PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2017 EXAMINATION

A. Applicable for May, 2017 examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2016 will be applicable for May, 2017 Examination.

II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for May, 2017examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarises the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10,

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		accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)".	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by

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				replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in the Annexure. The Annexure is given at the end of Accounting Part II Suggested Answers
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.

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	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous

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		other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	expenditure' in Schedule III to the Companies Act, 2013

B. <u>Not applicable for May, 2017 examination</u>

Non-Applicability of Ind ASs for May, 2017 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for May, 2017 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. Garg Ltd. has the Authorised Capital of ₹ 10,00,000 consisting of 4,000 6% Preference shares of ₹ 100 each and 60,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March , 2016

Particulars	Dr.	Cr.
Investment in Shares at cost	1,00,000	
Purchases	9,81,000	
Selling Expenses	1,58,200	
Inventory as at the beginning of the year	2,90,400	
Salaries and Wages	1,04,000	
Cash on Hand	24,000	
Interim Preference dividend for the half year to 30th September	12,000	
Bills Receivable	83,000	

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Interest on Bank overdraft	19,600	
Interest on Debentures upto 30th Sep (1st half year)	7,500	
Trade receivables and trade payables	1,00,200	1,75,700
Freehold property at cost	7,00,000	
Furniture at cost less depreciation of ₹ 30,000	70,000	
6% Preference share capital		4,00,000
Equity share capital fully paid up		4,00,000
5% mortgage debentures secured on freehold properties		3,00,000
Income tax paid in advance for the current year	20,000	
Dividends		8,500
Profit and Loss A/c (opening balance)		57,000
Sales (Net)		13,40,700
Bank overdraft secured by hypothecation of stocks and receivables		3,00,000
Technical knowhow fees at cost paid during the year	3,00,000	
Audit fees	12,000	
Total	**29,81,900**	**29,81,900**

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2016 and the Balance Sheet as on 31st March, 2016 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at ₹ 2,85,000.
2. Purchases include ₹ 10,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 4,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include ₹ 3,000 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 4,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation ₹ 8,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.

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11. Salaries and Wages include ₹ 20,000 being Director's Remuneration.

12. Trade receivables include ₹ 12,000 due for more than six months.

Cash flow statement

2. From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2016.

Balance Sheets as on.....

	Particulars	Note	31.03.2016 (₹)	31.03.2015 (₹)
I	EQUITY AND LIABILITES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	Trade Payables		65,000	44,000
	Other Current Liabilities	3	37,000	27,000
	Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
II	ASSETS			
	(1) Non current Assets			
	Tangible Fixed Assets	4	2,66,000	1,90,000
	Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	Inventories		78,000	85,000
	Trade Receivables		1,08,000	75,000
	Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2016 (₹)	31.03.2015 (₹)
Equity Share Capital	2,50,000	1,50,000

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8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2016 (₹)	31.03.2015 (₹)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2016 (₹)	31.03.2015 (₹)
Dividend declared	37,000	27,000

Note 4: Tangible Fixed Assets

Particulars	31.03.2016 (₹)	31.03.2015 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

(i) ₹ 18,000 depreciation for the year has been written off on Plant and Machinery and no depreciation has been charged on land and building.

(ii) A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

(iii) A plant was sold for ₹ 12,000 (WDV being ₹ 15,000).

(iv) Dividend received amounted to ₹ 2,100 which included pre acquisition dividend of ₹ 600.

(v) An interim dividend of ₹ 10,000 has been paid.

(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.

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Profit/Loss prior to Incorporation

3. The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2015. However, company could be incorporated only on 1st June, 2015. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2015 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2016 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Preliminary expenses (to be written off in first year itself)	15,000	17,74,200
Profit		2,05,800

Sales from June, 2015 to December, 2015 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2016. The company recruited additional work force to expand the business. The salaries from July, 2015 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2015.

You are required to prepare a statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest the purposes for which Pre-incorporation Profit & Pre-incorporation Losses can be used for.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	45,00,000

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Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue.

Internal Reconstruction of a Company

5. Kishor Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31.03.2016 before reconstruction:

Balance Sheet as on 31.03.2016

Particulars	₹	Particulars	₹
6,00,000 Equity shares of ₹ 10		Goodwill	10,40,000
each fully paid up	60,00,000	Patents	3,00,000
3,20,000, 6% Preference shares		Land & building	34,00,000
of ₹ 10 each fully paid up	32,00,000	Plant & machinery	4,00,000
6% Debentures (secured against		Investments (at cost)	4,40,000
land & building)	30,00,000	Trade receivables	34,80,000
Bank overdraft	11,60,000	Inventory	34,00,000
Trade payables	24,00,000	Profit & loss A/c	37,00,000
Provision for income tax	4,00,000		
	1,61,60,000		1,61,60,000

Following scheme of reconstruction is approved by all interested parties and the Court:

(1) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.

(2) Debentureholders agreed to take over a part of land and building, book value of which is ₹ 14,00,000, towards their 50% claim. Rate of interest of balance 50% debentures will be increased to 9%.

(3) Goodwill and Patent will be written off.

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(4) 10% of Trade receivables to be provided for bad debts.

(5) Inventory to be written off by ₹ 5,20,000.

(6) 50% of balance Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.

(7) Investments to be sold for ₹ 4,00,000.

(8) The income tax liability of the company is settled at ₹ 4,50,000. Provision for income tax will be raised accordingly.

(9) 1/3 of trade payables decided to forgo their claim.

(10) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

You are required to pass the necessary Journal Entries.

