakh

(d) ₹ 36 lakh

2.3 Revenue to be recognised for year 2 is

(a) ₹ 84 lakh

(b) ₹ 42 lakh

(c) ₹ 56 lakh

(d) ₹ 28 lakh

**Answer Key**

2.1	2.2	2.3
a	d	c

**Case Scenario 3 [SA May 25]**

Gray Ltd. is engaged in the business of constructing towers since 15 years. Alpha Ltd gave a contract to Gray Ltd. for construction of 2 towers.

Contract price for 2 towers is agreed at ₹ 160 crore. (each tower has contract price of ₹ 80 crore)

At the time of contract, Gray Ltd has estimated that the contract cost will be ₹ 141 crore. It is assumed that construction will be completed in 3 years.

At the end of year 1, Gray Ltd has revised the construction cost to ₹ 150 crore.

At the beginning of year 2, the customer has requested for a variation in the contract. Customer now wants construction of 3 towers instead of 2 towers. The term of the contract will not change, construction of all the towers will be completed simultaneously.

As a result of this variation, contract price will increase by ₹ 80 crore and contract costs will increase by ₹ 75 crore.

Gray Ltd has decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs.

Contract costs incurred at the end of each year is:

Year 1: ₹ 35.25 crore.

Year 2: ₹ 148.5 crore (including unused material of ₹ 2.25 crore)

Year 3: Total Revised contract costs.

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

3.1 What is the stage of completion of contract on the basis of proportion of contract costs incurred to the total estimated contract costs at the end of year 1 and Year 2 respectively?

(a) Year 1: 23.5 % and Year 2: 66%

(b) Year 1: 23.5 % and Year 2: 65%

(c) Year 1: 25 % and Year 2: 66%

(d) Year 1: 25 % and Year 2: 65%

- 3.2 What is the amount of the profit to be recognized at the end of Year 1?
- (a) ₹ 2.35 crore  
 (b) ₹ 44.75 crore  
 (c) ₹ 4.75 crore  
 (d) ₹ 21 crore
- 3.3 What is the amount of contract revenue recognized in each year of contract?
- (a) Year 1: ₹ 80 crore, Year 2: ₹ 80 crore and Year 3: ₹ 80 crore  
 (b) Year 1: ₹ 40 crore, Year 2: ₹ 116 crore and Year 3: ₹ 84 crore  
 (c) Year 1: ₹ 37.60 crore, Year 2: ₹ 118.40 crore and Year 3: ₹ 84 crore  
 (d) Year 1: ₹ 37.60 crore, Year 2: ₹ 120.80 crore and Year 3: ₹ 81.60 crore

### Answer Key

3.1	3.2	3.3
b	a	c

### Case Scenario 4 [Booklet]

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.

- 4.1 What is the total contract revenue excluding variations and claims?
- (a) ₹ 5 crore  
 (b) ₹ 5.40 crore  
 (c) ₹ 5.70 crore

- (d) ₹ 6.20 crore
- 4.2 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.
- 4.3 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
- 4.4 How 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.

### Answer Key

4.1	4.2	4.3	4.4
d	b	c	c

### Detailed Solution

#### Question 2

	₹
Material Consumed [80 - 30]	50
Labour	60
Depercaition of 3 years [100/15 years x 3 years]	20
Cost so far	130
Further estimated cost to complete	80
Total estimated cost	210
Total Contract revenue	(200)
<b>Total estimated loss to be recognized immediately</b>	<b>10</b>

#### Case Scenario 1

It is specifically given that revenue to be recognized on the basis of the certified work completed i.e. 320 Lakhs [1.1] & in such case total expense to be recognized will be equal to cost incurred till date i.e. 360 Lakhs [1.2]

**Case Scenario 2**

	₹ in Lakhs
Cost incurred so far	30
Add: Estimated future cost	90
Total estimated cost of construction	120
Contract Price	(112)
Total expected loss at end of year 1	8

Percentage of completion till date to total estimated cost of construction =  $(30/120) \times 100 = 25\%$

Revenue and Profit to be recognized for the year ended 31<sup>st</sup> March, 20X2 = ₹ 112 x 25% = ₹ 28 Lakh [2.1]

**P&L [Contract A/c]**

To contract cost	30	By Contract revenue	28
To Provision	6	By Net loss	8

Total cumulative revenue [₹ 112 x 75%]	84
Less: already	28
Revenue of year 2 [2.3]	56

**Case Scenario 3**

	(₹ in crore)		
	Year 1	Year 2	Year 3
Initial revenue agreed	160	160	160
Increase in contract revenue	-	80	80
Total Contract Value	160	240	240
Cost incurred upto reporting date	35.25	146.25*	225
Total estimated contract	150	225(150 + 75)	225
<b>Stage of Completion [3.1]</b> [[d/f] x 100]	<b>23.5%</b> (35.25/150 x 100)	<b>65%</b> (146.25/225 x 100)	100% (225/225 x 100)

\* Note: ₹ 2.25 crore, for material stored at the sites to be used in its 3 year. i.e. in II<sup>nd</sup> year it is already included so it will be deducted in II year only.

	₹ in crore		
	Year 1	Year 2	Year 3
<b>Contract Revenue (1) [3.3]</b>	<b>37.60</b> (160 x 23.5%)	<b>118.40</b> (240 x 65% - 37.60)	<b>84.00</b> (240 x 100% - 118.40 - 37.60)
Contract Cost (2)	35.25	111 (146.25 - 35.25)	78.75 (225 - 111 - 35.25)
<b>Contract Profit (1) - (2)</b>	<b>2.35 [3.2]</b>	7.40	5.25

**Case Scenario 4**

	₹ in crore
Fixed Price	5.00
Incentive for early completion	0.50
Material costs recovery (to the extent of 20%)	0.40
Labour costs recovery (Actual increase is less than 30%) [1.20 crore x 25%]	0.30
<b>[4.1]</b>	<b>6.20</b>
Add: Variation to the contract	1.00
Add: Claims recoverable from XY	0.20
Total Contract Revenue <b>[4.3]</b>	<b>7.40</b>



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# CHAPTER - 9

## AS 9: Revenue Recognition

### GENERAL MCQs

1. Which of the following transactions qualify as revenue for M/s AB Enterprises? **[SM]**
  - (a) Sales of ₹ 20 lakhs made under consignment sales
  - (b) Sale of an old machine amounting ₹ 5 lakhs
  - (c) Services provided to the customer in the normal course of business. Sales recorded is ₹ 50,000
  - (d) Sales of ₹ 25 lakhs made under consignment sales
2. Consignment inventory is an arrangement whereby inventory is held by one party but owned by another party. Which of the following indicates that the inventory in question is a consignment inventory? **[SM]**
  - (a) Manufacturer cannot require the dealer to return the inventory
  - (b) Dealer has the right to return the inventory
  - (c) Manufacturer is responsible for the pricing of goods and any changes in the pricing can only be approved by the manufacturer
  - (d) Manufacturer is responsible for the holding the goods and any changes in the pricing can only be approved by the dealer
3. Which of the conditions mentioned below must be met to recognize revenue from the sale of goods? **[SM]**
  - (i) The entity selling does not retain any continuing influence or control over the goods
  - (ii) When the goods are dispatched to the buyer
  - (iii) Revenue can be measured reliably
  - (iv) The supplier is paid for the goods
  - (v) It is reasonably certain that the buyer will pay for the goods
  - (vi) The buyer has paid for the goods
  - (a) (i), (ii) and (v)
  - (b) (ii), (iii) and (iv)
  - (c) (i), (iii) and (v)
  - (d) (i), (iv) and (v)
4. The Accounting Club has 100 members who are required to pay an annual membership fee of ₹ 5,000 each. During the current year, all members have paid the fee. However, 5 members have paid an amount of ₹ 10,000 each. Of these, 3 members paid the current year's fee and also the previous year's dues. Remaining 2 members have paid next years' fee of ₹ 5,000 in advance. Revenue from membership fee for the current year to be recognised will be: **[SM]**
  - (a) ₹ 5,25,000
  - (b) ₹ 5,10,000
  - (c) ₹ 5,00,000
  - (d) ₹ 5,15,000

5. FlixNet International offers a subscription fee model to allow the paid subscribers an annual viewing of movies, sports events and other content. It allows users to register for free and have access to limited content for one month without any charges. The customer has a right to cancel the subscription within a month's time but is required to pay for 1 year subscription fee after the free period.

XY has subscribed for free viewing on 1st March 20X1. After 1 month, he has agreed to pay the annual membership and has paid ₹ 1,200 on 31st March 20X1 for the subscription that is valid up to 31st of March 20X2.

Revenue that can be recognized by FlixNet for the year ended 31st March 20X2 is **[SM]**

- (a) ₹ 100
- (b) ₹ 1,200
- (c) Nil
- (d) ₹ 1,100

**Answer Key**

1	2	3	4	5
c	c	a	c	b

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [Booklet/RTP Sept 24]**

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.

- 1.1 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
- 1.2 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

- 1.3 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
- 1.4 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

**Answer Key**

1.1	1.2	1.3	1.4
b	a	b	b

**Detailed Solution**

**Question 4**

Revenue from membership fee for the current year [100 x 5,000]	5,00,000
--	----------

**Question 5**

Revenue that can be recognized by FlixNet for the year ended 31st March 20X2	1,200
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**Case Scenario 1**

Revenue should be recognised by the Company as on March 31, 2024: [45,000 – 1,000 – 500] x 5 <b>[1.1]</b>	2,17,500
Revenue should be recognised by the Company in the financial year 2024-25 [1,000 x 5] <b>[1.2]</b>	5,000

# CHAPTER - 10

## AS 10: Property, Plant and Equipment (PPE)

### GENERAL MCQs

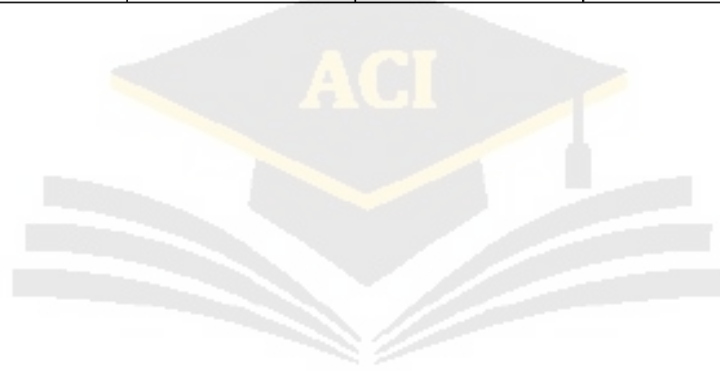
- As per AS 10 which of the following costs is not included in the carrying amount of an item of PPE [SM]
  - Costs of site preparation
  - Costs of relocating
  - Installation and assembly costs.
  - initial delivery and handling costs
- As per AS 10 an enterprise holding investment properties should value Investment property [SM]
  - As per fair value
  - Under discounted cash flow model
  - Under cost model
  - Under cash flow model
- On sale of an asset which was revalued upwards, what will be treatment of Revaluation Reserve? [SM]
  - The Revaluation Reserve is credited to P/L since the profit on sale of such asset is now realized
  - The Revaluation Reserve is credited to Retained Earnings as a movement in reserves without impacting the P/L
  - No change in Revaluation Reserve since profit on sale of such asset is already impacting the P/L
  - The Revaluation Reserve is reduced from the asset value to compute profit or loss
- A machinery was purchased having an invoice price ₹ 1,18,000 (including GST ₹ 18,000) on 1 April 20X1. The GST amount is available as input tax credit. The rate of depreciation is 10% on SLM basis. The depreciation for 20X2 -X3 would be [SM]
  - ₹ 10,000.
  - ₹ 11,800.
  - ₹ 9,000.
  - ₹ 10,500.
- A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of ₹ 1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation? [SM]
  - Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to P/L
  - Initial upward valuation of ₹ 50,000 credited to P/L. Subsequent downward revaluation of ₹ 20,000 debited to P/L
  - Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to Revaluation Reserve
  - Initial upward valuation of ₹ 50,000 debited to P/L. Subsequent downward revaluation of ₹ 20,000 credited to P/L

## AS 10: Property, Plant and Equipment (PPE)

6. A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 90,000 at the end of Year 2. Subsequently, due to increase in market values, the land was determined to have a fair value of ₹ 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation? [SM]
- (a) Initial downward valuation of ₹ 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of ₹ 15,000 credited to P/L
- (b) Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 15,000 credited to P/L
- (c) Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 10,000 credited to P/L and ₹ 5,000 credited to Revaluation Reserve
- (d) Initial downward valuation of ₹ 10,000 credited to P/L. Subsequent upward revaluation of ₹ 10,000 debited to P/L and ₹ 5,000 debited to Revaluation Reserve

### Answer Key

1	2	3	4	5	6
b	c	b	a	c	c



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# CHAPTER - 11

## AS 11: The Effects of Changes in Foreign Exchange Rates

### GENERAL MCQs

- As per AS 11 assets and liabilities of non-integral foreign operations should be converted at rate [SM]
  - Opening
  - Average
  - Closing
  - Transaction
- The debit or credit balance of "Foreign Currency Monetary Item Translation Difference Account" [SM/RTP Jan 25]
  - Is shown as "Miscellaneous Expenditure" in the Balance Sheet
  - Is shown under "Reserves and Surplus" as a separate line item
  - Is shown as "Other Non-current" in the Balance Sheet
  - Is shown as "Current Assets" in the Balance Sheet
- If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at [SM]
  - Average exchange rate
  - Closing exchange rate
  - Exchange rate at the date of purchase of asset
  - Opening exchange rate
- Which of the following can be classified as an integral foreign operation? [SM]
  - Branch office serving as an extension of the head office in terms of operations
  - Independent subsidiary of the parent company
  - Branch office independent of the head office in terms of operational decisions
  - None of the above
- Which items should be converted to closing rate for the purposes of financial reporting? [SM]
  - Items of Property, Plant and Equipment
  - Inventory
  - Trade Payables, Trade Receivables and Foreign Currency Borrowings
  - All of the above

### Answer Key

1	2	3	4	5
c	b	c	a	c

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [Booklet/MTP1 Jan 25]**

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

- 1.1 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
- 1.2 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
- 1.3 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
- 1.4 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

**Answer Key**

1.1	1.2	1.3	1.4
c	a	b	d

**Detailed Solution**

**Case Scenario 1**

Particular	₹
Trade receivables on Balance sheet date $(7,00,000/79.4) \times 83.3$ [1.1]	7,34,383
Exchange Difference Gain = $(7,34,383 - 7,00,000)$ [1.2]	34,383
Long term Loan Balance sheet date $(10,00,000/81.1) \times 83.3$ [1.3]	10,27,127
Exchange Difference Loss = $(10,27,127 - 10,00,000)$ [1.4]	27,127

# CHAPTER - 12

## AS 12: Accounting for Government Grants

### GENERAL MCQs

- To encourage industrial promotion, IDCI offers subsidy worth ₹ 50 lakhs to all new industries set up in the specified industrial areas. This grant is in the nature of promoter's contribution. How such subsidy should be accounted in the books? **[SM]**
  - Credit it to capital reserve
  - Credit it as 'other income' in the profit and loss account in the year of commencement of commercial operations
  - Both (a) and (b) are permitted
  - Credit it to general reserve
- Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be **[SM]**
  - Recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable as an ordinary item.
  - Recognised and disclosed in the Statement of Profit and Loss of the period in which the losses or expenses were incurred.
  - Recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item if appropriate as per AS 5.
  - Disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item
- Which of the following is an acceptable method of accounting presentation for a government grant relating to an asset? **[SM]**
  - Credit the grant immediately to Income statement
  - Show the grant as part of Capital Reserve
  - Reduce the grant from the cost of the asset or show it separately as a deferred income on the Liability side of the Balance Sheet
  - Show the grant as part of general Reserve
- X Ltd. has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd has a policy to recognise the grant as a deduction from the cost of the asset. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be: **[SM]**
  - ₹ 10 crore
  - ₹ 6 crore
  - ₹ 2 crore
  - ₹ 8 crore

5. X Ltd has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd. has a policy to recognise the grant as deferred income. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of other income to be to be recognised in Profit and Loss Statement will be: [SM]
- (a) ₹ 10 crore  
 (b) ₹ 6 crore  
 (c) ₹ 2 crore  
 (d) ₹ 8 crore

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	c	c	b	c

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [RTP Sept 25]**

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:

- 1.1 What is the nature of Grant being received by Surat Ltd.?
- (a) Non-Monetary Government Grant  
 (b) Grant related to specific fixed assets  
 (c) Grant related to Revenue  
 (d) Promoter's Contribution
- 1.2 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:
- (a) ₹ 4.5 crores  
 (b) ₹ 2.5 crores  
 (c) ₹ 2.4 crores  
 (d) ₹ 2 crores
- 1.3 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:
- (a) ₹ 4.5 crores  
 (b) ₹ 2.5 crores  
 (c) ₹ 2 crores  
 (d) ₹ 1 crores
- 1.4 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:
- (a) ₹ 4.5 crores  
 (b) ₹ 4.4 crores

- (c) ₹ 2.5 crores  
(d) ₹ 2 crores

### Answer Key

1.1	1.2	1.3	1.4
b	c	c	b

### Case Scenario 2 [Booklet/MTP1 Sept 24]

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:

- 2.1 The land received from Government, free of cost should be presented at:
- (a) ₹ 75 Lakhs  
(b) ₹ 30 Lakhs  
(c) ₹ 10 Lakhs  
(d) ₹ 45 Lakhs
- 2.2 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
- 2.3 As per AS 12, how the Grant of ₹ 15 Lakhs 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
- 2.4 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

### Answer Key

2.1	2.2	2.3	2.4
c	b	c	c

**Detailed Solution****Question 4**

Amount of annual depreciation $[80 - 20]/10$ years	6
--	---

**Question 5**

Deferred grant income is to be recognized in P&L $[20/10]$ years	2
--	---

**Case Scenario 1**

Amount of annual depreciation $[90 - 40 - 2]/20$ years <b>[1.2]</b>	2.4
Deferred grant income is to be recognized in P&L $[40/20]$ years <b>[1.3]</b>	2
Amount of annual depreciation $[90 - 2]/20$ years <b>[1.4]</b>	4.4



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# CHAPTER - 13

## AS 13: Accounting for Investments

### GENERAL MCQs

1. The cost of Right shares is **[SM]**
  - (a) Added to the cost of investments
  - (b) Subtracted from the cost of investments
  - (c) No treatment is required
  - (d) Added to cost of investments at market value
2. Long term investments are carried at **[SM]**
  - (a) Fair value
  - (b) Cost less 'other than temporary' decline
  - (c) Cost and market value whichever is less
  - (d) Cost and market value whichever is higher
3. Current investments are carried at **[SM]**
  - (a) Fair value
  - (b) Cost
  - (c) Cost and fair value, whichever is less
  - (d) Cost and fair value, whichever is higher
4. Cost of investment includes **[SM]**
  - (a) Purchase costs
  - (b) Brokerage and Stamp duty paid
  - (c) Both (a) and (b)
  - (d) None of the above
5. A current investment is an investment **[Portal]**
  - (a) That is readily realisable
  - (b) That is intended to be held for not more than one year from the date on which such investment is made
  - (c) Both (a) and (b)
  - (d) That is intended to be held for not more than two years from the date on which such investment is made
6. Securities held as stock-in-trade held by an entity are: **[MTP2 Sept 24]**
  - (a) Investments
  - (b) Not Investments
  - (c) May or may not be Investments
  - (d) Not an asset for entity

7. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year-end will be: **[SM]**
- (a) 2,70,000.  
 (b) 1,50,000.  
 (c) 1,20,000.  
 (d) 1,70,000.
8. Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24? **[MTP2 May 24]**
- (a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.  
 (b) The carrying amount net of expenses would be disclosed in the profit and loss account.  
 (c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.  
 (d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.
9. 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. **[RTP Sept 25/MTP1 Jan. 25/MTP1 Sept 24]**
- (a) No change is required and it will continue at ₹ 800  
 (b) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.  
 (c) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.  
 (d) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account.
10. Suman Ltd. acquired 1000 shares of Sarika Ltd @ ₹ 150 each and paid brokerage @ 1%. In the same financial year, Sarika Ltd. issued bonus shares at one share for every four shares held by shareholders. Suman Ltd. sold 500 shares in the month of March in the same year and paid 1% brokerage, what will be the carrying value of investment in Sarika Ltd after sale of shares as per AS 13. **[MTP2 May 25]**
- (a) ₹ 150000  
 (b) ₹ 113625  
 (c) ₹ 90900  
 (d) ₹ 112500

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
a	b	c	c	c	b	a	d	b	c

**CASE SCENARIO BASED MCQs****Case Scenario 1 [Booklet/MTP1 Jan 25]**

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.

- 1.1 What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
- ₹ 3,03,000
  - ₹ 2,27,250
  - ₹ 3,00,000
  - ₹ 3,30,000
- 1.2 What is the cost of bonus shares:
- ₹ 1,00,000
  - ₹ 1,10,000
  - Nil
  - ₹ 1,01,000
- 1.3 What is the profit on sale of Bonus Shares:
- ₹ 100,000
  - ₹ 75,750
  - ₹ 34,250
  - ₹ 1,01,000
- 1.4 What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
- ₹ 2,10,000
  - ₹ 2,27,250
  - ₹ 2,20,000
  - ₹ 3,00,000

**Answer Key**

1.1	1.2	1.3	1.4
b	c	c	a

**Case Scenario 2 [MTP1 Sept 25]****Year 1**

- Mr. Lal purchased 1,000 equity shares of ₹ 100 each in a X Company @ ₹ 125 each from a stock broker who charged 2% brokerage. At the end of year 1 the market value of these shares is ₹ 1,50,000. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps.
- He also purchased gold for ₹ 5,00,000 for holding for long term perspective and by year end its value became ₹ 5,50,000.

**Year 2**

- X Company issued bonus shares in the ratio of 1:1. At the end of year 2 market value of 2,000 shares of X Ltd. (including bonus shares) is still ₹ 1,50,000.
- At the end of year 2, value of gold purchased is ₹ 6,50,000
- Mr. Lal sold the bonus shares for ₹ 110 per share during the year.

Answer the following questions on the basis of above information:

2.1 At the end of year 1, what will be the value of the investment in equity shares in the financial statements:

- (a) ₹ 1,28,125
- (b) ₹ 1,25,000
- (c) ₹ 1,50,000
- (d) ₹ 1,52,500

2.2 At the end of year 2, what will be the value of the investment in equity shares in the financial statements:

- (a) ₹ 1,28,125
- (b) ₹ 1,25,000
- (c) ₹ 1,50,000
- (d) ₹ 1,52,500

2.3 At the end of year 2, what will be the value of the investment in Gold in the financial statements:

- (a) ₹ 5,00,000
- (b) ₹ 5,50,000
- (c) ₹ 6,50,000
- (d) None of the above

2.4 How much profit was earned on sale of bonus shares by Mr. Lal:

- (a) ₹1,10,000
- (b) ₹ 64062.5
- (c) ₹ 45,937.50
- (d) Nil

**Answer Key**

2.1	2.2	2.3	2.4
a	a	a	c

**Case Scenario 3 [Booklet]**

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,

## AS 13: Accounting for Investments

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.

- 3.1 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
- 3.2 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
- 3.3 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
- 3.4 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

### Answer Key

3.1	3.2	3.3	3.4
b	c	a	c

### Detailed Solution

#### Question 7

Purchase [2,000 x 75]	1,50,000
Purchase of right shares [2,000 x 60]	1,20,000
<b>Total cost</b>	<b>2,70,000</b>

**Question 10**

Particulars	Nos	Cost (₹)
Purchase [1,000 x 150] + 1%	1,000	1,51,500
Bonus shares [1,000/4]	250	
	1,250	1,51,500
Carrying value of closing balance [1,51,500/1,250] x 750	750	<b>90,900</b>

**Case Scenario 1**

Particulars	Nos	Cost (₹)
Purchase [3,000 x 100] + 1%	3,000	3,03,000
Bonus shares [3,000/3] [1.2]	1,000	-
	4,000	3,03,000
Cost of closing balance [3,03,000/4,000] x 3,000 [1.1]	3,000	<b>2,27,250</b>
Market value of closing balance [3,000 x 70]	3,000	<b>2,10,000</b>
Carrying value of closing balance [Lower] [1.4]	3,000	<b>2,10,000</b>
Sale [1,000 x 110]		1,10,000
Cost of sales [3,03,000/4,000] x 1,000		75,750
Profit on sale [1.3]		<b>34,250</b>

**Case Scenario 2**

Particulars	Nos	Cost (₹)
Purchase [1,000 x 125]	1,000	1,25,000
Add: Brokerage [1,25,000 x 2%]		2,500
Add: Stamp duty [1,25,000 x .5%]		625
Total cost at end of year 1	1,000	1,28,125
Market value at end of year 1	1,000	1,50,000
Closing balance at the end of year 1 [Lower] [2.1]	<b>1,000</b>	<b>1,28,125</b>
Bonus shares	1,000	-
Total cost at end of year 2	2,000	1,28,125
Market value at end of year 2	2,000	1,50,000
Carrying value of closing balance [Lower] [2.2]	<b>2,000</b>	<b>1,28,125</b>
Sale [1,000 x 110]		1,10,000
Cost of sales [1,28,125/2,000] x 1,000		64,062.5
Profit on sale [2.4]		<b>45,937.5</b>
Since investment in gold is long term investment so disclose at his cost i.e. 5,00,000 unless there is decline other in market value other than of temporary nature [2.3]		

# CHAPTER - 14

## AS 14: Accounting for Amalgamations

### GENERAL MCQs

1. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is **[SM]**
  - (a) Goodwill account
  - (b) Liquidation expense account
  - (c) Vendor company account
  - (d) General reserve
2. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called **[SM/MTP1 May 25/MTP1 May 24]**
  - (a) Internal reconstruction
  - (b) External reconstruction
  - (c) Amalgamation in the nature of merger
  - (d) Amalgamation in the nature of purchase
3. In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made **[SM]**
  - (a) By the vendor company
  - (b) By the purchasing company
  - (c) By the third party
  - (d) By the court
4. Amalgamation adjustment reserve opened in the book of the amalgamated company to incorporate **[SM]**
  - (a) Assets of the amalgamating company
  - (b) Non- Statutory reserves of the amalgamating company
  - (c) Statutory reserves of the amalgamating company
  - (d) General reserve of the amalgamating company
5. Amalgamation Adjustment Reserve is presented in the balance sheet of the transferee company as **[SM]**
  - (a) Other current asset
  - (b) Separate line item with a negative sign under the head 'Reserves and Surplus'
  - (c) Other non-current assets
  - (d) Investment of the company
6. A company into which the vendor company is merged is called **[SM]**
  - (a) Transferee company
  - (b) Transferor company
  - (c) Selling company
  - (d) Acquiree company

7. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as \_\_\_\_\_ in the books of the transferee company. **[SM]**
  - (a) Goodwill
  - (b) Capital Reserve
  - (c) Profit
  - (d) Loss
  
8. Which of the following statement is correct: **[SM]**
  - (a) In case of merger – ESH can be issued only equity shares as a part of Purchase consideration
  - (b) In case of purchase – ESH can be issued Preference shares also as a part of Purchase consideration
  - (c) Both (a) and (b) are correct
  - (d) Both (a) and (b) are incorrect
  
9. State which statement is correct: **[SM]**
  - (a) In case of merger – assets and liabilities can only be taken over at book values
  - (b) In case of purchase – assets and liabilities can be taken over at book values or agreed values
  - (c) Both (a) and (b) are correct
  - (d) Both (a) and (b) are incorrect
  
10. State which statement is correct: **[SM]**
  - (a) In case of merger: All Reserves of vendor company are taken over by Purchasing company
  - (b) In case of Purchase: None of the Reserves of vendor company are taken over by Purchasing company
  - (c) Both (a) and (b) are correct
  - (d) Only (a) is correct
  
11. State which statement is correct: **[SM]**
  - (a) In case of merger – We use pooling of interest method for accounting
  - (b) In case of Purchase – We use purchase method or pooling of interest method depending upon whether it is take over at agreed values or book values
  - (c) Both (a) and (b) are correct
  - (d) Only (a) is correct
  
12. State which statement is incorrect: **[SM]**
  - (a) In case of merger – We can issue either preference shares or equity shares to PSH
  - (b) In case of Purchase – We can issue either preference shares or equity shares to PSH
  - (c) In case of merger – We can issue only preference shares to PSH
  - (d) None of the above

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
a	a	b	c	b	a	a	b	c	d	d	c

# CHAPTER - 15

## AS 15: Employee Benefits

### GENERAL MCQs

1. Gratuity and Pension would be examples of: **[SM]**
  - (a) Short-term employee benefits
  - (b) Long-term employee benefits
  - (c) Post-employment benefits
  - (d) None of the above
2. Non-accumulating compensating absence is commonly referred to as: **[SM]**
  - (a) Earned Leave
  - (b) Sick Leave
  - (c) Casual leave
  - (d) All of the above
3. The plans that are established by legislation to cover all enterprises and are operated by Governments include: **[SM]**
  - (a) Multi-Employer plans
  - (b) State plans
  - (c) Insured Benefits
  - (d) Employee benefit plan
4. Best estimates of variable to determine eventual cost of post-employment benefits is referred as: **[SM]**
  - (a) Employer's contribution
  - (b) Actuarial assumptions
  - (c) Cost to Company
  - (d) Employee's contribution
5. Actuarial gains / losses should be: **[SM]**
  - (a) Recognised through reserves
  - (b) Charged over the expected life of employees
  - (c) Charged immediately to Profit and Loss Statement
  - (d) Do not charged to Profit and Loss Statement

### Answer Key

1	2	3	4	5
c	c	b	b	c

# CHAPTER - 16

## AS 16: Borrowing Costs

### GENERAL MCQs

1. As per AS 16, all the following are qualifying assets except [SM]
  - (a) Manufacturing plants and Power generation facilities
  - (b) Inventories that require substantial period of time
  - (c) Assets those are ready for sale
  - (d) None of the above
2. Which of the following statement is correct: [SM]
  - (a) Entire exchange gain is reduced from the cost of the Qualifying asset
  - (b) Entire exchange loss is added to the cost of a Qualifying asset
  - (c) No adjustment is done for the exchange loss while computing cost of Qualifying asset
  - (d) None of the above
3. Capitalisation rate considers: [SM]
  - (a) Borrowing costs on general borrowings only
  - (b) Borrowing costs on general and specific borrowings both
  - (c) Borrowing costs on specific borrowings only
  - (d) None of the above
4. If the amount eligible for capitalisation in case of inventory as per AS 16 is ₹ 12,000 and cost of inventory is ₹ 40,000 and its NRV is ₹ 45,000; What amount can be capitalised as a part of inventory cost. [SM]
  - (a) ₹ 12,000
  - (b) ₹ 5,000
  - (c) ₹ 7,000
  - (d) ₹ 10,000
5. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:
  - i 15th May, 20X1: Loan interest relating to the project starts to be incurred
  - ii 2nd June, 20X1: Technical site planning commences
  - iii 19th June, 20X1: Expenditure on the project started to be incurred
  - iv 18th July, 20X1: Construction work commencesIdentify the commencement date for capitalisation under AS 16. [SM]
  - (a) 15th May, 20X1
  - (b) 19th June, 20X1
  - (c) 18th July, 20X1
  - (d) 2nd June, 20X1

6. Ace Limited borrowed ₹ 25 Lakhs from ABN Bank during the financial year 2023-24. Ace Limited used these funds to invest in Equity shares of Kay Limited. Kay Limited is implementing a new Project, so with these future prospects, Ace Limited invested ₹ 25 Lakhs in Kay Limited.
- As on 31st March, 2024, since the said project was not complete, the directors capitalised the interest on loan amounting to ₹ 2 lakhs and thus added the amount of interest to the cost of Investments.
- Market value of these investments on 31st March, 2024 is ₹ 24 Lakhs. Identify the correct statement, considering the above facts as per AS 16: **[SA Jan 25]**
- (a) Interest paid is acquisition charge, hence directors of Ace Limited correctly added the amount of interest in cost of investment
  - (b) Since project is qualifying Asset, directors of Ace Limited correctly added the amount of interest in cost of investments
  - (c) Ace Limited invested in equity share which is not a qualifying asset, therefore directors are wrong to add the interest in cost of investments, rather it should be charged to profit and loss account
  - (d) Since project is qualifying asset, directors of Ace Limited should capitalise the interest amount to market value of investments, rather than cost of investments
7. Akash Ltd. is constructing a housing society and for this purpose, it has taken loan from a bank. The housing society consists of 50 units, each of which can be used individually. 20 units have been constructed and can be opened up for public, while construction on the remaining part is continuing. How much borrowing cost should be capitalised: **[MTP1 Sept 25]**
- (a) Capitalisation of borrowing cost should continue for the whole society until construction continues
  - (b) Capitalisation of the borrowing costs shall cease to be capitalised for 20 units which are now ready to be used and should continue for 30 units
  - (c) The entire borrowing cost should be capitalised at the end of the project
  - (d) The Borrowing cost will not be capitalised at all
8. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery: **[MTP2 Sept 24]**
- (a) ₹ 1.5 lakh
  - (b) ₹ 3 Lakh
  - (c) Nil
  - (d) ₹ 5 Lakh
9. Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned ₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise? **[RTP May 24/MTP1 Sept 24]**
- (a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore
  - (b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh
  - (c) Interest paid less income on temporary investment i.e. ₹ 76 lakh
  - (d) Nothing will be capitalized

## Answer Key

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
c	c	a	b	b	c	b	c	c

**CASE SCENARIO BASED MCQs****Case Scenario 1 [MTP1 Sept 25]**

Gases Ltd. is installing a 2000 kms long gas pipeline for distribution of gasses (Project is a qualifying asset as per AS 16). For this purpose it borrowed funds for ₹ 700 Lakhs at subsidised rates and has to pay annually an interest of ₹ 70 Lakhs. The Company has also invested unused funds and is earning an income of ₹ 7 Lakhs annually. During the next year the Company used all funds and no income is now being earned.