Amalgamation of Companies

6. H Ltd. and N Ltd. are to be amalgamated into HN Ltd. The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and Liabilities of H Ltd. are to be taken over at book values in exchange of shares in HN Ltd. Three shares in the new company are to be issued at a premium of 20% for every two shares of ₹ 10 each in H Ltd.

The approved scheme for N Ltd. is as follows:

1. 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in HN Ltd. for three Preference shares held in N Ltd.
2. The Debentures of N Ltd. are to be paid off at 5% discount by the issue of debentures of HN Ltd. at par.
3. The Equity shareholders of N Ltd. are to be allowed as many shares at par in HN Ltd. as will cover the balance on their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock worth ₹ 7,500 (included in the value of stock) is to be treated as worthless.

The summarized Balance Sheets of the two companies prior to amalgamation are as follows:

Liabilities	H Ltd.	N Ltd.	Assets	H Ltd.	N Ltd.
	₹	₹		₹	₹
Equity Shares of ₹ 10 each	3,20,000	6,25,000	Plant and Machinery	6,40,000	10,00,000
10% Preference Shares of ₹ 100 each	-	3,75,000	Trade receivables	76,000	62,500

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General Reserves	4,40,000	-	Inventory	50,000	75,000
Secured Debentures	-	2,50,000	Cash and Bank Balance	54,000	50,000
Trade payables	60,000	1,12,500	Profit and Loss Account	-	1,75,000
	8,20,000	13,62,500		8,20,000	13,62,500

You are required to show the Journal Entries and the Balance Sheet of the amalgamated company immediately after amalgamation.

Average Due Date

7. Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2016	₹ 3,000	for 4 months
18th April 2016	₹ 5,500	for 3 months
25th May 2016	₹ 3,000	for 6 months
5th June 2016	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2016-2017.

Account Current

8. From the following transactions in the books of Mr. Perfact, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2016. Interest is to be charged and/or allowed @ 12% p.a.

2016		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

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Self – Balancing Ledgers

9. How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:

	₹
Transfer from Debtors' Ledger-to Creditors' Ledger	2,200
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ₹ 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400

Financial Statements of Not-For-Profit Organizations

10. You are provided the following information related to Krishna sports club:

	31st Dec. 2015	*31st Dec. 2016*
Building (subject to 10% depreciation for the current year)	60,000	?
Furniture (subject to 10% depreciation for the current year)	-	20,000
Stock of Sports Materials	5,000	2,000
Prepaid Insurance	3,000	6,000
Outstanding Subscription	12,000	8,000
Advance Subscription	6,000	4,000
Outstanding Locker Rent		6,000
Advance Locker Rent received	-	2,000
Outstanding Rent for Godown	6,000	3,000

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12% General Fund Investments	2,00,000	?
Accrued Interest on above (for 2 months)	-	4,000
Cash Balance	1,000	64,000
Bank Balance	2,000	-
Bank Overdraft		2,000

Entrance Fees received ₹ 20,000, Life Membership Fees received ₹ 20,000, surplus from Income & expenditure Account ₹ 60,000. It is the policy of the club to treat 60% of entrance fees and 40% of Life Membership Fees as of revenue nature. The furniture was purchased on 1.01.2016

You are required to prepare the opening and closing balance sheets of Krishna sports club as on 1st January, 2016 and 31st December, 2016.

Accounts from Incomplete Records

11. From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2016 and a Balance Sheet as at that date:

		31-03-2015	31-03-2016
(1)	Liabilities and Assets	₹	₹
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500
(2)	Receipts and Payments during 2015-2016:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000

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	Purchase of furniture on 30.09.2015		20,000
	12% Government securities purchased on 1-10-2015		2,00,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of 50% on the cost.		
(4)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of 9,500 on 31st March, 2016 (as shown above), is after taking the same into account.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		

Hire Purchase Transactions

12. The following particulars relate to hire purchase transactions:

    (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

    (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

    (c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

    (d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

    You are required to compute:

    (i) Agreed value of two cars taken back by the hire vendor.

    (ii) Book value of car left with the hire purchaser.

    (iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

    (iv) Profit or loss of cars repossessed, when sold by the hire vendor.

Investment Accounts

13. Muskaan purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Shorya Ltd. on 1st May 2016 @ ₹ 105 on cum interest basis. The interest on these debentures is payable on 31st & 30th of March & September respectively. On August 1st 201,6 she again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2016 she sold 2,000 Debentures @ ₹ 103 each. The market value of the debentures

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as at the close of the year was ₹ 106. Prepare the Debenture Investment Account in the books of Muskaan for the year ended 31st Dec. 2016 on Average Cost Basis.

Insurance Claim

14. A fire engulfed the premises of a business of M/s K on the morning of 1st July 2016. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2016:

	₹
Sales	11,10,000
Purchases	9,37,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2015	1,50,000
Building (value on 31st December, 2015)	3,75,000
Equipment (value on 31st December, 2015)	75,000
Depreciation provision till 31st December, 2015 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2015. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on sales. You are required to prepare the statement of claim for submission to the Insurance Company.

Issues in Partnership Accounts

15. Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2016 is as under:

Liabilities		₹	**Assets**	₹
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000

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Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2016. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2016.

Accounting in Computerised Environment

16. Recently, a growing trend is being developed for outsourcing the accounting function to a third party. What are the benefits of such outsourcing? Also, explain the basis on which choice of such third party being made.

Applicability of AS

17. (a) M/s X& Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2016. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

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AS 1 Disclosure of Accounting Policies

(b) Mini Ltd. was making provision for non-moving stocks based on no issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2016 based on technical evaluation:

Total value of stock	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

AS 2 Valuation of Inventories

18. (a) Suraj Stores is a departmental store, which sell goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available:

Opening Inventory ₹ 50,000; Purchases ₹ 3,60,000; Purchase Returns ₹ 10,000; Freight Inwards ₹ 10,000; Gross Sales ₹ 4,50,000; Sales Returns ₹ 11,250; Carriage Outwards ₹ 5,000.

Compute the estimated cost of the inventory on the closing date.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

(b) A property costing ₹ 10,00,000 is bought in 2016. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 20 years.

The estimated residual value in 20 years' time, based on 2016 prices, is:

Case (a) ₹ 10,00,000

Case (b) ₹ 9,00,000

You are required to compute the amount of depreciation charged for the year 2016.

AS 7 Construction Contracts

19. (a) Mr. 'Mehta' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, Mr. 'Mehta'' will receive an additional ₹ 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. 'Mehta' wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

Is Mr. 'Mehta' correct in his proposal? Discuss.

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AS 9 Revenue Recognition

(b) K Ltd. has 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, 2016, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment?

AS 10 Property, Plant and Equipment

20. (a) Entity Hello has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

You are required to advise can these costs be capitalised into the cost of the new building?

AS 13 Accounting for Investments

(b) Z Bank has classified its total investment on 31-3-2016 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

SUGGESTED ANSWERS

1. Statement of Profit and Loss of Garg Ltd. for the year ended 31st March, 2016

	Particulars	*Note*	*This Year*
I	Revenue from Operations		13,40,700
II	Other income (Divided income)		8,500
III	Total Revenue (I &+ II)		13,49,200
IV	Expenses:		
	(a) Purchases of Inventory (9,81,000 – Advertisement		9,71,000

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	Expenses 10,000)		
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (2,90,400 – 2,85,000)		5,400
	(c) Employee Benefits expense	**9**	80,000
	(d) Finance costs	**10**	34,600
	(e) Depreciation & Amortization Expenses [10% of (70,000 + 4,000)]		7,400
	(f) Other Expenses	**11**	2,31,700
	Total Expenses		13,30,100
V	Profit before exceptional, extraordinary items and tax (III-IV)		19,100
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		19,100
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		19,100
X	Tax expense:		
	Current Tax		8,000
XI	Profit/Loss for the period (after tax)		11,100

Balance sheet of Garg Ltd. as on 31st March, 2016

	Particulars as on 31st March	*Note*	
I			
(1)	**Shareholders' funds:**		
	(a) Share capital	**1**	8,00,000
	(b) Reserves and surplus	**2**	44,100
(2)	**Non current liabilities:**		
	Long term borrowings	**3**	3,00,000
(3)	**Current liabilities:**		
	(a) Short term borrowings	**4**	3,00,000
	(b) Trade payables		1,75,700
	(c) Other current liabilities	**5**	19,500
	Total		**16,39,300**
II	**ASSETS**		
(1)	(a) Non-current Assets		
	Fixed assets (i) Tangible assets	**6**	7,66,600
	(ii) Intangible assets	**7**	2,70,000

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	(b) Non current investments (Shares at cost)		1,00,000
	Current Assets:		
	(a) Inventories		2,85,000
	(b) Trade receivables	**8**	1,81,700
	(c) Cash and Cash equivalents – Cash on hand		24,000
	(d) Short term loans and advances –Income tax (paid 20,000-Provision 8000)		12,000
	Total		**16,39,300**

Note: There is a Contingent liability for Bills receivable discounted with Bank ₹ 4000.

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized,		
	60,000 Equity Shares of ₹ 10 each.	6,00,000	
	4,000 6% Preference shares of ₹ 100 each	4,00,000	
	Issued, subscribed & called up		
	40,000, Equity Shares of ₹ 10 each	4,00,000	
	4,000 6% Redeemable Preference Shares of 100 each	4,00,000	8,00,000
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2015	57,000	
	Add: Surplus for current year	11,100	68,100
	Less: Preference Dividend		24,000
	Balance as on 31st March, 2016		44,100
3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		3,00,000
4.	**Short Term Borrowings**		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		3,00,000
5.	**Other Current liabilities**		
	Interest Accrued and due on Borrowings (5% Debentures)	7,500	

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	Unpaid Preference Dividends	12,000	19,500
6.	**Tangible Fixed assets**		
	Furniture		
	Furniture at Cost Less depreciation ₹ 30,000 (as given in Trial Balance	70,000	
	Add: Depreciation	30,000	
	Cost of Furniture	1,00,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	4,000	
	Total Gross block of Furniture A/c	1,04,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance 30,000		
	Depreciation for the year:		
	On Opening WDV at 10% i.e. (10% x 70,000) 7,000		
	On additional purchase during the year at 10% i.e. (10% x 4,000) 400		
	Less: Accumulated Depreciation	37,400	66,600
	Freehold property (at cost)		7,00,000
			7,66,600
7.	**Intangible Fixed Assets**		
	Technical knowhow	3,00,000	
	Less: Written off	30,000	2,70,000
8.	**Trade Receivables**		
	Sundry Debtors (a) Debt outstanding due more than six months	12,000	
	(b) Other Debts (refer Working Note)	89,700	
	Bills Receivable (83,000 -3,000)	80,000	1,81,700
9.	**Employee benefit expenses**		
	Amount as per Trial Balance	1,04,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	4,000	
	Less: Directors' Remuneration shown separately	20,000	
	Balance amount		80,000