During the year 5, the Company has completed 1 stretch of 100 kms which is operational between two points and is capable of intended use.

1.1 For the year 1, how much borrowing cost should be capitalised to the project:

- (a) ₹ 70 Lakhs
- (b) ₹ 77 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 60 Lakhs

1.2 For the year 2, how much borrowing cost should be capitalised to the project:

- (a) ₹ 70 Lakhs
- (b) ₹ 77 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 65 Lakhs

1.3 For the year 5, how much borrowing cost should be expensed:

- (a) ₹ 7 Lakhs
- (b) ₹ 6 Lakhs
- (c) ₹ 3.5 Lakhs
- (d) Nil

1.4 For the year 5, how much borrowing cost should be capitalised to the project:

- (a) ₹ 70 Lakhs
- (b) ₹ 66.5 Lakhs
- (c) ₹ 63 Lakhs
- (d) ₹ 53 Lakhs

## Answer Key

<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
c	a	c	b

# CHAPTER - 17

## AS 17: Segment Reporting

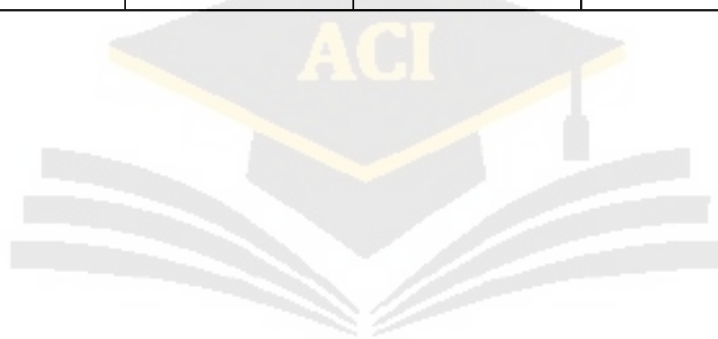
### GENERAL MCQs

1. Following is included in Segment Revenue [**Portal**]
  - (a) Extraordinary items as defined in AS 5
  - (b) Revenue from transactions with other segments of the enterprise
  - (c) Interest or dividend income
  - (d) Gain on sale of investments
2. As per AS 17, reportable segments are those whose total revenue from external sales and inter-segment sales is [**SM**]
  - (a) 10% or more of the total revenue of all segments
  - (b) 10% or more of the total revenue of all external segments
  - (c) 12% or more of the total revenue of all segments
  - (d) 12% or more of the total revenue of all external segments
3. Which of the following statements is correct? [**SM**]
  - (a) Management has a discretion to include a segment as a reportable segment even if it passes the 10% materiality test
  - (b) Management has a discretion to include any segment as a reportable segment if it fails the 12% materiality test
  - (c) It is mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test
  - (d) It is not mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test
4. Which of the following statements is correct? [**SM**]
  - (a) The overall test of 75% considers only external revenue to compute the threshold limit
  - (b) The overall test of 75% considers only internal revenue to compute the threshold limit
  - (c) The overall test of 75% considers both internal and external revenue to compute the threshold limit
  - (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit
5. Which of the following statements is correct? [**SM**]
  - (a) The 10% test computed on the basis of revenue, considers both internal and external revenue to compute the threshold limit
  - (b) The 10% test computed on the basis of revenue, considers only external revenue to compute the threshold limit
  - (c) The 10% test computed on the basis of revenue, considers only internal revenue to compute the threshold limit
  - (d) It is management choice whether they want to include both external and internal revenue

6. Which of the following statements is correct? [SM]
- (a) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or net loss respectively of all segments taken together becomes reportable segment
- (b) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit (after netting the losses) of all segments taken together becomes reportable segment
- (c) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is higher in absolute figures) of all segments taken together becomes reportable segment
- (d) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is lower in absolute figures) of all segments taken together becomes reportable segment

**Answer Key**

1	2	3	4	5	6
b	a	c	a	a	c



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# CHAPTER - 18

## AS 18: Related Party Disclosures

### GENERAL MCQs

1. 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? **[Booklet/SA Sept 24/MTP1 May 25]**
  - (a) Q Ltd.
  - (b) R Ltd.
  - (c) Q Ltd. and R Ltd.
  - (d) Neither of Q Ltd. or R Ltd.
2. Are any specific disclosures required to be made for the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard: **[MTP 2 May 24]**
  - (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.
3. According to AS-18 which one is not a related party of Skyline Limited? **[SM/MTP1 May 24]**
  - (a) A shareholder of Skyline Limited owning 30% of the ordinary share capital
  - (b) An entity providing banking facilities to Skyline Limited in the normal course of business
  - (c) An associate of Skyline Limited
  - (d) Key management personnel of Skyline Limited
4. Are the following statements in relation to related parties true or false, according to AS-18 Related Party Disclosures? **[SM]**

	Statement (A)	Statement (B)
(a)	False	False
(b)	False	True
(c)	True	False
(d)	True	True
5. Which of the following is not a related party as envisaged by AS-18 Related Party Disclosures? **[SM]**
  - (a) A director of the entity
  - (b) The parent company of the entity
  - (c) A shareholder of the entity that holds 1% stake in the entity
  - (d) The spouse of the managing director of the entity

## AS 18: Related Party Disclosures

6. According to AS-18 Related Party Disclosures, related party transaction is a transfer of resources or obligations between related parties – provided a price is charged for such transfer. **[SM]**
- (a) True  
(b) False
7. According to AS-18 Related Party Disclosures, parties are considered to be related, if and only if at the end of 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. **[SM]**
- (a) True  
(b) False

### Answer Key

1	2	3	4	5	6	7
c	b	b	d	c	b	b



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# CHAPTER - 19

## AS 19: Leases

### GENERAL MCQs

1. A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs (Fair value ₹ 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be **[SM/SA May 25]**
  - (a) A Ltd. should amortise the profit of ₹ 10 lakhs over lease term
  - (b) A Ltd. should recognise the profit of ₹ 10 lakhs immediately
  - (c) A Ltd. should defer the profit of ₹ 10 lakhs
  - (d) B Ltd. should recognise the profit of ₹ 10 lakhs immediately
2. In case of an operating lease – identify which statement is correct: **[SM]**
  - (a) The lessor continues to show the leased asset in its books of accounts
  - (b) The lessor de-recognises the asset from its Balance Sheet
  - (c) The lessor discontinues to claim depreciation in its books
  - (d) The lessee recognises the asset in its Balance Sheet
3. In case of finance lease, if the asset is returned back to the lessor at the end of the lease term - the lessee always claims depreciation based on which of the following: **[SM]**
  - (a) Useful life
  - (b) Lease term
  - (c) Useful life or lease term whichever is less
  - (d) Useful life or lease term whichever is higher
4. AS 19 lays down 5 deterministic conditions to classify the lease as a finance lease. To classify the lease as an operating lease – which statement is correct? **[SM]**
  - (a) Any 1 condition fails
  - (b) Majority of the 5 conditions fail
  - (c) All 5 conditions fail
  - (d) Any 2 conditions fails
5. The basis of classification of a lease is: **[SM]**
  - (a) Control Test
  - (b) Risk and reward Test
  - (c) Both control test and risk and reward test
  - (d) Only reward Test
6. As per AS 19, unearned finance income is: **[MTP1 Sept 25]**
  - (a) The difference between (i) the gross investment in the lease and (ii) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.
  - (b) The payments over the lease term that the lessee is, or can be required, to make excluding

contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

- (c) The aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.
- (d) The lease is the gross investment in the lease less unearned finance income.
7. As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as **[MTP 2 May 24]**
- (a) Unearned finance income
- (b) Guaranteed Residual Value
- (c) Profit on lease
- (d) Loss on lease
8. Sargam Ltd. (the lessee) has taken machinery on lease from Dhun Ltd. (the lessor) for 13 years on annual lease payment of ₹ 50,000. The life of the machine is 15 years. How this lease arrangement should be classified and why: **[MTP 2 May 25]**
- (a) Operating lease because lease payments are being made annually and the value of asset is not available.
- (b) Finance Lease because lease term is for the major part of the economic life of the asset even if title is not transferred.
- (c) Operating Lease because it is not stated that the asset will transferred to lessee at the end of lease term.
- (d) Finance Lease because the leased asset is of a specialized nature such that only the lessee can use it without major modifications being made
9. 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 Rs.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 |
- Compute Annual Lease Rent. **[Booklet/SA Sept 24/ MTP1 May 25]**
- (a) ₹ 30,000
- (b) ₹ 60,000
- (c) ₹ 50,000
- (d) ₹ 36,000

### Answer Key

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
b	a	c	c	b	a	a	b	b

**CASE SCENARIO BASED MCQs****Case Scenario 1 [Booklet]**

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.

- 1.1 What is the total amount of the minimum lease payments over the lease term?
- (a) ₹ 20,00,000  
 (b) ₹ 25,00,000  
 (c) ₹ 26,25,000  
 (d) ₹ 27,50,000
- 1.2 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
- 1.3 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
- 1.4 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

**Answer Key**

<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
c	b	b	b

**Detailed Solution****Question 9**

Cost of Asset	3,00,000
Add: 20% profit on cost	60,000
Total lease rental for total unit output of (50,000 + 60,000 + 40,000 + 65,000 + 85,000) = 3,00,000 unit	3,60,000
Total lease rental for first 3 year output = [Total output during lease period/Total output for whole life] × Total lease rental for whole life {(50,000 + 60,000 + 40,000) = 1,50,000 Units} / (3,00,000 Units) × ₹3,60,000	<b>1,80,000</b>

**Case Scenario 2**

Year	MLP inclusive of URV (₹)	PV Factors @ 15%	Present Value (₹)
1	6,25,000	0.8696	<b>5,43,500 [1.4]</b>
2	6,25,000	0.7561	4,72,263
3	6,25,000	0.6575	4,10,937
4	6,25,000	0.5718	3,57,375
4 (GRV)	1,25,000	0.5718	71,475
	<b>26,25,000 [1.1]</b>		<b>18,55,850 [1.2]</b>

Total PV of MLP	18,55,850
Fair value	20,00,000
Lower <b>[1.3]</b>	<b>18,55,850</b>

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# CHAPTER - 20

## AS 20: Earnings Per Share

### GENERAL MCQs

1. As per AS 20, potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would **[SM]**
  - (a) Decrease net profit per share from continuing ordinary operations.
  - (b) Increase net profit per share from continuing ordinary operations.
  - (c) Make no change in net profit per share from continuing ordinary operations.
  - (d) Decrease net loss per share from continuing ordinary operations.
2. As per AS 20, equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements are **[SM]**
  - (a) Dilutive potential equity shares
  - (b) Contingently issuable shares
  - (c) Contractual issued shares
  - (d) Potential equity shares
3. In case potential equity shares have been cancelled during the year, they should be: **[SM]**
  - (a) Ignored for computation of Diluted EPS.
  - (b) Considered from the beginning of the year till the date they are cancelled.
  - (c) The company needs to make an accounting policy and can follow the treatment in (a) or (b) as it decides.
  - (d) Considered for computation of diluted EPS only if the impact of such potential equity shares would be material.
4. Partly paid up equity shares are: **[SM]**
  - (a) Always considered as a part of Basic EPS.
  - (b) Always considered as a part of Diluted EPS.
  - (c) Depending upon the entitlement of dividend to the shareholder, it will be considered as a part of Basic or Diluted EPS as the case may be.
  - (d) Considered as part of Basic/ Diluted EPS depending on the accounting policy of the company.
5. As per AS 20 an enterprise should present/disclose the following: **[MTP 1 Jan 25]**
  - (i) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.
  - (ii) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.
  - (iii) basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).
  - (iv) the nominal value of shares along with the earnings per share figures.
    - (a) All the statements are correct
    - (b) Statements (i), (ii) and (iii) are correct

- (c) Statements (ii), (iii) and (iv) are correct  
 (d) Statements (i), (ii) and (iii) are correct
6. AB Company Ltd. had 1,00,000 shares of common stock outstanding on 1 January, Additional 50,000 shares were issued on July 1, and 25,000 shares were re-acquired on September 1. The weighted average number of shares outstanding during the year on Dec. 31 is **[SM]**
- (a) 1,40,000 shares  
 (b) 1,25,000 shares  
 (c) 1,16,667 shares  
 (d) 1,20,000 shares
7. 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. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is: **[Booklet/SA Sept 24]**
- (a) 1,34,500 shares  
 (b) 1,65,500 shares  
 (c) 1,76,167 shares  
 (d) 1,23,833 shares

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
a	b	b	c	a	c	b

**Detailed Solution**

**Question 6**

FY: Jan. to Dec. $(1,00,000 \times 12/12) + (50,000 \times 6/12) - (25,000 \times 4/12)$	1,16,667
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**Question 7**

FY: April to March $(1,50,000 \times 12/12) + (50,000 \times 5/12) - (32,000 \times 2/12)$	1,65,500
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# CHAPTER - 21

## AS 21, 23, 27: Consolidated Financial Statements

### GENERAL MCQs

1. Minority interest should be presented in the consolidated balance sheet [SM]
  - (a) As a part of liabilities
  - (b) As a part of equity of the parent's shareholders
  - (c) Separately from liabilities and the equity of the parent's shareholders
  - (d) As a part of assets
2. Minority of the subsidiary is entitled to [SM]
  - (a) Capital profits of the subsidiary company
  - (b) Revenue profits of the subsidiary company
  - (c) Both capital and revenue profits of the subsidiary company
  - (d) Neither capital nor revenue profits of the subsidiary
3. In consolidation of accounts of holding and subsidiary company is eliminated in full. [SM]
  - (a) Current liabilities of subsidiary company
  - (b) Reserves and surplus of both holding and subsidiary company
  - (c) Mutual indebtedness
  - (d) Nothing
4. In consolidated balance sheet, the share of the outsiders in net assets of the subsidiary is shown as [SM]
  - (a) Minority interest
  - (b) Capital reserve
  - (c) Current liability
  - (d) Current assets
5. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet [SM]
  - (a) Current liability
  - (b) Revenue profit
  - (c) Capital profit
  - (d) Current assets
6. Identify which of the statements are correct. [SM]

An enterprise can influence the significant economic decision making by many ways like:

  - (i) Representation on the board of directors or governing body of the investee.
  - (ii) Participation in policy-making processes.
  - (iii) Interchange of managerial personnel.
  - (iv) Provision of essential technical information.
  - (a) Statement (i) and (ii) are correct
  - (b) Statement (i), (ii) and (iii) are correct

- (c) Statement (i), (ii), (iii) and (iv) are correct  
(d) Statement (ii) and (iii) are correct
7. A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11% shares in C Ltd. Identity which of the statements are incorrect. **[SM]**
- (i) In this case, A Ltd. is parent of B Ltd.  
(ii) As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 % in C Ltd.  
(iii) C Ltd. is an associate of A Ltd.
- (a) Statement (ii) is incorrect  
(b) Statement (iii) is incorrect  
(c) Statement (ii) and (iii) both are incorrect  
(d) All statements are incorrect
8. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows: **[SM]**
- Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000  
Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.  
What is the amount of goodwill or capital reserve arising on significant influence?
- (a) Goodwill = ₹ 10,000  
(b) Goodwill = ₹ 20,000  
(c) Capital Reserve = ₹ 10,000  
(d) Capital Reserve = ₹ 20,000
9. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow: **[SM]**
- Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000  
Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.  
What is the amount of goodwill or capital reserve arising on significant influence?
- (a) Goodwill = ₹ 10,000  
(b) Goodwill = ₹ 20,000  
(c) Capital Reserve = ₹ 10,000  
(d) Capital Reserve = ₹ 20,000
10. Identity which of the statements are correct. **[SM]**
- (i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.  
(ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into

consideration the proposed dividend.

- (iii) The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.
  - (iv) The potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.
    - (a) Statement (i) and (iii)
    - (b) Statement (ii) and (iv)
    - (c) Statement (i) only
    - (d) Statement (iii) only
11. State which of the following statements are incorrect. **[SM]**
- (i) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.
  - (ii) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.
  - (iii) An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23 as the case may be.
    - (a) Point (i) is incorrect
    - (b) Point (ii) is incorrect
    - (c) Point (iii) is incorrect
    - (d) None of the above
12. Identify which of the following is not a feature of a Jointly controlled operations (JCO): **[SM]**
- (a) Each venturer has his own separate business
  - (b) There is a separate entity for joint venture business
  - (c) Each venturer record only his own transactions without any separately set of books maintained for the joint venture business
  - (d) There is a common agreement between all of them
13. Identify which of the following is/are not a feature of a Jointly controlled assets (JCA): **[SM]**
- (i) There is a separate legal identity.
  - (ii) There is a common control over the joint assets.
  - (iii) Expenses on jointly held assets are shared by the venturers as per the contract.
  - (iv) In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.
    - (a) Point no. (i) only
    - (b) Point no. (i) and (iii)
    - (c) Point no. (iii) and (iv)
    - (d) Point (i) and (ii)

14. Identify which is/ are features of a Jointly controlled entity (JCE): **[SM]**
- (i) Venturer creates a new entity for their joint venture business.
  - (ii) All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity.
  - (iii) The revenues and expenses of the entity is shared by the venturers in the equal ratio only.
    - (a) Point no. (i) only
    - (b) Point no. (i) and (ii)
    - (c) Point no. (ii)
    - (d) Point no. (iii)
15. Identify the correct statements. **[SM]**
- From the date of discontinuing the use of the proportionate consolidation method:
- (i) If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statements.
  - (ii) If interest is 20% or more but upto 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statements.
  - (iii) For all other cases investment in joint venture is treated as per AS 13, Accounting for Investments.
  - (iv) For this purpose, the fair value of the investment at the date on which joint venture relationship ceases to exist should be regarded as cost thereafter.
    - (a) Point no. 1 and 2
    - (b) Point no. 1, 2 and 3
    - (c) Point no. 1, 2, 3 and 4
    - (d) None of the above

**Answer Key**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	c	c	a	a	c	a	b	a	a	b	b	a	b	b

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [Booklet/MTP1 Jan 25]**

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 500,000 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.

- 1.1 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

- 1.2 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
- 1.3 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
- 1.4 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 (i), (ii) and (iii) are correct  
 (c) Statements (ii), (iii) and (iv) are correct  
 (d) Statements (i), (ii) and (iv) are correct

**Answer Key**

<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
c	c	b	d

**Detailed Solution****Question 8**

	01.04 [10%]	01.10 [15%]
Cost	1,00,000	1,55,000
Share in net asset	(8,50,000 x 10%)	(10,00,000 x 15%)
	85,000	1,50,000
	Goodwill 15,000	Goodwill 5,000
<b>Overall goodwill</b>	<b>20,000</b>	

**Question 9**

	01.04 [10%]	01.10 [15%]
Cost	1,00,000	1,45,000
Share in net asset	(8,50,000 x 10%)	(10,00,000 x 15%)
	85,000	1,50,000
	Goodwill 15,000	CR 5,000
<b>Overall goodwill</b>	<b>10,000</b>	

**Case Scenario 1**

Cost of investment	5,00,000
Less: pre acquisition dividend received [80,000 x 40%]	32,000
<b>[1.2]</b>	<b>4,68,000</b>
Add: Share in post-acquisition profit [4,00,000 x 9/12 x 40%]	1,20,000
<b>[1.3]</b>	<b>5,88,000</b>

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# CHAPTER - 22

## AS 22: Accounting for Taxes on Income

### GENERAL MCQs

- As per AS 22 on 'Accounting for Taxes on Income', tax expense is: **[SM]**
  - Current tax + deferred tax charged to profit and loss account
  - Current tax – deferred tax credited to profit and loss account
  - Either (a) or (b)
  - Deferred tax charged to profit and loss account
- G Ltd. has provided the following information:  
Depreciation as per accounting records = ₹ 2,00,000  
Depreciation as per tax records = ₹ 5,00,000  
There is adequate evidence of future profit sufficiency.  
How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 45%? **[SM]**
  - Deferred Tax asset = ₹ 2,70,000
  - Deferred Tax asset = ₹ 1,35,000
  - Deferred Tax Liability = ₹ 2,70,000
  - Deferred Tax Liability = ₹ 1,35,000
- State which of the following statements are correct: **[SM]**
  - There are no pre-conditions required to recognize deferred tax liability,
  - Deferred tax asset under all circumstances can only be created if and only if there is reasonable certainty that future taxable income will arise.
  - Both are correct
  - Only (1) is correct
  - Only (2) is correct
  - None of the statements are correct
- Which of the following statement are incorrect: **[SM]**
  - Only timing differences result in creation of deferred tax
  - Permanent differences do not result in recognition of deferred tax
  - The tax rate used for measurement of deferred tax is substantively enacted tax rate
  - The entity has to recognize deferred tax liability/asset arising out of timing difference. There are no conditions which are required to evaluated for their recognition

### Answer Key

1	2	3	4
c	d	a	d

**CASE SCENARIO BASED MCQs****Case Scenario 1 [MTP 2 May 25]****Situation 1:**

Expert Ltd. has depreciation amounting to ₹ 6,00,000 in its books as per accounting records and depreciation as per tax records at ₹ 15,00,000. There is adequate evidence of future profit sufficiency.

**Situation 2:**

Further, they have accrued ₹ 8,00,000 towards GST liability for the last month of the year which is expected to be paid off by next month. As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Answer the following questions on the basis of above information:

- 1.1 In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%:
  - (a) ₹ 8,50,000 (deferred tax liability)
  - (b) ₹ 4,50,000 (deferred tax liability)
  - (c) ₹ 8,50,000 (deferred tax asset)
  - (d) ₹ 4,50,000 (deferred tax asset)
- 1.2 In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:
  - (a) ₹ 3,15,000 (deferred tax asset)
  - (b) ₹ 7,35,000 (deferred tax asset)
  - (c) ₹ 3,15,000 (deferred tax liability)
  - (d) ₹ 7,35,000 (deferred tax liability)
- 1.3 In Situation 2: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:
  - (a) ₹ 2,80,000
  - (b) ₹ 5,20,000
  - (c) ₹ 8,00,000
  - (d) Nil

**Answer Key**

1.1	1.2	1.3
b	c	a

**Case Scenario 2 [SA Jan 25]**

The following particulars are stated in the Balance Sheet of Star Limited as on 31st March, 2023:

Deferred Tax Assets (Dr.) ₹ 1,20,000

Deferred Tax Liabilities (Cr.) ₹ 2,10,000

The following transactions were reported during the year 2023-24:

1. Depreciation as per accounting records ₹ 12,00,000
2. Depreciation as per income tax records ₹ 18,00,000
3. Interest paid accounted in books on accrual basis ₹ 4,50,000 but paid on 15-05-2024
4. Employer PF Contribution exp. disallowed for tax purpose ₹ 82,000 in year 2022-23 but allowed in year 2023-24
5. Unamortized preliminary expenses as per tax records ₹ 1,00,000
6. Donation ₹ 70,000
7. Tax Rate 20%

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

- 2.1 What would be the value of the Deferred Tax Assets as on 31-03-2024?
  - (a) ₹ 1,52,000
  - (b) ₹ 3,30,000
  - (c) ₹ 1,23,600
  - (d) ₹ 4,50,000
- 2.2 What would be the value of the Deferred Tax Liabilities as on 31-03-2024?
  - (a) ₹ 1,23,600
  - (b) ₹ 3,30,000
  - (c) ₹ 1,52,000
  - (d) ₹ 1,20,000
- 2.3 What would be the value of reversal of Deferred Tax Assets as on 31-03-2024?
  - (a) ₹ 20,000
  - (b) ₹ 1,04,000
  - (c) ₹ 16,400
  - (d) ₹ 90,000
- 2.4 Which is the permanent difference item as per AS 22?
  - (a) Employer PF Contribution exp.
  - (b) Donation
  - (c) Unamortized preliminary expenses
  - (d) Depreciation

**Answer Key**

2.1	2.2	2.3	2.4
c	b	c	b

**Detailed Solution****Question 6**

	Expense	Impact on Taxable Income	Impact on Current Tax	Impact on Future Tax	Creation of Deferred Tax
Books	₹ 2,00,000				
Income Tax	₹ 5,00,000	(-)	(-)	Additional tax	DTL
<b>Creation of DTL = [3,00,000 x 45%] = 1,35,000</b>					

**Case Scenario 1**

	Expense	Impact on Taxable Income	Impact on Current Tax	Impact on Future Tax	Creation of Deferred Tax
Books	₹ 6,00,000				
Income Tax	₹ 15,00,000	(-)	(-)	Additional tax	DTL
<b>Creation of DTL = [9,00,000 x 50%] = 4,50,000 [1.1]</b>					
<b>Creation of DTL = [9,00,000 x 35%] = 3,15,000 [1.2]</b>					

	Expense	Impact on Taxable Income	Impact on Current Tax	Impact on Future Tax	Creation of Deferred Tax
Books	₹ 8,00,000				
Income Tax	-	(+)	(+)	Low tax	DTA
<b>Creation of DTA = [8,00,000 x 35%] = 2,80,000 [1.3]</b>					

**Case Scenario 2**

Create DTL due to depreciation timing difference [6,00,000 x 20%]	1,20,000
Interest [No timing difference]	-
Reversal of DTA due Employer PF Contribution exp. [82,000 x 20%] [2.3]	16,400
Create DTA due to Unamortized preliminary expenses as per tax records [1,00,000 x 20%]	20,000
Donation [Permanent difference] [2.4]	-

Opening balance of DTA	1,20,000
Add: create DTA	20,000
Less: reversal of DTA	(16,400)
<b>Balance of DTA [2.1]</b>	<b>1,23,600</b>

Opening balance of DTL	2,10,000
Add: create DTL	1,20,000
<b>Balance of DTA [2.2]</b>	<b>3,30,000</b>

# CHAPTER - 23

## AS 24: Discontinuing Operations

### GENERAL MCQs

1. AB decided to dispose of its Clothing division as part of its long-term strategy. **[SM]**
  - (i) Date of Board approval - 1st March 20X1;
  - (ii) Date of formal announcement made to affected parties - 15th March 20X1.
  - (iii) Date of Binding Sale agreement – 1st July 20X1;
  - (iv) Reporting date – 31st March 20X1The date of initial disclosure event would be:
  - (a) 1st March 20X1
  - (b) 15th March 20X1
  - (c) 31st March 20X1
  - (d) 31st July 20X1
2. To qualify as a component that can be distinguished operationally and for financial reporting purposes, the condition(s) to be met is (are): **[SM]**
  - (a) The operating assets and liabilities of the component can be directly attributed to it
  - (b) Its revenue can be directly attributed to it
  - (c) At least a majority of its operating expenses can be directly attributed to it
  - (d) All of the above
3. Identify which of the following statements is incorrect? **[SM]**
  - (a) A discontinuing operation is a component of an enterprise that represents a separate major line of business or geographical area of operations
  - (b) A discontinuing operation is a component of an enterprise that can be distinguished operationally and for financial reporting purposes
  - (c) A discontinuing operation is a component of an enterprise that may or may not be distinguished operationally and for financial reporting purposes
  - (d) A discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component
4. Identify the incorrect statement. **[SM]**
  - (a) Discontinuing operations are infrequent events, but this does not mean that all infrequent events are discontinuing operations
  - (b) The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under AS 24 would always raise a question regarding the enterprise's ability to continue as a going concern
  - (c) For recognising and measuring the effect of discontinuing operations, AS 24 does not provide any guidelines, but for the purpose the relevant Accounting Standards should be referred
  - (d) An enterprise shall include a description of the discontinuing operation, in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
b	d	c	b



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# CHAPTER - 24

## AS 25: Interim Financial Reporting

### GENERAL MCQs

- AS 25 mandates the following in relation to interim financial reports. [SM]
  - which entities should publish interim financial reports.
  - how frequently it should publish interim financial reports.
  - how soon it should publish after the end of interim period.
  - none of the above.
- The standard defines Interim financial Report as a financial report for an interim period that contains a set of financial statements. [SM]
  - Complete
  - Condensed
  - Financial statement similar to annual
  - Either complete or condensed
- ABC Limited has reported ₹ 85,000 as per tax profit in first quarter and expects a loss of ₹ 25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first ₹ 20,000 earnings and 40% on all additional earnings. Calculate tax expenses should report in first quarter interim report. [SM]
  - ₹ 17,000
  - ₹ 30,000
  - ₹ 2,000
  - AS 25 does not mandate to report tax expenses
- An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were ₹ 15 million. What would be the provision charged in the second quarter's interim financial statements? [SM]
  - ₹ 1 million
  - ₹ 2 million
  - ₹ 1.25 million
  - ₹ 1.5 million

### Answer Key

1	2	3	4
d	d	a	b

Detailed SolutionQuestion 3

Total Annual Income = $(85,000 - 25,000 - 25,000 - 25,000)$	10,000
Tax on total annual income = $(10,000 \times 20\%)$	2,000
WATR $(2,000/10,000) \times 100$	20%
<b>Tax on Q1 Income = <math>(85,000 \times 20\%)</math></b>	<b>17,000</b>

Question 4

Shortage in provision of Q 1 $[10 \times 5\%]$	.5
Provision for sales in Q 2 $[15 \times 10\%]$	1.5
<b>Total provision needed in Q 2</b>	<b>2</b>



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# CHAPTER - 25

## AS 26: Intangible Assets

### GENERAL MCQs

- Which of the following is not covered within the scope of AS 26? **[SM]**
  - Intangible assets held-for-sale in the ordinary course of business
  - Assets arising from employee benefits
  - (a) & (b) both
  - Research and development activities
- Intangible asset is recognised if it: **[SM]**
  - meets the definition of an intangible asset
  - is probable that future economic benefits will flow
  - the cost can be measured reliably
  - meets all of the above parameters
- Sun Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of AS 26: **[SM]**
  - Recognise Computer and software as tangible asset
  - Recognise tangible and intangible separately
  - Recognise computer and software as intangible asset
  - Does not recognize the software as an asset
- Hexa Ltd developed a technology to enhance the battery life of mobile devices. Hexa has capitalised development expenditure of ₹ 5,00,000. Hexa estimates the life of the technology developed to be 3 years but the company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in the second year of the product's life? **[SM]**
  - ₹ 2,50,000
  - ₹ 1,75,000
  - ₹ 1,66,667
  - ₹ 1,85,000
- ABC Ltd. is in the business of creating contents for various OTT platforms. The company has developed a technical know-how (the asset) by incurring expenditure of ₹ 25 lakhs. The company started using the asset from 1st April 2019. The management of the company is of the view that the asset has infinite lifetime and therefore has not amortized the asset till date.  
What should be the total amortization amount (including current as well as the previous years amortization) to be charged to Profit and loss account for the year ended March 31st 2024, with reference to AS 26? **[SA Sept 25]**
  - Nil, as per the management the know how has infinite life and the management is correct
  - ₹ 25 lakhs as the know how is an intangible asset as per AS 26
  - ₹ 12.5 lakhs (including current year's amortization of ₹ 2.5 lakhs) to be charged to Profit and loss
  - ₹ 15 lakhs (including current year's amortization of ₹ 2.5 lakhs) to be charged to Profit and Loss

## Answer Key

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
c	d	a	b	c

**CASE SCENARIO BASED MCQs****Case Scenario 1 [Booklet/MTP2 Sept 24]**

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.