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10.	**Finance Costs**		
	Interest on bank overdraft	15,600	
	Interest on debentures	15,000	
	Discount on Issue of Debentures	4,000	34,600
11.	**Other Expenses**		
	Payment to the auditors	12,000	
	Director's remuneration	20,000	
	Selling expenses	1,58,200	
	Technical knowhow written of (3,00,000/10)	30,000	
	Advertisement (Goods and Articles Distributed)	10,000	
	Bad Debts (3,000 x50%)	1,500	2,31,700

Working Note

Calculation of Sundry Debtors-Other Debts

Sundry Debtors as given in Trial Balance	1,00,200
Add Back: Bills Receivables Dishonoured	3,000
	1,03,200
Less: Bad Debts written off – 50% ₹ 3,000	(1,500)
Adjusted Sundry Debtors	1,01,700
Less: Debts due for more than 6 months (as per information given)	(12,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	89,700

2. Cash flow Statement for the year ending 31st March, 2016

		Particulars	₹	₹
1		**Cash Flow from Operating Activities**		
	A.	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000
	B.	Net profit before taxation, and extra ordinary item		98,000
	C.	*Add:* Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000

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	D.	*Less:* Dividend Income		(1,500)
	E.	Operating profit before working capital changes [B + C - D]		1,30,500
	F.	*Add:* Decrease in Current Assets and Increase in current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G.	*Less:* Increase in Trade Receivables (Gross)		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
II.		**Cash Flows from investing activities:**		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
III.		**Cash Flows from Financing Activities:**		
		Proceeds from issuance of share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend paid		(10,000)
		Final dividend paid		(27,000)
		Net cash from financing activities		13,000
IV.		**Net increase in cash and cash equivalents (I+II+III)**		15,000
V.		**Cash and cash equivalents at beginning of period**		17,000
VI.		**Cash and cash equivalents at end of period (IV+V)**		32,000

1. Land and Building Account

Particulars	₹	*Particulars*	₹
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	1,25,000		1,25,000

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2. Plant and Machinery Account

Particulars	₹	*Particulars*	₹
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		**2,24,000**

3. Investments Account

Particulars	₹	*Particulars*	₹
To Balance b/d	10,000	By bank A/c (Div. received)	600
To bank A/c (Purchase	25,600	By Balance c/d	35,000
Total	**35,600**		**35,600**

3. Tejasvi (P) Limited

Profit and Loss Account
for 15 months ended 31st March, 2016

	Pre. inc. (5 months) (₹)	*Post inc. (10 months) (₹)*
Sales (W.N.1)	3,00,000	16,80,000
Less: Cost of sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N.2)	18,750	71,250
Rent (W.N.3)	15,000	1,20,000
Interest (W.N.4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses		15,000
Net profit	4,250	2,01,550

Purposes for which pre-incorporation profits and losses can be used are as follows:

Pre-incorporation Profits can be used for:	Pre-incorporation Losses can be used for:
• writing off Goodwill on acquisition • writing off Preliminary Expenses • writing down over-valued assets • issuing of bonus shares • paying up partly paid shares.	• setting off against Post-Incorporation Profit • addition to Goodwill on acquisition • writing off Capital Profit

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Working Notes:

1. Calculation of sales ratio

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation)	= x X 5	= 5x
Sales (Post incorporation) from June to December, 2015	= 2½x X 7	= 17.5x
From January to March, 2016	= 3½x X 3	= 10.5x
Total Sales		28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

Pre-incorporation salary	= x X 5	=	5x
Post incorporation salary			
June, 2015	=		x
July to March, 2016	= x X 9 X 2	=	18x
			19x

Ratio is 5 : 19

3. Calculation of Rent

	Pre Inc.	₹ Post Inc.
Total rent		1,35,000
Less: Additional rent for 9 months @ ₹ 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent	____	90,000
	15,000	1,20,000

4. Calculation of interest

Pre-incorporation period from January, 2015 to May, 2015

$$\left(\frac{6,00,000\times12\times5}{100\times12}\right) = ₹\ 30,000$$

Post incorporation period from June, 2015 to March, 2016

$$\left(\frac{9,00,000\times10\times10}{100\times12}\right) = ₹\ 75,000$$

₹ 1,05,000

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4. Journal Entries in the books of Xeta Ltd.

			₹	₹
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue)

	₹
Authorised Capital	
50,000 12% Preference shares of ₹10 each	5,00,000
4,00,000 Equity shares of ₹10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

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5. Journal Entries in the books of Kishor Limited

			Dr. (₹)	*Cr. (₹)*
1.	Equity share capital A/c (₹ 10)	Dr.	60,00,000	
	To Equity share capital A/c (₹ 3)			18,00,000
	To Capital reduction A/c			42,00,000
	(Reduction of equity share of ₹ 10 each to shares of ₹ 3 each as per the reconstruction scheme)			
2.	6% Preference share capital A/c (₹ 10)	Dr.	32,00,000	
	To 6% Preference share capital A/c (₹ 7)			22,40,000
	To Capital reduction A/c			9,60,000
	(Reduction of preference share of ₹ 10 each to shares of ₹ 7 each as per the reconstruction scheme)			
3.	6 % Debentures A/c	Dr.	30,00,000	
	To Land & building A/c			14,00,000
	To 9% Debentures A/c			15,00,000
	To Capital reduction A/c			1,00,000
	(50% claim of debentureholders discharged by transfer of a part of land & building having book value ₹ 14,00,000 and rate of interest of balance 50% debentures increased to 9% as per the reconstruction scheme).			
4.	Bank A/c	Dr.	12,00,000	
	To Land & building A/c			10,00,000
	To Capital reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000 sold as per the reconstruction scheme)			
5.	Land & building A/c	Dr.	2,00,000	
	To Capital Reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000, valued at ₹ 12,00,000, as per the reconstruction scheme)			
6.	Bank A/c	Dr.	4,00,000	
	Capital reduction A/c	Dr.	40,000	
	To Investment A/c			4,40,000
	(All the investment sold as per the reconstruction scheme)			