- 1.1 On which date the Intangible asset should be recognised:
- April 2022 (When it was decided that SAP ERP is to be implemented)
  - June 2022 (When the implementation work started)
  - September 2023 (When the implementation work should have completed as per agreed terms)
  - May 2024 (When the SAP actually got implemented)
- 1.2 At what amount the SAP ERP should be initially recognised as 'intangible asset:
- ₹ 25,00,000
  - ₹ 26,00,000
  - ₹ 23,00,000
  - ₹ 32,00,000
- 1.3 How should the annual maintenance and updation expenses should be accounted for:
- Should be capitalised with 'Intangible Asset'
  - Should be recognised as a separate 'Intangible Asset'
  - Should be recognised as expense in Profit and Loss annually.
  - No accounting is required
- 1.4 During the implementation period, how the expenditure incurred will be accounted for:
- It will be expensed in profit and loss as and when incurred
  - It will be recognized as an asset 'Intangible asset under development'
  - It will only be disclosed in notes to accounts and will be recognised when complete
  - It will be recognised as an item of Property, Plant and Equipment

## Answer Key

<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
d	c	c	B

**Case Scenario 2 [MTP2 May 25]**

Digitex limited acquired an intellectual property at the cost of ₹ 70,00,000 (at the beginning of the year) and it meets the definition of intangible asset as per AS 26. As per the calculations made by the Company, the benefit from this intellectual property will accrue for next 5 years wherein for first year will be 30%, for next two years it will be 25% each and 10% for the next 2 years.

Year 2: The Company incurred development cost for its new product and incurred ₹ 25,00,000 (at the beginning of the year) and was of the view that it will get the benefits for the next 5 years.

Year 3: During the year, it was found that due to change in government policies, no further benefits will be available to the Company from development cost.

Year 4: At beginning of year 4 it was found that the remaining 20% benefit from intellectual property will flow to the Company in this year itself.

Answer the following questions on the basis of above information:

- 2.1 At the end of year 2, what will be the value of Intangible Asset of the Company in the financial statements:
- (a) ₹ 95,00,000
  - (b) ₹ 74,00,000
  - (c) ₹ 56,50,000
  - (d) ₹ 51,50,000
- 2.2 For the year 2, how much amount will be expensed in the profit and loss from Intangible assets:
- (a) ₹ 21,00,000
  - (b) ₹ 22,50,000
  - (c) ₹ 14,00,000
  - (d) ₹ 5,00,000
- 2.3 For the year 3, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:
- (a) ₹ 37,50,000
  - (b) ₹ 22,50,000
  - (c) ₹ 20,00,000
  - (d) None of the above
- 2.4 For the year 4, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:
- (a) ₹ 19,00,000
  - (b) ₹ 20,00,000
  - (c) ₹ 14,00,000
  - (d) Nil

**Answer Key**

2.1	2.2	2.3	2.4
d	b	a	c

Detailed SolutionQuestion 4

Amortization in year 2 (5,00,000 x 35%)

1,75,000

Question 5

Amortizations for past years (25/10 years) x 4 years	10
Amortizations for CY (25/10 years)	2.5
<b>Total Amortization needed in CY [debited to P&amp;L]</b>	<b>12.5</b>

Case Scenario 2

	Intellectual property	Development Cost	Total
Cost in year 1	70,00,000	-	70,00,000
Less: Amortization in year 1	70,00,000 x 30% (21,00,000)		(21,00,000)
CV on end of year 1	49,00,000		49,00,000
Cost of new IA		25,00,000	25,00,000
Less: Amortization in year 2	70,00,000 x 25% (17,50,000)	(25,00,000/5 year) (5,00,000)	(22,50,000) <b>[2.2]</b>
CV on end of year 2	31,50,000	20,00,000	51,50,000 <b>[2.1]</b>
Less: Amortization in year 3	70,00,000 x 25% (17,50,000)	(20,00,000)	(37,50,000) <b>[2.3]</b>
CV on end of year 3	14,00,000	-	14,00,000
Less: Amortization in year 4	(14,00,000)	-	(14,00,000) <b>[2.4]</b>
CV on end of year 4	-	-	-

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# CHAPTER - 26

## AS 28: Impairment of Assets

### GENERAL MCQs

1. If there is indication that an asset may be impaired but the recoverable amount of the asset is more than the carrying amount of the asset, the following are true: **[SM]**
  - (a) No further action is required and the company can continue the asset in the books at the book value itself.
  - (b) The entity should review the remaining useful life, scrap value and method of depreciation and amortization for the purposes of AS 10.
  - (c) The entity can follow either (a) or (b).
  - (d) The entity should review the scrap value and method of depreciation and amortization for the purposes of AS 10.
2. In case Goodwill appears in the Balance Sheet of an entity, the following is true: **[SM]**
  - (a) Apply Bottom up test if goodwill cannot be allocated to CGU (cash generating unit) under review.
  - (b) Apply Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
  - (c) Apply both Bottom up test and Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
  - (d) Apply either Bottom up test or Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
3. In case of corporate assets in the Balance Sheet of an entity, the following is true: **[SM]**
  - (a) Apply Bottom up test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
  - (b) Apply Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
  - (c) Apply both Bottom up test and Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
  - (d) Apply either Bottom up test or Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
4. In case of reversal of impairment loss, which statement is true: **[SM]**
  - (a) Goodwill written off can never be reversed.
  - (b) Goodwill written off can be reversed without any conditions to be met.
  - (c) Goodwill written off can be reversed only if certain conditions are met.
  - (d) Goodwill written off can be reversed.
5. In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications from internal sources of information: **[MTP 2 May 25]**
  - (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use
  - (b) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value

in use and decrease the asset's recoverable amount materially

- (c) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation
- (d) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected

**Answer Key**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
b	c	c	c	d

**CASE SCENARIO BASED MCQs**

**Case Scenario 1 [MTP1 Sept 25]**

A Company acquired an asset for ₹ 60 Lakhs with useful life for 10 years. The remaining useful life of the asset now is 4 years and the current carrying amount is ₹ 30 Lakhs which includes an upward revaluation of ₹ 6 Lakhs done in the asset last year. Recoverable amount from the asset is 20 Lakhs.

- 1.1 At what value the asset will be carried in the balance sheet after considering above facts:
  - (a) ₹ 22,50,000
  - (b) ₹ 24,00,000
  - (c) ₹ 20,00,000
  - (d) ₹ 18,00,000
- 1.2 What is the amount of impairment loss charged to the statement of profit and loss:
  - (a) ₹ 10 Lakhs
  - (b) ₹ 8 Lakhs
  - (c) ₹ 6 Lakhs
  - (d) ₹ 4 Lakhs
- 1.3 What is the amount of depreciation to be charged to the statement of profit and loss after considering above facts:
  - (a) ₹ 5Lakhs
  - (b) ₹ 8 Lakhs
  - (c) ₹ 6 Lakhs
  - (d) ₹ 4 Lakhs
- 1.4 What is the amount of revaluation reserve in respect of this asset:
  - (a) Nil
  - (b) ₹ 10 Lakhs
  - (c) ₹ 8 Lakhs
  - (d) ₹ 6 Lakhs

## Answer Key

1.1	1.2	1.3	1.4
c	d	a	a

**Case Scenario 2 [Booklet/ RTP Jan 25]**

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.

2.1 How much is the total Impairment loss for current year for FA 1:

- (a) ₹ 100 Lakhs
- (b) ₹ 50 Lakhs
- (c) ₹ 30 lakhs
- (d) Nil

2.2 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

2.3 How much is the total Impairment loss for current year for FA 2:

- (a) ₹ 50 Lakhs
- (b) ₹ 30 Lakhs
- (c) ₹ 20 lakhs
- (d) Nil

2.4 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

## Answer Key

2.1	2.2	2.3	2.4
b	c	d	a

**Detailed Solution****Case Scenario 1**

Cost of asset	60,00,000
Less: depreciation of 6 years $[60,00,000/10 \text{ years}] \times 6 \text{ years}$	(36,00,000)
Add: increase in asset by crediting revaluation reserve	6,00,000
CV at the end of year 6	30,00,000
RV	20,00,000
Impairment loss	10,00,000
Less: adjusted to revaluation reserve	(6,00,000)
Debited to P&L <b>[1.2]</b>	4,00,000
CV after impairment loss $(30,00,000 - 10,00,000)$ <b>[1.1]</b>	20,00,000
Revaluation reserve after impairment $(6,00,000 - 6,00,000)$ <b>[1.4]</b>	-
Depreciation after impairment $(20,00,000/4 \text{ years})$ <b>[1.3]</b>	5,00,000

**Case Scenario 2**

	FA 1	FA 2
Net selling price	550	320
Value in use	500	350
RV [Higher]	550	350
CV	600	300
Impairment loss	$[600 - 550] = 50$ <b>[2.1]</b>	Nil <b>[2.3]</b>
Less: adjusted to existing revaluation reserve	(20)	-
Impairment loss debited to P&L	30 <b>[2.2]</b>	-
Revised CV after impairment loss	$[600 - 50] = 550$ <b>[2.4]</b>	300 $[300 - \text{Nil}]$

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# CHAPTER - 27

## AS 29: Provisions, Contingent Liabilities and Contingent Assets

### GENERAL MCQs

- Which of the following best describes a provision? [SM]
  - A provision is a liability of uncertain timing or amount.
  - A provision is a possible obligation of uncertain timing.
  - A provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.
  - A provision is a possible obligation of uncertain amount.
- X Co is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, X Co will repair it free of charge. At 1<sup>st</sup> March 20X1, X Co had made a provision for repairs of ₹ 25,000. At 31<sup>st</sup> March 20X1, X Co calculated that the provision should be ₹ 20,000. What entry should be made for the provision in X Co's income statement for the month 31<sup>st</sup> March 20X1? [SM]
  - A charge of ₹ 5,000
  - A credit of ₹ 5,000
  - A charge of ₹ 20,000
  - A credit of ₹ 25,000
- Which of the following item does the statement below describe?

“A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control” [SM]

  - A provision
  - A current liability
  - A contingent liability
  - Deferred tax liability
- Z Ltd has commenced a legal action against Y Ltd claiming substantial damages for supply of a faulty product. The lawyers of Y Ltd have advised that the company is likely to lose the case, although the chances of paying the claim is not remote.

The estimated potential liability estimated by the lawyers are:  
Legal cost (to be incurred irrespective of the outcome of the case) ₹ 50,000  
Settlement if the claim is required to be paid ₹ 5,00,000

What is the appropriate accounting treatment in the books of Z Ltd.? [SM]

  - Create a Provision of ₹ 5,50,000
  - Make a Disclosure of a contingent liability of ₹ 5,50,000
  - Create a Provision of ₹ 50,000 and make a disclosure of contingent liability of ₹ 5,00,000
  - Create a Provision of ₹ 5,00,000

## AS 29: Provisions, Contingent Liabilities and Contingent Assets

5. Contingent Liability is disclosed [**Portal**]
- (a) In Directors Report
  - (b) Auditors Report
  - (c) In Notes to Accounts
  - (d) In Liabilities Side of the Balance Sheet
6. X Ltd. has entered into a binding agreement with Beta Ltd. to buy a custom made machine for ₹ 2 lakhs. During the year 2024-25 X Ltd has to change its method of production due to changes in market trend. Before the delivery of the machine, X Ltd had already changed its method of production and the new method will not require the machine ordered. Now the company decides to scrap it after delivery. The expected scrap value is ₹ 25,000. Machine was received on 10th October, 2024 and was scrapped on 15th October, 2024. The correct accounting treatment for above machine in the year 2024-25 is [**SA May 25**]
- (A) Machine A/c to be debited with ₹ 2 lakhs and Bank A/c to be credited with ₹ 2 lakhs.
  - (B) Impairment A/c to be debited with ₹ 1.75 lakhs and Bank A/c to be credited with ₹ 1.75 lakhs.
  - (C) Profit and Loss A/c to be debited with ₹ 2 lakhs and Bank A/c to be credited with ₹ 2 lakhs.
  - (D) Profit and Loss A/c to be debited with ₹ 1.75 lakhs and Bank A/c to be credited with ₹ 1.75 lakhs.

### Answer Key

1	2	3	4	5	6
a	b	c	c	c	d

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# CHAPTER - 28

## Preparation of Financial Statements of Companies

### GENERAL MCQs

1. Trade payables as per Schedule III will include: **[SM]**
  - (a) Dues payable in respect to statutory obligation
  - (b) Interest accrued on trade payables
  - (c) Bills payables
  - (d) Bills receivables
2. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading: **[SM]**
  - (a) Reserves and Surplus
  - (b) Current Liabilities
  - (c) Share Capital
  - (d) Share application money pending allotment
3. "Fixed assets held for sale" will be classified in the company's balance sheet as **[SM]**
  - (a) Current asset
  - (b) Non-current asset
  - (c) Capital work- in- progress
  - (d) Deferred tax assets
4. Current maturities of long- term debt will come under **[SM]**
  - (a) Current Liabilities.
  - (b) Short term borrowings.
  - (c) Long term borrowings.
  - (d) Short term provisions
5. Declaration of dividends for current year is made after providing for **[SM]**
  - (a) Depreciation of past years only.
  - (b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
  - (c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
  - (d) Excluding current year depreciation
6. "Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III as: **[SA Sept 24]**
  - (a) Deferred Tax Assets
  - (b) Current Asset
  - (c) Non-Current Asset
  - (d) Long term Investments
7. 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. As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows: **[Booklet /MTP2 Sept 25/RTP May 25]**

## Preparation of Financial Statements of Companies

- (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.
8. Past Ltd. had the following items under the head "Reserves and Surplus" the Balance Sheet as on 31st March 2025:
- |                            | (Amount ₹ in lakhs) |
|----------------------------|---------------------|
| Securities Premium Account | 90                  |
| Capital Reserve            | 40                  |
| Revaluation Reserve        | 70                  |
- The company had an accumulated loss of ₹ 280 lakhs on the same date, which was disclosed under the head "Statement of Profit and Loss" as asset in Balance Sheet. What should be disclosed on the face of Balance Sheet as per Schedule III to the Companies Act, 2013? **[SA May 25]**
- (a) Reserve and Surplus-Securities premium 90 lakhs; others ₹ 110 lakh and Accumulated loss ₹ 280 lakhs in the Asset side.
- (b) Reserve and Surplus ₹ 200 lakhs; and Accumulated loss ₹ 280 lakhs in the Asset side.
- (c) Reserve and Surplus – ₹ 200 lakhs only
- (d) Reserve and Surplus – ₹ 80 lakhs only
9. Glow Limited had taken a loan of ₹ 5,00,000 in June, 2023. The loan is to be repaid in 10 half yearly equal installments starting from December, 2023. Determine how the remaining loan will be classified in the Balance Sheet as on 31st March, 2024 as per Schedule III of the Companies Act, 2013? **[SA Jan 25]**
- (a) ₹ 3,50,000 is to be shown under the head 'Long term borrowings and ₹ 1,00,000 is to be shown under the head 'Short term borrowings'
- (b) ₹ 3,50,000 is to be shown under the head 'Long term borrowings and ₹ 75,000 is to be shown under the head "Short term borrowings" and ₹ 25,000 is to be shown under the head 'Other Current liabilities.'
- (c) ₹ 4,50,000 is to be shown under the head 'Long term borrowings'
- (d) ₹ 3,50,000 is to be shown under the head 'Long term borrowings' and ₹ 1,00,000 is to be shown under the head 'Other Current liabilities.'