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7.	Trade payables A/c	Dr.	8,00,000	
	To Capital reduction A/c			8,00,000
	(1/3 of Trade payables decided to forgo their claim as per the reconstruction scheme)			
8.	Capital reduction A/c	Dr.	61,58,000	
	To Goodwill A/c			10,40,000
	To Patents A/c			3,00,000
	To Provision of doubtful debts A/c			3,48,000
	To Inventory A/c			5,20,000
	To Provision for income tax A/c			50,000
	To Profit & loss A/c			37,00,000
	To Plant & machinery A/c (Bal. fig.)			2,00,000
	(Written off goodwill, patent, profit & loss, part value of stock, plant & machinery, penalty paid for cancellation of contracts and provision made for doubtful debts, income tax, as per the reconstruction scheme)			

6. Journal Entries in the books of HN Ltd. (Amalgamated Company)

	Particulars		***Debit***	***Credit***
			₹	₹
1.	Business Purchase A/c	Dr.	12,56,000	
	To Liquidators of H Ltd.			5,76,000
	To Liquidators of N Ltd.			6,80,000
	(Being purchase of business of H Ltd. and N Ltd.- Refer Working Note)			
2.	Plant and Machinery A/c	Dr.	6,40,000	
	Trade receivables A/c	Dr.	76,000	
	Inventory A/c	Dr.	50,000	
	Cash and Bank A/c	Dr.	54,000	
	To Trade payables A/c			60,000
	To General Reserve A/c			1,84,000
	To Business Purchase A/c			5,76,000
	(Being assets and liabilities of H Ltd. taken over)			
3.	Plant and Machinery A/c	Dr.	8,50,000	
	Trade receivables A/c	Dr.	62,500	
	Inventory A/c	Dr.	67,500	
	Cash and Bank A/c	Dr.	50,000	

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	To Debentureholders A/c (95% of 2,50,000)			2,37,500
	To Trade payables A/c			1,12,500
	To Business Purchase A/c			6,80,000
	(Being assets and liabilities of N Ltd. taken over)			
4.	Liquidator of H Ltd. A/c	Dr.	5,76,000	
	To Equity Share Capital A/c			4,80,000
	To Securities Premium A/c			96,000
	(Being equity shares issued at 20% premium to shareholders of H Ltd.)			
5.	Liquidators of N Ltd. A/c	Dr.	6,80,000	
	To Equity Share Capital A/c			4,30,000
	To 15% Preference Share Capital A/c			2,50,000
	(Being issue of shares to discharge purchase consideration)			
6.	Debentureholders of N Ltd. A/c	Dr.	2,37,500	
	To Debentures A/c			2,37,500
	(Being own debentures issued against debentures of N Ltd.)			

Balance Sheet of HN Ltd. after amalgamation

Particulars	*Note No.*	*₹*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	11,60,000
(b) Reserves and Surplus	2	2,80,000
(2) **Non-current Liabilities**		
Long-term borrowings	3	2,37,500
(3) **Current Liabilities**		
Trade payables		1,72,500
Total		18,50,000
II. Assets		
(1) **Non-current assets**		
Fixed assets		
Tangible assets	4	14,90,000
(2) **Current assets**		
(a) Inventories		1,17,500
(b) Trade receivables		1,38,500
(c) Cash and cash equivalents		1,04,000
Total		18,50,000

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Notes to Accounts

		₹
1.	**Share Capital**	
	Equity shares of ₹ 10 each	9,10,000
	Preference shares of ₹ 10 each	2,50,000
		11,60,000
2.	**Reserves and surplus**	
	General Reserve	1,84,000
	Securities Premium	96,000
		2,80,000
3.	**Long-term Borrowings**	
	Secured Debentures	2,37,500
4.	**Tangible Assets**	
	Plant and Machinery	14,90,000

Working Note:

Computation of Purchase Consideration

A. For H Ltd., the Payment Method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interests method.

Number of shares to be issued by HN Ltd. for H Ltd.'s shareholders = 32,000 x 3/2 = 48,000 shares.

Since, the issue price is ₹ 12 per share, the Purchase Consideration is 48,000 x 12 = ₹ 5,76,000.

B. For N Ltd. the Net Assets Method is applied for determining the Purchase Consideration. Since, the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

		₹
Assets taken over:		
Plant and Machinery	(10,00,000 less 15%)	8,50,000
Trade receivables		62,500
Inventory	(75,000 less 7,500)	67,500
Cash and Bank balance		50,000
Total Assets		10,30,000
Less: Liabilities		
Trade payables		(1,12,500)
Secured Debentures		(2,37,500)
Net Purchase Consideration		6,80,000

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Discharge:		
Preference Shareholders	(3,75,000 x 2/3)	2,50,000
Equity Shareholders (bal. fig.)	(6,80,000-2,50,000)	4,30,000
		6,80,000

7. Calculation of Average Due Date

Taking Base Date 21.07.2016

Date of bill	*Period*	*Due Date*	*Amount*	*Number of Days from Base Date*	*Product*
			₹		₹
9.4.2016	4 months	12.08.2016	3,000	22	66,000
18.4.2016	3 months	21.07.2016	5,500	0	0
25.5.2016	6 months	28.11.2016	3,000	130	3,90,000
5.6.2016	3 months	8.09.2016	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2016 + 43 \text{ days} = 2.09.2016.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2016 + 4 months = 4.11.2016;

Second Bill- 1.7.2016+ 6 months = 4.1.2017.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2016 to 4.11.2016)

= ₹ 10,000 x 10% x 63/365 = ₹ 172.60

2nd bill = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2016 to 4.1.2017)

= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

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8. **In the books of Mr. Perfact**

Mr. Smart in Account Current with Mr. Perfact

(Interest to 31st March, 2016 @ 12% p.a.)

(By means of product)

Date 2016	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*	*Date 2016*	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*
Jan 12	To Sales A/c	Feb. 1	30,000	59	17,70,000	Jan. 1	By Balance b/d	Jan. 1	3,500	91	3,18,500
Jan 31	To Sales A/c	Feb. 15	27,500	45	12,37,500	Feb. 15	By Cash A/c	Feb. 15	40,000	45	18,00,000
Mar. 31	To Interest		132			Feb. 20	By Cash A/c	Feb. 20	7,500	40	3,00,000
	$\frac{4,03,000}{366} \times \frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,868			Mar. 31	By Balance of products				4,03,000
			64,500		30,07,500				64,500		30,07,500

9. **In Debtors Ledger**

General Ledger Adjustment Account

Particulars	₹	*Particulars*	₹
To Debtors Ledger Adjustment A/c:		To Debtors Ledger Adjustment A/c:	
Discount Allowed	3,000	Endorsed Bills	2,000
Bad Debts (4,400 + 600)	5,000	receivable dishonoured	
Transfer to creditor ledger	2,200		

In Creditors Ledger

General Ledger Adjustment Account

Particulars	₹	*Particulars*	₹
To Creditors Leger Adjustment A/c:		By Creditors Ledger Adjustment A/c	
Endorsed Bills receivable dishonoured	2,000	Transfer from debtor ledger	2,200
		Bill receivable endorsed to creditors	8,000
		Discount received	1,200
		Allowances	6,400

Notes:

(i) The following items do not appear in GLA Account in Debtors Ledger.

1. Cash Sales
2. Provision *for* Doubtful Debts
3. Provision for Discount on Debtors
4. Bad Debts Recovered
5. Bills Receivable matured/collected on maturity
6. Bills Receivable discounted
7. Bills Receivable endorsed

(ii) The following items do not appear in GLA Account in Creditors Ledger

1. Cash Purchases
2. Reserve for Discount on Creditors
3. Bills Payable matured

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10. **Balance Sheet of Krishna sports club**

as on 1st Jan., 2016

Liabilities	₹	*Assets*	₹
Outstanding Rent for godown	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports Materials	5,000
Capital Fund *(Balancing Figure)*	2,71,000	Prepaid Insurance	3,000
		Outstanding Subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
	-	Bank Balance	2,000
	2,83,000		2,83,000

Balance Sheet of Krishna sports club as on 31st Dec. 2016

Liabilities	₹	₹	*Assets*		₹
Outstanding Rent		3,000	Building		
Advance Subscription		4,000	Book Value	60,000	
Advance Locker Rent		2,000	*Less:* Depreciation	6,000	54,000
Bank Overdraft		2,000	Furniture Cost	20,000	
Capital Fund:			*Less:* Depreciation	2,000	18,000
Opening Balance	2,71,000		Stock of Sports Materials		2,000
Add: Entrance Fees [20,000 x 40%]	8,000		Prepaid Insurance		6,000
Add: Life Membership Fees [₹ 20,000 x 60%]	12,000		Outstanding Subscription		8,000
Add: Surplus	60,000	3,51,000	Outstanding Locker Rent		6,000
			12% General Fund Investment		2,00,000
			Accrued interest on 12% General Fund Investments		4,000
			Cash Balance		64,000
		3,62,000			3,62,000

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11. Trading and Profit and Loss Account of Mr. Preet

for the year ended 31st March, 2016

		Amount			*Amount*
		₹			₹
To	Opening stock	1,60,000	By	Sales	13,98,000
To	Purchases (W.N.5)	9,12,000	By	Closing stock	1,40,000
To	Gross profit c/d (Bal.fig.)	4,66,000			
		15,38,000			15,38,000
To	Expenses (W.N.7)	3,44,000	By	Gross profit b/d	4,66,000
To	Discount allowed (W.N.9)	32,500	By	Discount received (W.N.10)	16,000
To	Depreciation on furniture (W.N.1)	13,000	By	Interest on Govt. Securities (W.N.8)	12,000
To	Net profit	1,14,500	By	Miscellaneous income	10,000
		5,04,000			5,04,000

Balance Sheet of Mr. Preet as on 31st March, 2016

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		12% Government Securities	2,00,000
			Accrued interest on Govt.	
Add: Profit during the year	1,14,500		securities (W.N.8)	12,000
	6,62,500		Debtors (W.N.3)	3,26,000
Less: Drawings	(1,40,000)	5,22,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	1,500
		8,58,500		8,58,500

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Working Notes:

1. Furniture account

		₹			₹
To	Balance b/d	1,20,000	By	Depreciation (bal.fig.)	13,000
To	Bank	20,000	By	Balance c/d	1,27,000
		1,40,000			1,40,000

2. Cash and Bank account

		₹			₹
To	Balance b/d		By	Creditors	7,84,000
	Cash	4,000	By	Drawings	1,40,000
	Bank	20,000	By	Furniture	20,000
To	Debtors	11,70,000	By	12% Govt. securities	2,00,000
To	Bill Receivable	1,22,500	By	Expenses	3,50,000
To	Miscellaneous income	10,000	By	Balance c/d	
To	Additional Capital (bal.fig.)	1,72,000		Cash	3,000
				Bank	1,500
		14,98,500			14,98,500