### Answer Key

1	2	3	4	5	6	7	8	9
c	a	a	b	b	b	c	d	a

Detailed SolutionQuestion 8

Securities Premium Account	90
Capital Reserve	40
Revaluation Reserve	70
P&L	(280)
<b>Balance of Reserve &amp; Surplus</b>	<b>(80)</b>

Question 9

Loan amount	5,00,000
Less: EMI paid in 31.12.23 [5,00,000/10 years]	(50,000)
Loan amount outstanding on 31.03.24	4,50,000
Less: Repayable within next 12 months [50,000 + 50,000] <b>Short term borrowing</b>	(1,00,000)
<b>Long term borrowing</b>	<b>3,50,000</b>



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# CHAPTER - 29

## Buy Back of Securities

### GENERAL MCQs

1. As per section 68(1) of the Companies Act, buy-back of shares by the company, shall not exceed **[SM]**
  - (a) 25% of the total paid-up capital and free reserves of the company
  - (b) 20% of the total paid-up capital and free reserves of the company
  - (c) 15% of the total paid-up capital and free reserves of the company
  - (d) 10% of the total paid-up capital and free reserves of the company
2. The companies are permitted to buy-back their own shares out of **[SM]**
  - (a) Free reserves and Securities premium
  - (b) Proceeds of the issue of any shares
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
3. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to **[SM]**
  - (a) Revenue redemption reserve
  - (b) Capital redemption reserve
  - (c) Buy-back reserve
  - (d) Special reserve
4. State which of the following statements is true? **[SM/MTP1 Sept 25]**
  - (a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves
  - (b) Partly paid shares cannot be bought back by a company
  - (c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year
  - (d) Partly paid shares can be bought back by a company
5. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against **[SM]**
  - (a) Free reserves
  - (b) Securities premium
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
6. Advantages of Buy-back of shares include to **[SM]**
  - (a) Encourage others to make hostile bid to take over the company
  - (b) Decrease promoters holding as the shares which are bought back are cancelled
  - (c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding
  - (d) All of the above

## Answer Key

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
a	c	b	b	c	c

**CASE SCENARIO BASED MCQs****Case Scenario 1 [MTP 2 Sept 25]**

Asteria Ltd., a listed company with equity share capital of ₹ 6,000 lakh and free reserves of ₹ 10,000 lakh as per the latest audited balance sheet, proposes to buy back 20% of its equity capital at ₹ 40 per share. The Articles of Association authorize buy-back. The Board passed a resolution in March 2025 to proceed. To fund this, the company decided to sell investments worth ₹ 5,000 lakh, which have a book value of ₹ 6,000 lakh. It has existing borrowings of ₹ 9,500 lakh.

The company has not made any default in repayment of term loans, debentures, or dividend payments and has filed all statutory returns under Sections 92, 123, 127, and 129 of the Companies Act, 2013. It had completed its previous buy-back in October 2024.

The Board now seeks to implement the buy-back by July 2025.

On the basis of above solve below mentioned questions:

- 1.1 Can Asteria Ltd. proceed with the buy-back based solely on the Board Resolution?
  - (a) Yes, because Board Resolution is always sufficient
  - (b) No, it must always be by special resolution in general meeting.
  - (c) No, because 20% buy-back exceeds the 10% limit allowed for Board Resolution alone
  - (d) Yes, because the Articles authorize it and 20% is within the 25% limit
- 1.2 What is the maximum permissible buy-back limit for Asteria Ltd. under the Resource Test as per Section?
  - (a) ₹ 4,000 lakh
  - (b) ₹ 5,000 lakh
  - (c) ₹ 6,500 lakh
  - (d) ₹ 9,000 lakh
- 1.3 After completing the proposed buy-back, will Asteria Ltd. satisfy the Debt-Equity Ratio condition under Section?
  - (a) Yes, because total debt is within 2:1 ratio post buy-back
  - (b) No, because the loss on investment increases the debt
  - (c) No, because buy-back reduces reserves, tightening equity base
  - (d) Yes, because CRR creation boosts equity buffer

## Answer Key

<b>1.1</b>	<b>1.2</b>	<b>1.3</b>
c	a	a

**Case Scenario 2 [SA May 25]**

Following information is given by Z Ltd as o 31st March 2025:

₹ in lakhs

Equity shares of ₹ 10 each fully paid up	800
11% Redeemable Preference shares of ₹ 100 each fully paid up	200
Capital redemption Reserve	50
Securities Premium	100
General Reserve and profit and Loss (Combined balance)	600
9% Debentures	250
Current Liabilities	10
Fixed Assets	1200
Investments	95
Cash at bank	320
Other Current Assets	840

On 1st April, 2024 Z Ltd redeemed all its preference shares at a premium of 5%. Z Ltd. bought back 8,00,000 equity shares @ ₹ 20 per share.

Buy back is fully authorized by Z Ltd.'s articles and necessary resolution has been passed for this. The payment for buy back of shares will be made through available balance in bank account.

To finance Redemption of preference shares and buy back of shares, company has decided to sell its investments for ₹ 98 Lakhs.

Z Ltd had 80,000 Equity stock options outstanding on the above-mentioned date, to the employees @ ₹ 15 per share when the market price was ₹ 20 per share. (This was included under the head current liabilities). On 1st April, 2024: 70% of the employees exercised their options.

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

2.1 What will be the balance of capital redemption reserve as on 31st March 2025?

- (a) ₹ 280 Lakhs
- (b) ₹ 330 Lakhs
- (c) ₹ 250 Lakhs
- (d) ₹ 130 Lakhs

2.2 What will be the Cash and Bank Balance as on 31st March 2025?

- (a) ₹ 56.40 Lakhs
- (b) ₹ 66.40 Lakhs
- (c) ₹ 59.20 Lakhs
- (d) ₹ 48 Lakhs

2.3 What will be the Balance of Reserves as on 31st March 2025 excluding capital redemption Reserve?

- (a) General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 10 lakhs
- (b) General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 10 lakhs
- (c) General Reserve and Profit Loss ₹ 323 Lakhs and securities Premium ₹ 15.60 lakhs
- (d) General Reserve and Profit Loss ₹ 243 Lakhs and securities Premium ₹ 15.60 lakhs

## Answer Key

2.1	2.2	2.3
b	a	c

**Case Scenario 3 [Booklet/MTP1 May 25]**

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2024:

	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	1,70,000	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 12.09.2024 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.

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 09.12.2024.

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

3.1 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

3.2 What is the maximum permitted equity as per debt- equity ratio test.

- (a) ₹ 20,00,000
- (b) ₹ 28,00,000
- (c) ₹ 15,00,000
- (d) ₹ 13,50,000

3.3 What will be future equity shareholding fund if a company buys back shares as per debt-equity ratio test?

- (a) ₹ 48,000
- (b) ₹ 48,60,000

(c) ₹ 42,80,000

(d) ₹ 46,00,000

3.4 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

**Answer Key**

3.1	3.2	3.3	3.4
b	a	d	a

**Case Scenario 4 [Booklet/ MTP2 May 24]**

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 total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10.
- **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.

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

(a) ₹ 12,95,000

(b) ₹ 21,00,000

(c) ₹ 32,50,000

(d) ₹ 6,00,000

4.2 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

- 4.3 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

**Answer Key**

<b>4.1</b>	<b>4.2</b>	<b>4.3</b>
b	a	b

**Case Scenario 5 [Booklet/ MTP2 Sept 24]**

Aazad Ltd. has the following particulars:

Particulars	₹ (lacs)
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:

- 5.1 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
- 5.2 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
- 5.3 Total amount to be transferred to Capital Redemption Reserve:
- (a) ₹ 2,000 lakhs

- (b) ₹ 4,500 lakhs
- (c) ₹ 2,500 lakhs
- (d) ₹ 1,750 lakhs

5.4 Cash balance after buyback

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

### Answer Key

5.1	5.2	5.3	5.4
b	a	b	d

### Case Scenario 6 [Booklet/MTP2 May 25/MTP1 May 24]

Hello 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, Hello Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

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

- (i) Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) ₹ 12,50,000
- (ii) Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000
- (iii) Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans ₹ 16,50,000
- (iv) 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.

Answer the following questions on the basis of above information:

6.1 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

6.2 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

- 6.3 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
- 6.4 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

**Answer Key**

6.1	6.2	6.3	6.4
b	d	c	c

**Case Scenario 7 [Booklet/MTP2 Jan 25/MTP1 Sept 24]**

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:

- 7.1 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
- 7.2 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

- 7.3 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
- 7.4 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

**Answer Key**

7.1	7.2	7.3	7.4
b	b	c	d

**Detailed Solution**

**Case Scenario 1**

Equity share capital	6,000
Add: Free reserve	10,000
Existing Equity	16,000
Permissible buy-back limit under the Resource Test (16,00 x 25%) <b>[1.2]</b>	4,000
Existing Equity	16,000
Less: Minimum equity to be retained (9,500 x 50%)	(4,750)
Excess equity including CRR	11,250
÷ (Buy back price + Face value) (40 + 10)	50
Maximum possible buy back by debt equity ratio test	225 E.S.
Desired buy back (6,000 x 20%) = 1,200 ÷ 10	120 E.S.
Since desired buy back is less than limit so it is fulfilling debt equity ratio test <b>[1.3]</b>	

**Case Scenario 2**

<b>Balance of Capital Redemption Reserve (CRR)</b>	<b>Lakhs</b>
Existing	50
Add: CRR on Redemption of P.S.	200
Add: CRR on Buy Back	80
<b>[2.1]</b>	<b>330</b>

<b>Cash &amp; Bank Balance</b>	<b>Lakhs</b>
Existing	320
Add: Sale of Investment	98
Add: Issue of shares (56,000 x 15)	8.40
Less: Payment on buy back (8,00,000 x 20)	(160)
Less: Payment on Redemption of P.S. (2,00,00,000 x 105%)	(210)
<b>[2.2]</b>	<b>56.40</b>

<b>[2.3]</b>	<b>Lakhs</b>	<b>Lakhs</b>
<b>GR And P&amp;L Balance:</b>		
Existing	600	
Add: Profit on sale of Investment	3	
Less: Create CRR (200 + 80)	(280)	<b>323</b>
<b>Security Premium:</b>		
Existing	100	
Add: Premium on issue of ESOP (56,000 x 100)	5.60	
Less: Premium on buy back (8,00,000 x 10)	(80)	
Less: Premium on Redemption of P.S. (2,00,00,000 x 5%)	(10)	<b>15.60</b>

**Case Scenario 3 Booklet/MTP1 May 25 [Buy Back of Securities]**

Equity share capital	24,00,000
Add: Free reserve & SP [20,50,000 + 2,00,000 + 7,50,000]	30,00,000
Existing Equity	54,00,000
Less: Minimum equity to be retained (52,00,000 x 50%)	26,00,000
Excess equity including CRR	28,00,000
÷ (Buy back price + Face value) (25 + 10)	35
Maximum possible number of equity shares to be buy back by debt equity ratio test <b>[3.1]</b>	80,000
Maximum permitted equity as per debt- equity ratio test [80,000 E.S. x 25] <b>[3.2]</b>	20,00,000
Existing Equity	54,00,000
Less: Total face value of buy back [80,00 E.S. x 10]	8,00,000
Future equity shareholding fund as per the result of the debt- equity ratio test <b>[3.3]</b>	46,00,000
Existing Equity	54,00,000
Permissible number of equity shares to be buy-back by Resource Test (54,00,000 x 25%)/25	54,000 <b>[3.4]</b>

**Case Scenario 4**

Equity share capital	30,00,000
Add: Free reserve & SP [32,50,000 + 6,00,000 + 4,30,000]	42,80,000
Existing Equity	72,80,000
Less: Minimum equity to be retained (42,00,000 x 50%) [4.1]	21,00,000
Excess equity including CRR	51,80,000
÷ (Buy back price + Face value) (30 + 10)	40
Maximum possible number of equity shares to be buy back by debt equity ratio test [4.3]	1,29,500
Maximum permitted equity as per debt- equity ratio test [1,29,500 E.S. x 30] [4.2]	38,85,000

**Case Scenario 5**

<b>Profit or loss on sale</b>	<b>Lakhs</b>
Sale	3,000
Cost of sales [3,000 x 1,000/1,500]	2,000
[5.1]	<b>1,000</b>

<b>Securities Premium available for Buyback after redemption of Preference Shares</b>	<b>Lakhs</b>
Existing balance of SP	800
Less: premium on redemption of buy back [2,500 x 10%]	250
[5.2]	<b>550</b>

<b>CRR</b>	<b>Lakhs</b>
On redemption of preference share	2,500
On buy back	2,000
[5.3]	<b>4,500</b>

<b>Cash &amp; Bank Balance</b>	<b>Lakhs</b>
Existing	1,650
Add: Sale of Investment	3,000
Add: Loan taken	2,000
Less: Payment on buy back	(3,000)
Less: Payment on Redemption of P.S.	(2,750)
[5.4]	<b>900</b>

**Case Scenario 6**

Shares Outstanding Test $[1,25,000 \times 25\%]$ [6.1]	31,250 E.S.
Equity share capital	12,50,000
Add: Free reserve & SP $[2,50,000 + 1,25,000 + 15,00,000]$	18,75,000
Existing Equity	31,25,000
Resource Test $[31,25,000 \times 25\%]/20$ [6.2]	39,062 E.S.
Existing Equity	31,25,000
Less: Minimum equity to be retained $(45,25,000 \times 50\%)$	22,62,500
Excess equity including CRR	8,62,500
$\div$ (Buy back price + Face value) $(20 + 10)$	30
Maximum possible number of equity shares to be buy back by debt equity ratio test [6.3]	28,750 E.S.
Shares Outstanding Test	31,250 E.S.
Resource Test	39062 E.S.
Maximum possible number of equity shares to be buy back by debt equity ratio test	28,750 E.S.
Maximum [Lowest] [6.4]	28,750 E.S.

**Case Scenario 7**

Shares Outstanding Test $[1,70,000 \times 25\%]$ [7.2]	42,500 E.S.
Equity share capital	17,00,000
Add: Free reserve & SP $[23,50,000 + 2,50,000 + 2,00,000]$	28,00,000
Existing Equity	45,00,000
Resource Test $[45,00,000 \times 25\%]/30$ [7.3]	37,500 E.S.
Existing Equity	45,00,000
Less: Minimum equity to be retained $(46,50,000 \times 50\%)$	23,25,000
Excess equity including CRR	21,75,000
$\div$ (Buy back price + Face value) $(30 + 10)$	40
Maximum possible number of equity shares to be buy back by debt equity ratio test [7.4]	54,375 E.S.

# CHAPTER - 30

## Internal Reconstruction

### GENERAL MCQs

1. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called **[SM]**
  - (a) Internal reconstruction with liquidation
  - (b) Internal reconstruction without liquidation of the company
  - (c) External reconstruction
  - (d) None of the above.
2. The accumulated losses under scheme of internal reconstruction are written off against **[SM]**
  - (a) Capital Reduction account
  - (b) Share Capital account
  - (c) Shareholders' account
  - (d) Reserve and surplus
3. A process of reconstruction, which is carried out without liquidating the company **[SM]**
  - (a) Internal reconstruction
  - (b) External reconstruction
  - (c) Amalgamation in the nature of merger
  - (d) Amalgamation in the nature of purchase
4. Reconstruction is a process by which affairs of a company are reorganized by **[SM]**
  - (a) Revaluation of assets and Reassessment of liabilities
  - (b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares
  - (c) Both (a) and (b)
  - (d) None of the above
5. For reduction of the share capital, the permission has to be sought from **[SM]**
  - (a) Court
  - (b) Controller
  - (c) State government
  - (d) Shareholders
6. In case of internal reconstruction **[SM]**
  - (a) Only one company is liquidated
  - (b) Two or more companies are liquidated
  - (c) No company is liquidated
  - (d) Two companies amalgamated

7. During the process of Internal Reconstruction, JAY Ltd has come across the following adjustment:  
There is a contingent liability for which no provision had been made. This contingent liability was settled at ₹ 7,500 and also ₹ 6,000 was recovered from the insurance company in this regard.  
Which of the following is the correct treatment for the above adjustment? **[SA May 25]**
- (a) Reconstruction A/c Dr ₹ 1,500 and Bank A/c Cr ₹ 1,500
  - (b) Reconstruction A/c Dr ₹ 7,500 and Bank A/c Cr ₹ 7,500
  - (c) Contingent Liability A/c Dr ₹ 1,500 and Bank A/c Cr ₹ 1,500
  - (d) Profit and Loss A/c Dr 1,500 and Bank A/c Cr ₹ 1,500

**Answer Key**

1	2	3	4	5	6	7
b	a	a	c	a	c	a

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# CHAPTER - 31

## Accounting for Branches Including Foreign Branches

### GENERAL MCQs

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by [SM]
  - (a) Debtors method
  - (b) Stock and debtors method
  - (c) Either (a) or (b)
  - (d) Both (a) and (b)
2. Under branch trading and profit loss account method [SM]
  - (a) H.O prepares profit and loss account
  - (b) Each branch is treated separate entity
  - (c) Both (a) and (b)
  - (d) Either (a) or (b)
3. Goods may be invoiced to branch at [SM]
  - (a) Cost or Selling price
  - (b) Wholesale price
  - (c) Both (a) and (b)
  - (d) Either (a) or (b)
4. Under debtors method, opening balance of debtors is [SM]
  - (a) Debited to branch account
  - (b) Credited to branch account
  - (c) Debited to H.O account
  - (d) Credited to H.O account
5. Cost of goods returned by branch will have the following effect [SM]
  - (a) Goods sent to branch account will be debited
  - (b) Branch stock account will be credited
  - (c) Both (a) and (b)
  - (d) Either (a) or (b)

### Answer Key

1	2	3	4	5
c	c	c	a	c

# CHAPTER - 32

## Mixed Topics Case Scenario Based MCQs

### Case Scenario 1 [Booklet]

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.

AB Ltd. has identified five segments 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
N	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	40,50,000	9,00,000	6,75,00,000
			<b>5,94,00,000</b>	<b>63,00,000</b>	<b>25,65,00,000</b>

#### 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.

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

1.1 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

- 1.2 What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1st April 2023?
- Create DTA ₹ 75,000
  - Reverse DTA ₹ 75,000
  - Create DTL ₹ 75,000
  - Reverse DTL ₹ 75,000
- 1.3 What is the total cost that should be capitalized for a trademark related to the new process?
- ₹ 75,00,000
  - ₹ 73,00,000
  - ₹ 72,00,000
  - ₹ 70,00,000
- 1.4 How should subsidy received be accounted in the books of the company?
- Credit into capital reserve
  - Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation
  - Both A & B are permitted
  - Credit it to General Reserve

Answer Key

1.1	1.2	1.3	1.4
d	c	b	a

**Case Scenario 2 [Booklet]**

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 01.04.2023	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 SLM 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 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:

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 accrue evenly)

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

- 2.1 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
- 2.2 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
- 2.3 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
- 2.4 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

## Answer Key

2.1	2.2	2.3	2.4
b	d	c	c

**Case Scenario 3 [Booklet/SA Sept 24]**

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4000 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.

1000 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 1500 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 question:

- 3.1 What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?
- Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
  - Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
  - Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000
  - Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000
- 3.2 Cost of Self Constructed Asset as per AS 10 will be?
- ₹ 2,92,500
  - ₹ 2,77,500
  - ₹ 3,05,000
  - ₹ 2,90,000
- 3.3 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 ?
- ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c
  - ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c
  - ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c
  - Whole of ₹40,000 interest to be charged to Profit & Loss A/c

- 3.4 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

**Answer Key**

<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>
b	c	a	d

**Case Scenario 4 [Booklet]**

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 31 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:

- 4.1 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
- 4.2 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
- 4.3 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

**Answer Key**

4.1	4.2	4.3
a	c	a

**Case Scenario 5 [SA Jan 25]**

On 1st April, 2019, Black Limited received a government grant of ₹ 15,00,000 for acquisition of a Machine costing ₹ 50,00,000. The grant was credited to the cost of the Machine. The life of the Machine is expected to be 10 years and estimated residual value at the end of 10 years is ₹ 5,00,000. The company charges depreciation on straight line basis.

Due to non-fulfillment of certain conditions the company had to refund the entire grant on 1st April, 2021.

On 31st March, 2023, Black Limited received certain indications of impairment of the Machine and the recoverable amount was ascertained to be ₹ 28,00,000 with revised useful life of 4 years and nil residual value.

On 1st April, 2024, the company exchanged the Machine by paying cash of ₹ 2,00,000 and new Machine valued at ₹ 18,00,000.

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

- 5.1 What will be the carrying amount of the Machine as on 31st March, 2021 after charging depreciation for the year?
- (a) ₹ 28,00,000
  - (b) ₹ 26,00,000
  - (c) ₹ 41,00,000
  - (d) ₹ 29,00,000
- 5.2 What will be the amount of depreciation to be charged on the Machine for the year ended 31st March, 2022?
- (a) ₹ 4,87,500
  - (b) ₹ 6,37,500
  - (c) ₹ 4,50,000
  - (d) ₹ 5,37,500

- 5.3 What will be the impact of test of impairment on Profit & Loss Account of the company?
- Impairment loss of ₹ 4,00,000 to be debited to Profit & Loss A/c
  - Impairment loss of ₹ 4,25,000 to be debited to Profit & Loss A/c
  - Impairment loss of ₹ 6,25,000 to be debited to Profit & Loss A/c
  - Impairment loss of ₹ 15,25,000 to be debited to Profit & Loss A/c
- 5.4 What will be the amount of Profit or Loss on exchange of Machine as on 1st April, 2024?
- Loss of ₹ 5,00,000
  - Loss of ₹ 1,00,000
  - Profit of ₹ 1,00,000
  - Loss of ₹ 3,00,000

**Answer Key**

5.1	5.2	5.3	5.4
d	a	c	a

**Case Scenario 6 [Booklet/ MTP1 May 24]**

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 [non speculation] 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:

- Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- 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, 2006.

- 6.1 What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
- Gross basis
  - Net basis
  - Depends on the accounting policy of the Company
  - Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis
- 6.2 Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
- MTM (marked to market value) of contract will be recorded on 31 March 2024
  - 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
  - No accounting will be done during the year ended 31 March 2024
  - Premium on contract will be amortized over the life of the contract
- 6.3 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.
- i – Change in accounting policy. ii – Change in accounting policy
  - i– Not a change in accounting policy. ii – Change in accounting policy
  - i – Not a change in accounting policy. ii – Not a change in accounting policy
  - i– Change in accounting policy. ii – Not a change in accounting policy
- 6.4 Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
- ADI Ltd. would using 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
  - 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%
  - 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
  - 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

**Answer Key**

<b>6.1</b>	<b>6.2</b>	<b>6.3</b>	<b>6.4</b>
a	d	c	c

**Case Scenario 7 [Booklet/ MTP1 May 24]**

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:

Particulars	₹
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 1st 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:

- 7.1 Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
- ₹ 2,00,000 incurred as legal cost
  - ₹ 60,000 costs of relocating employees
  - ₹ 80,000 costs of inauguration ceremony
  - ₹ 24,000 allocated general overhead cost
- 7.2 What amount of employment cost of construction workers will be capitalized to the cost of factory building?
- ₹ 2,90,000
  - ₹ 3,48,000
  - ₹ 2,32,000
  - ₹ 29,000

- 7.3 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
- 7.4 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

**Answer Key**

<b>7.1</b>	<b>7.2</b>	<b>7.3</b>	<b>7.4</b>
a	c	d	b

**Case Scenario 8 [Booklet/RTP May 24]**

RTS Ltd, (“RTS” or the “Company”), is engaged in the business of manufacturing of equipment/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 provides 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, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was ₹ 1,000. The entire quantity of waste was on stock at the end of the financial year.

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.

- 8.1 When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?
- (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
  - (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
  - (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections
  - (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.
- 8.2 In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts?
- (a) ₹ 47,00,000
  - (b) ₹ 50,00,000
  - (c) ₹ 49,50,000
  - (d) ₹ 49,47,368
- 8.3 Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.
- (a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct
  - (b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct
  - (c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value
  - (d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value
- 8.4 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

8.5 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.

**Answer Key**

8.1	8.2	8.3	8.4	8.5
b	d	d	c	b

**Case Scenario 9 [Booklet /MTP1 May 25/MTP 2 May 24]**

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

9.1 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

- 9.2 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
- 9.3 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
- 9.4 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

**Answer Key**

9.1	9.2	9.3	9.4
c	b	c	d

**Case Scenario 10 [Booklet / MTP 2 Jan 25]**

Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

- The cost of land acquired for Project is ₹ 10 crore
- Cost of construction incurred is ₹ 25 crores.
- The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.
- The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.
- At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.
- The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.
- Ignore the effect of depreciation, if any.

In view of above information, answer the following issues:

- 10.1 At the end of Year 1, how the building should be classified:
- (a) Inventory  
 (b) Investments

(c) Property, Plant and Equipment

(d) Intangible Asset

10.2 At the end of Year 1, at value Project should be recognised:

(a) ₹ 40 Crore

(b) ₹ 35 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

10.3 At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:

(a) Inventory

(b) Investments

(c) Property, Plant and Equipment

(d) Intangible Assets

10.4 At the end of Year 2, the Project should be valued at:

(a) ₹ 40 Crore

(b) ₹ 35.50 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

**Answer Key**

10.1	10.2	10.3	10.4
a	b	c	b

**Case Scenario 11 [MTP 2 Jan 25]**

Supercool ltd. is a manufacturing company, engaged in manufacturing eco- friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.

The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly. ₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent ₹ 50 lacs on revenue expenditure. The Plant and Machinery was ready for its intended use on September 30, 2023. The depreciation on plant and machinery is charged @10%.

11.1 The grant of ₹ 20 crores received by the Company should be presented as:

(a) Grants related to Revenue

(b) Grants related to Specific Fixed Assets

(c) Capital Reserve

(d) Other Income

11.2 At what value the plant and machinery acquired should be recognised as at 31st March 2024:

- (a) ₹ 11.10 Crore
- (b) ₹ 11 Crore
- (c) ₹ 10.54 Crore
- (d) ₹ 11.60 Crore

11.3 The revenue expenditure of ₹ 50 lacs should be recognised as:

- (a) Part of Plant and Machinery
- (b) Part of Grant
- (c) Revenue expenditure in the Profit and Loss
- (d) Deducted from loan

11.4 Which of the following statement is true:

- (a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value
- (b) Plant and Machinery belongs to Financial Institution
- (c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment
- (d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

**Answer Key**

11.1	11.2	11.3	11.4
c	c	c	c

**Case Scenario 12 [SA May 25]**

Health India Limited (HIL), incorporated under the Companies Act, 2013, is engaged in the production and distribution of medicines. It has manufacturing plants at Baddi (Himachal Pradesh) and Bhopal (Madhya Pradesh). It also imports medicines from Pharma Inc. New York (United States).

On 1st Jan 2024, HIL sold 2,00,000 strips of Medicine to Dee Limited for ₹ 50 Lakhs on 60 days of credit. Cost per strip of this medicine, was ₹ 20. (i.e.) total cost ₹ 40 Lakhs (2,00,000 strips@₹ 20). Dee Ltd. paid 20% of the amount due on 5th January, 2024. In March 2024, Dee Limited is having significant cash flow issues and is trying to raise funds through bank loan to run its operations. However, it is unable to do so and not able to release payment to HIL on due date. Subsequent to this, it has gone under liquidation on 15th March, 2024. At the time when medicine was sold by HIL to Dee Limited, there was no reason for HIL to believe that it will not be able to collect the sales proceeds from Dee Limited in future.

On 1st April, 2023 HIL has made an investment of ₹ 200 Lakhs in the equity shares of Rose Limited of which 50% is made in the long-term category i.e. long-term investment and rest as temporary investment i.e. current investment. The realisable value of all such investments on 31st March, 2024 becomes ₹ 50 Lakhs as Rose Limited lost a copyright. From the given market conditions, it is apparent that the reduction in the value of investment is not temporary in nature.

HIL imported medicine from Pharma Inc. for a sum. of US \$ 2,50,000 on 1st January, 2024. HIL released full payment on 17th April, 2024 to Medicine Ltd. The exchange rates are as follows:

	Exchange rate per \$
1st April, 2023	₹ 76
1st January, 2024	₹ 81
31st March, 2024	₹ 80
17th April, 2024	₹ 79

HIL is working on a strategic plan to close the production unit of Bhopal due to change in technology. The board of directors approved the closure of Bhopal Plan on 1st March, 2024. The company did a formal announcement regarding closure to the affected parties on 10th March, 2024. The company entered into a binding- sale agreement on 21 April, 2024.

Reporting date of the company is 31st March,2024.

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

- 12.1 How the recognition of revenue from sales of medicine to Dee Limited will be done by HIL under AS 9 and what would be the treatment of unrealized amount for the year ended 31st March, 2024?
- Revenue will be recognised for ₹ 50 Lakhs, subsequently unrealized amount ₹ 50 lakhs will be debited to bad debts A/c
  - Revenue will be recognised for ₹ 40 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c
  - Revenue will be recognised for ₹ 50 Lakhs, subsequently unrealized amount ₹ 40 lakhs will be debited to bad debts A/c
  - Revenue will be recognised for ₹ 40 Lakhs, unrealised amount of ₹ 40 lakhs will be shown in Sundry Debtors list
- 12.2 How will you recognize the reduction in the value of the investments in the financial statements for the year ended 31st March 2024 as per AS 13 (Revised)?
- The reduction of ₹ 50 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments
  - The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments
  - The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 Lakhs in the carrying value of long-term investment will also be charged to the profit and loss account
  - The reduction of ₹ 75 Lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 Lakhs in the carrying value of long-term investment will also be charged to capital reserve account
- 12.3 Ascertain the loss/gain due to change in foreign exchange rates to be recognised in the financial statements for the year ended 31st March, 2024 as per 11
- ₹ 2,50, 000 Exchange gain should be credited to profit and loss account
  - ₹ 5,00,000 Exchange gain should be credited to profit and loss account
  - ₹ 5,00,000 Exchange loss should be debited to profit and loss account
  - ₹ 2,50,000 Exchange loss should be debited to profit and loss account

12.4 What would be the date of "initial disclosure of event" be considered for Bhopal Plant?

- (a) 31<sup>st</sup> March, 2024
- (b) 1<sup>st</sup> March, 2024
- (c) 21<sup>st</sup> April, 2024
- (d) 10<sup>th</sup> March, 2024

**Answer Key**

12.1	12.2	12.3	12.4
c	c	a	d

**Case Scenario 13 [Booklet]**

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.
- 13.1 In the original scenario, how should the subsidy granted in June, 20X2, be treated in the FS?
- (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
- 13.2 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
- 13.3 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

## Answer Key

13.1	13.2	13.3
c	a	a

**Case Scenario 14 [Booklet/MTP2 Sept 25]**

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 overall investment of ₹ 50 crores 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:

- 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.
- Provision made for donation of ₹ 5 million expected to be made in the second quarter.
- Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
- 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

14.1 In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?

- Accounting treatment desired by the company is correct.
- 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
- 14.2 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
- (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
- (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
- 14.3 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
- 14.4 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
- 14.5 Compute the borrowing cost which can be capitalized in the books of SHB Ltd as per the above-mentioned fact pattern.
- (a) ₹ 41,000
- (b) ₹ 48,100
- (c) ₹ 89,100
- (d) ₹ 51,000

**Answer Key**

14.1	14.2	14.3	14.4	14.5
b	d	d	c	d

**Case Scenario 15 [MTP1 Sept 25]**

SBHA Ltd deals in business of manufacturing, purchase and sale of rice. The company has around 56 acres of land as part of its property, plant and equipment which is stated at cost in its financial statements. As per the new business model, 30 acres of land falls in the residential zone which the company is planning to develop residential area as a plotted development and would like to sell the plots after development.

The company does not have intention of keeping the property development as a business on long-term basis, as the company does not have any objective to receive any income in the form of the capital appreciation or rent as per the proposed business plan and the company wants to sell the plots after development (irrespective of the construction of houses on land).