3. Debtors account

		₹			₹
To	Balance b/d	3,20,000	By	Cash and Bank	11,70,000
To	Creditors (Bills receivable dishonoured)	8,000	By	Discount	30,000
To	Sales (W.N.11)	13,98,000	By	Bills Receivable	2,00,000
			By	Balance c/d (bal.fig.)	3,26,000
		17,26,000			17,26,000

4. Bills Receivable account

		₹			₹
To	Debtors	2,00,000	By	Bank	1,22,500
			By	Discount	2,500
			By	Creditors	40,000
			By	Balance c/d (bal. fig.)	35,000
		2,00,000			2,00,000

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5. Creditors account

	₹		₹
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors (Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal. fig.)	9,12,000
To Balance c/d	3,00,000		
	11,40,000		11,40,000

6. Balance Sheet as on 1st April, 2015

Liabilities	₹	*Assets*	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2016	36,000	
Prepaid expenses as on 31.3.2015	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2015	40,000	
Prepaid expenses as on 31.3.2016	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. Interest on Government securities

2,00,000 x 12% x 6/12= ₹ 12,000

Interest on Government securities receivables for 6 months = ₹ 12,000

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9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%} \times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%} \times 2\%\right)$	2,500
		32,500

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7,84,000}{98\%} \times 2\%\right)$	16,000

11. Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

= ₹ 1,60,000 + ₹ 9,12,000 – ₹ 1,40,000

= ₹ 9,32,000

Sales price = ₹ 9,32,000 + 50% of 9,32,000 = ₹ 13,98,000

12.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000

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	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which plant were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

13. Books of Muskaan Ltd.

Investment in 13.5% Debentures in Shorya Ltd. Account

(Interest payable on 31st March & 30th September)

Date	*Particulars*	*Nominal value* ₹	*Interest* ₹	*Amount* ₹	*Date*	*Particulars*	*Nominal value* ₹	*Interest* ₹	*Amount* ₹
2016					2016				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2016 for the month of April 2016, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625
2. Interest received on 30th Sept. 2016

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625
3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2016 for April 2016 to July 2016 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

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4. Loss on Sale of Debentures

Cost of acquisition

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

Less: Sale Price (2000 x 103) = 2,06,000

Profit on sale = ₹ 2,167

5. Cost of Balance Debentures

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2016 carried forward (accrued interest)

₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

14. Statement of Claim

Items	*Cost (₹)*	*Depreciation (₹)*	*Salvage (₹)*	*Claim (₹)*
A	*B*	*C*	*D*	*(E=B-C-D)*
Stock (W.N. 2)	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

Working Notes:

1. Memorandum Trading Account for the Period from 1.1.2016 to 30.6.2016

	₹		₹
To Opening Stock (1.1.2016)	1,50,000	By Sales	11,10,000
To Purchases	9,37,500		
To Cartage Inwards	17,500	By Closing Stock	2,80,000
To Wages	7,500	(Bal. Fig.)	
To Gross Profit (25% of ₹ 11,10,000)	2,77,500		
	13,90,000		13,90,000

2. Stock Destroyed Account

	₹		₹
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

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15. **Revaluation Account**

	₹			₹
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	P	30,400	
		Q	18,240	
		R	12,160	60,800
	63,800			63,800

Capital Accounts of Partners

Particulars	*P*	*Q*	*R*	*T*	*Particulars*	*P*	*Q*	*R*	*T*
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co.

as at 1st April, 2016

Liabilities	₹	*Assets*	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000

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R 40,000	2,00,000	Furniture		43,000
Long Term Debts	3,00,000	Inventories		1,30,000
Trade payables	1,70,000	Trade receivables	1,39,000	
Q's Loan Account	22,760	*Less:* Provision for Doubtful Debts	(27,800)	1,11,200
		Balance at Bank		1,04,560
	6,92,760			6,92,760

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time.

Benefits of outsourcing the accounting function to a third party:

1. **Saving of Time:** The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. **Expertise of the third party:** The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
3. **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
4. **Economical:** The organisation is not bothered about people leaving the organization in key accounting positions. The proposition is proving to be economically and more sensible as they do not have train the people again. Hence, the training cost is saved.

The choice of outsourcing vendor is made on the basis of the proposals received from these vendors. The proposals are evaluated and the decision is often taken based on the following criteria:

1. The type of services provided and whether the same matches with the requirements.
2. The reputation and background of the vendor.
3. The comparative costs of the various propositions.
4. The assurance of quality.

17. (a) The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s X& Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 3 levels viz Level I, Level II (SMEs) and Level III (SMEs).

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An entity whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year, will fall under the category of Level I entities. Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s X& Co. is more than ₹ 1 crore, it falls under 1st criteria of Level II non-corporate entities as defined above. Even if its borrowings of ₹ 0.95 crores is less than ₹ 1 crores, it will be classified as Level II Entity. In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to M/s X & Co. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 25, AS 28 and AS 29 are also available to M/s X& Co.

(b) The decision of making provision for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy. Requirement to provide for non-moving stocks may be said as accounting policy but the basis for making provision will not constitute accounting policy. It will be considered as an accounting estimate. Further, the method of estimating the amount of provision may be changed in case a more prudent estimate can be made**.**

In the given case, considering the total value of stock, the change in the amount of required provision of non-moving stock from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of Mini Ltd. for the year 2015-16:

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been higher by ₹ 1 lakh."