SBHA Ltd has two equal joint venturers holding 50% each, KSJ one of them. The other company is from outside the KSJ Group. KSJ Group has three companies (one of them is KSJ Ltd and two more companies), each of which hold some equity shares in the joint venture which aggregates 50%.

One of the KSJ Group of companies, ADK Ltd, is engaged in generation of power which is supplied to various Electricity Boards. One of the terms and conditions of the Tariff Regulatory Authority and the tariff agreement is that the income tax relating to the power generating schemes will be reimbursed by the Electricity Boards on quarterly basis before the payment of advance income tax.

RIMMI Ltd, another KSJ Group company, is into shipping business and has an annual turnover of ₹ 1,000 crores. It is required by law to bring all its vessels into dry dock every five years for major overhaul. This cost is incurred to get the vessel back to its seaworthy condition. A vessel costs ₹ 20 crores with a useful life of 20 years and it requires major overhaul every 5 years. The estimated cost of first overhaul is ₹ 5 crores.

In the previous year, RIMMI Ltd had impaired one of its Cash Generating Units (CGU) for a loss of ₹ 100 crores, with ₹ 50 crores allocated to goodwill and the balance allocated to Plant & Machinery and Technical Knowhow for a loss of ₹ 26 crores and ₹ 24 crores respectively. Recoverable amount was not measurable. Carrying amounts at the end of current year after impairment of ₹ 100 crores recorded in previous year were ₹ 427 crores and ₹ 383 crores for Plant & Machinery and Technical Knowhow respectively. Had there been no impairment in the previous year, the carrying amounts at the end of current year would have been ₹ 450 crores and ₹ 405 crores for Plant & Machinery and Technical Knowhow respectively. During the current year, the impairment test proves that the CGU is no longer impaired.

15.1 In respect of abovementioned land in residential zone, what would be the accounting treatment under Indian GAAP?

- (a) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised equivalent to its fair value. Differential will be taken to profit or loss on conversion
- (b) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised equivalent to carrying amount of reclassified property, plant and equipment. Differential will be taken to profit or loss on conversion
- (c) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised at the same amount

## Mixed Topics Case Scenario Based MCQs

- (d) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised at the same amount
- 15.2 In the above-mentioned situation, how would SBHA Ltd be accounted for by joint venturers as per Accounting Standards notified under the Companies (Accounting Standards) Rules?
- (a) Joint venture will be proportionately consolidated by KSJ Ltd only and other venturer outside KSJ Group
- (b) Joint venture will be proportionately consolidated only by venturer outside KSJ Group
- (c) Joint venture will be proportionately consolidated by all the three companies of KSJ Group only, to the extent of their own holding
- (d) Joint venture will be proportionately consolidated by all the three companies of KSJ Group, to the extent of their own holding and other venturer outside KSJ Group (assuming each one has individual control)
- 15.3 How should the above-mentioned transaction in relation to ADK Ltd be accounted for as per Accounting Standards notified under the Companies (Accounting Standards) Rules?
- (a) Reimbursement should be recorded as revenue
- (b) Reimbursement should be taken to other income
- (c) Reimbursement should be netted from income tax provision
- (d) Reimbursement can be netted from appropriate expense head like rates & taxes
- 15.4 What should be the accounting treatment in the statement of profit and loss of RIMMI Ltd in year 1 in respect of property, plant and equipment?
- (a) Overhauling costs of ₹ 5 crores and depreciation of ₹ 1 crore would be charged to the statement of profit and loss in year 1
- (b) Depreciation of ₹ 2 crores would be charged to the statement of profit and loss in year 1
- (c) Overhauling costs of ₹ 5 crores and depreciation of ₹ 75 lakhs would be charged to the statement of profit and loss in year 1
- (d) Depreciation of ₹ 1.75 crores would be charged to the statement of profit and loss in year 1
- 15.5 What should be the accounting treatment in the books of RIMMI Ltd in respect of impairment of CGU?
- (a) No adjustment would be required
- (b) Reversal of impairment loss should be taken to P&L amounting to ₹ 100 crores
- (c) Reversal of impairment loss should be taken to P&L amounting to ₹ 45 crores
- (d) Reversal of impairment loss should be taken to P&L amounting to ₹ 50 crores

### Answer Key

15.1	15.2	15.3	15.4	15.5
c	d	a	d	c

**Detailed Solution**

**Case Scenario 1**

**Revenue Test:** 10% thresholds = 5,94,00,000 x 10% = 59,40,000

**Profitability Test:** 10% thresholds = 63,00,000 x 10% = 6,30,000

**Asset Test:** 10% thresholds = 25,65,00,000 x 10% = 2,56,50,000

**Accordingly, quantitative thresholds are calculated below:**

Segments	k	L	M	N	O
Revenue Test	No	Yes	Yes	Yes	No
Profitability Test	No	Yes	Yes	Yes	Yes
Asset Test	Yes	No	Yes	Yes	Yes

**Conclusion:** Since every segment is able to fulfill at least anyone criteria of above condition therefore all segments are reportable segments. **[1.1]**

	Depreciation	Impact on Taxable Income	Impact on Current Tax	Impact on Future Tax	Creation of Deferred Tax
Books	7,50,000				
Income Tax	10,00,000	(-)	(-)	Additional tax	DTL
<b>Creation of DTL = [2,50,000 x 30%] = 75,000 [1.2]</b>					

Trademark acquisition	70,00,000
Employee benefits for testing	3,00,000
<b>[1.3]</b>	<b>73,00,000</b>

**Case Scenario 2**

Price of machinery	50,00,000
Initial delivery & handling cost	10,00,000
Cost of site preparation	5,00,000
Present value of estimated dismantling costs to be incurred after 15 years	5,00,000
Total Cost on 1.7.23	70,00,000
Less: Depreciation of 9 months [70,00,000/10 years] x 9/12	(5,25,000)
CV on 31.3.24 <b>[2.1]</b>	<b>64,75,000</b>

Loan on Balance sheet date (62,500 x 82.5) <b>[2.2]</b>	51,56,250
Exchange Difference Loss = (82.5 - 80) x 62,500 <b>[2.2]</b>	1,56,250

Cost of asset 1.4.18	25,00,000
Less: depreciation of 4 years [25,00,000/8 years] x 4 years	(12,50,000)
CV on 31.3.22	12,50,000
Revalued at	18,00,000

Revaluation reserve	5,50,000
CV on 31.3.22 after revaluation	18,00,000
Less: depreciation of 2 years $[18,00,000/5 \text{ years}] \times 2 \text{ years}$	(7,20,000)
CV on 31.3.24	10,80,000
RV on 31.3.24	6,00,000
Impairment loss <b>[2.3]</b>	<b>4,80,000</b>

Cost of investment	14,00,000
Less: pre acquisition dividend received $[1,50,000 \times 35\%]$	52,500
<b>[2.4]</b>	<b>13,47,500</b>

### Case Scenario 3

#### Calculation of cost per unit of raw material and finished goods

Raw Material Cost per unit (given)	₹ 125
Replacement Cost per unit of raw material	₹ 100
Finished goods:	
Raw material used $(125 \times 2)$	₹ 250
Add: labor and overhead $(1,00,000/1,000)$	₹ 100
Cost per unit of FG	₹ 350

#### Valuation of FG stock

Cost per unit	₹ 350
NRV given	₹ 300
Lower	₹ 300
Total value of closing stock of FG $(1,000 \text{ unit} \times 300)$ <b>[3.1]</b>	<b>₹ 3,00,000</b>

#### Valuation of RM stock

Purchase of RM	4,000
Less: used in FG $(1,000 \times 2)$	(2,000)
Used in construction of asset	(1,500)
Closing RM stock in unit	500
Since FG is valued at NRV so RM is to be valued at his replacement cost i.e. 100	
So closing stock of RM = $(500 \times 100)$ <b>[3.1]</b>	<b>₹ 50,000</b>

#### Calculation of cost Asset

Raw Material $(1,500 \times 125)$	₹ 1,87,500
Add: labor and overhead $(1,00,000/1,000)$	₹ 90,000
Installation exp.	₹ 15,000
Interest on QA $(1,87,500 \times 10\% \times 8/12)$	₹ 12,500
Cost of Asset <b>[3.2]</b>	<b>₹ 3,05,000</b>

**Calculation of treatment of borrowing cost**

Total interest ( $6,00,000 \times 10\% \times 8/12$ )	₹ 40,000
Less: interest to be capitalized calculated in question 3.2 [3.3]	₹ 12,500
Interest to be charged to PL [3.3]	<b>₹ 27,500</b>

**Calculation of carrying value of investment and treatment of dividend income**

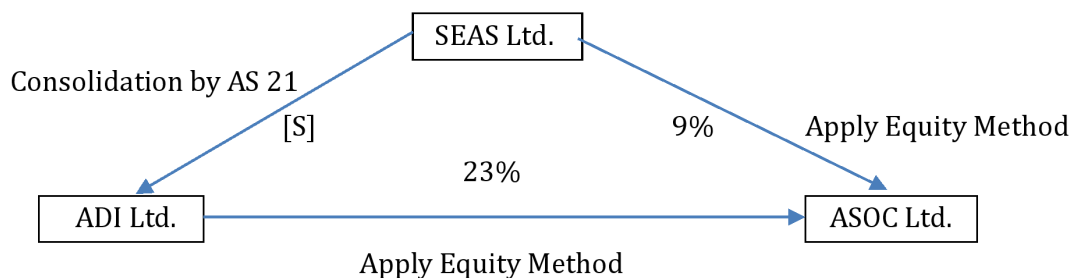
Cost of asset	₹ 1,00,000
Less: Pre acquisition dividend received to be adjusted to cost of investment ( $90,000 \times 20\%$ )	₹ 18,000
Carrying value of investment [3.4]	<b>₹ 82,000</b>

**Case Scenario 5**

Cost of asset on 1.4.19		50,00,000
Less: Grant		(15,00,000)
Revised value on 1.4.19		35,00,000
Less: depreciation 1.4.19 to 31.3.21	$[35,00,000 - 5,00,000/10 \text{ year}] \times 2 \text{ years}$	(6,00,000)
CV on 31.3.21	[5.1]	29,00,000
Add: refund		15,00,000
Revised CV on 1.4.21		44,00,000
Less: depreciation of 31.3.22	$(44,00,000 - 5,00,000)/8 \text{ year}$ [5.2]	(4,87,500)
CV on 31.3.22		39,12,500
Less: depreciation of 31.3.23	$(44,00,000 - 5,00,000)/8 \text{ year}$	(4,87,500)
CV on 31.3.23		34,25,000
RV		28,00,000
IL	Debited to PL [5.3]	6,25,000
Revised CV on 31.3.23	$(34,25,000 - 6,25,000)$	28,00,000
Less: depreciation of 31.3.24	$(28,00,000 - \text{Nil})/4 \text{ year}$	(7,00,000)
CV on 31.3.24		21,00,000
Cash paid		2,00,000
		23,00,000
Value of new machine		18,00,000
Loss on exchange on 1.4.24	[5.4]	5,00,000

**Case Scenario 6**

[6.4]



**Case Scenario 7**

Land		30,00,000
Site preparation		80,000
Employment [7.2]	(29,00 x 8)	2,32,000
Material		21,24,000
Overhead cost	(25,000 x 8)	2,00,000
Borrowing Cost		1,64,000
Total Cost		58,00,000
	Land 30,00,000	Remaining (B/F) 28,00,000
		Roof (25%) 7,00,000
		Other (75%) 21,00,000
Less: Depreciation	Nil	
[7,00,000/20 years] x 3/12		(8,750)
[21,00,000/40 years] x 3/12		(13,125)
Carrying Value	30,00,000	6,91,250
Total CV [7.4]		20,86,875
		<b>57,78,125</b>

**Borrowing cost to be capitalised**

Interest (28,00,000 x 9% x 9/12)	1,89,000
Less: Income from investemnt	(25,000)
[7.3]	<b>1,64,000</b>

**Case Scenario 8**

Total material cost (5,000MT x 1,000)	50,00,000
Number of units normally received = 95% of 5,000	4,750 MT
Normal cost per Kg. [50,00,000/4,750 MT]	1052.63
Closing Stock Cost [4,700 x 1052.63] [8.2]	<b>49,47,368</b>

**Case Scenario 9**

Purchase price	50,00,000
Labour	35,00,000
Safety devices	6,00,000
Borrowing cost to be capitalized [25,00,000 x 12% x 8/12] [9.2]	2,00,000
Total cost of plant [9.3]	<b>93,00,000</b>
Depreciation (as plant is not ready to use so far) [9.4]	<b>Nil</b>

**Case Scenario 10**

Cost of land	10
Construction cost	25
Total cost of inventory	35
NRV of inventory	40
Value of inventory at the end of year 1 [lower] <b>[10.2]</b>	<b>35</b>

Value of inventory	35
Add: Renovation cost	.50
Cost of PPE <b>[10.4]</b>	<b>35</b>

**Case Scenario 11**

Purchase Price	10
Add: Installation	1
Professional fee	.1
	11.1
Less: Depreciation (11.1 x 10% x 6/12)	(.555)
<b>CV [11.2]</b>	<b>10.54</b>

**Case Scenario 12**

**[12.1]**

- Since at time of sale no uncertainty of collection exists so recognize revenue of 50 Lakh 1.1.2024,
- Later Reconise loss of bad debts by debiting to P&L A/c of 40 Lakhs [50 Lakhs – 10 Lakhs] for not recoverable amount.

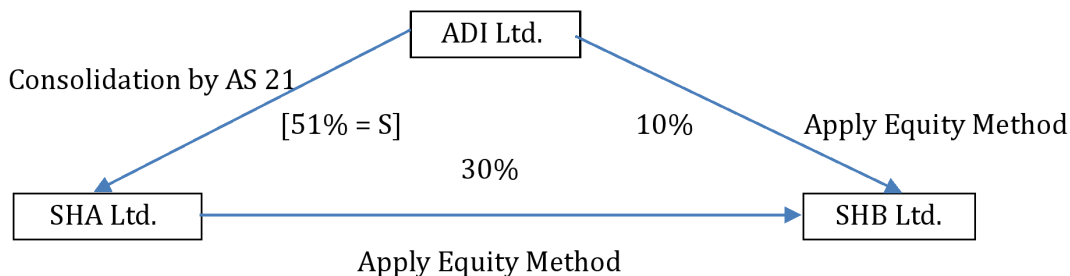
Nature of Investment	Current	Non Current
Cost of Investment [200/2]	100	100
Fair value at the end [50/2]	25	25
Valuation at the end	25	25
	(Lower)	(After adj. of non-temporary decline)
<b>Loss to be debited to P&amp;L A/c [12.2]</b>	<b>(100 - 25) = 75</b>	<b>(100 - 25) = 75</b>

Particulars	Amount
Initial Recognition of creditor on 1.1.20204 (2,50,000 x 81)	2,02,50,000
Closing creditor on 31.3.20024 (2,50,000 x 80)	2,00,00,000
<b>Decrease in creditor (gain to be credited to P&amp;L) [12.3]</b>	<b>2,50,000</b>

Initial Disclosure Event [IDE]	Date
Date of formal plan of retirement approved & announced	10.3.2024
Date of binding sale agreement	21.4.2024
<b>IDE [Whichever is earlier] [12.4]</b>	<b>10.3.2024</b>

**Case Scenario 14**

**[14.2]**



Interest cost to be capitalized $[10,000 \times 5\% \times 82]$			41,000
FED loss on loan amount $[82 - 81] \times 10,000$		10,000 (a)	
Local interest $[10,000 \times 81 \times 11\%]$	89,100		
Less: Actual interest	(41,000)		
Saving in interest		48,100 (b)	
Capitalization of FED loss lower of (a) or (b)			10,000
Total capitalization of borrowing cost <b>[14.5]</b>			<b>51,000</b>

**Case Scenario 15**

Total Cost of PPE	20 crore	
	Overhaul Cost	Other PPE [B.F.]
	5 crore	15 crore
Life	5 years	20 years
Depreciation	$[5 \text{ crore} / 5 \text{ years}] = 1 \text{ crore}$	$[15 \text{ crore} / 20 \text{ years}] = .75 \text{ crore}$
Total Depreciation <b>[15.4]</b>	<b>1.75 crore</b>	