18. (a) Calculation of cost of closing inventory

Particulars	***₹***
Opening Inventory	50,000
Purchases less returns (₹3,60,000 –₹ 10,000)	3,50,000

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Freight Inwards	10,000
	4,10,000
Less: Net Sales (₹ 4,50,000 –₹ 11,250)	(4,38,750)
	(28,750)
Add: Gross Profits (₹ 4,38,750 x 20%)	87,750
Closing Inventory	59,000

(b) Case (a)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

There is, therefore, no depreciable amount and depreciation is zero.

Case (b)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹ 9,00,000 and the depreciable amount is, therefore, ₹ 1,00,000.

Annual depreciation (on a straight line basis) will be ₹ 5,000 [{10,00,000 – 9,00,000} ÷ 20].

19. (a) According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. Mehta) should not recognize any revenue of this contract.

(b) The economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. K Ltd. should record the sale and recognize the profit of ₹ 20 lakhs in its profit and loss account. The building should be eliminated from the balance sheet.

20. (a) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Conclusion: The costs to be incurred by the company do not meet that requirement of AS 10 and cannot, therefore, be capitalised.

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(b) As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

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ANNEXURE

AS 10: PROPERTY, PLANT AND EQUIPMENT

1. Introduction

The objective of this Standard is to prescribe Accounting treatment for Property, Plant and Equipment (PPE). The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

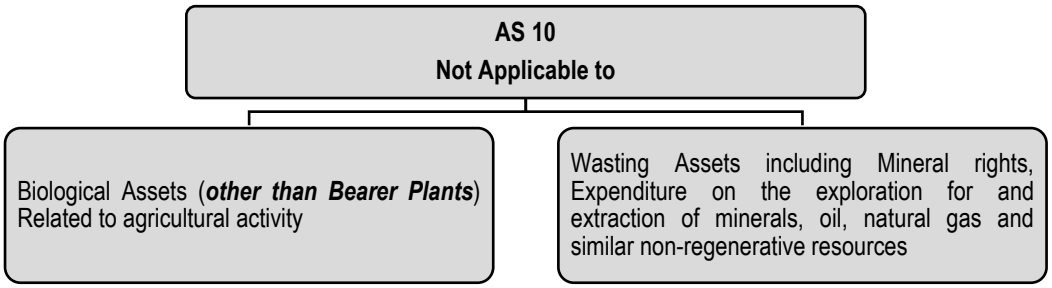
2. Scope of the Standard

As a general principle, AS 10 should be applied in accounting for PPE.

Exception:

When another Accounting Standard requires or permits a different accounting treatment.

This Standard does not apply to:



Note: AS 10 applies to Bearer Plants but it does not apply to the produce on Bearer Plants.

Clarifications:

1. AS 10 applies to PPE used to **develop or maintain** the assets described above.

2. Investment property (defined in AS 13), should be accounted for only in accordance with the **Cost model prescribed in this standard.**

3. Definition of Property, Plant and Equipment (PPE)

There are 2 conditions to be satisfied for a TANGIBLE item to be called PPE. PPE are ***tangible items*** that:

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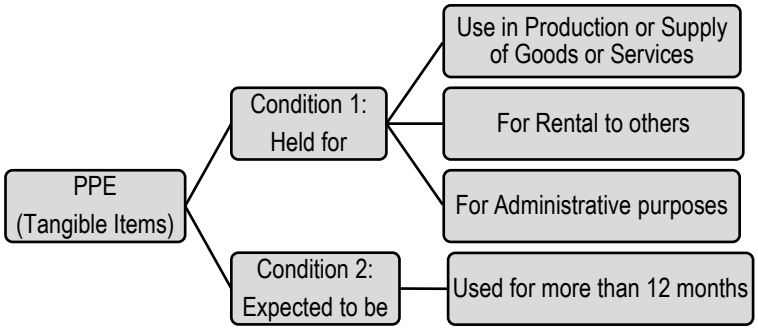


Note: Intangible items are covered under AS 26 which is not covered in syllabus of Paper 1 .

"Administrative purposes": The term 'Administrative purposes' has been used in **wider sense** to ***include all business purposes.*** **Thus, PPE would include assets used for:**

- Selling and distribution
- Finance and accounting
- Personnel and other functions

of an Enterprise.

Items of PPE may also be acquired for **safety or environmental reasons.**

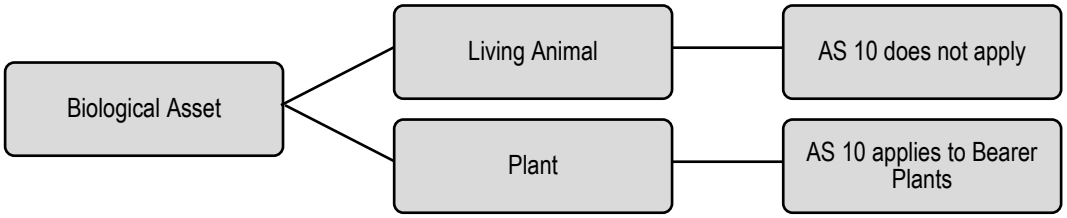
The acquisition of such PPE, although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for an enterprise to obtain the future economic benefits from its other assets.

Such items of PPE qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

Example: A chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the enterprise is unable to manufacture and sell chemicals.

4. Other Definitions

1. Biological Asset: An Accounting Standard on "Agriculture" is under formulation, which will, inter alia, cover accounting for livestock. Till the time, the Accounting Standard on "Agriculture" is issued, accounting for livestock meeting the definition of PPE, will be covered as per AS 10 (Revised).



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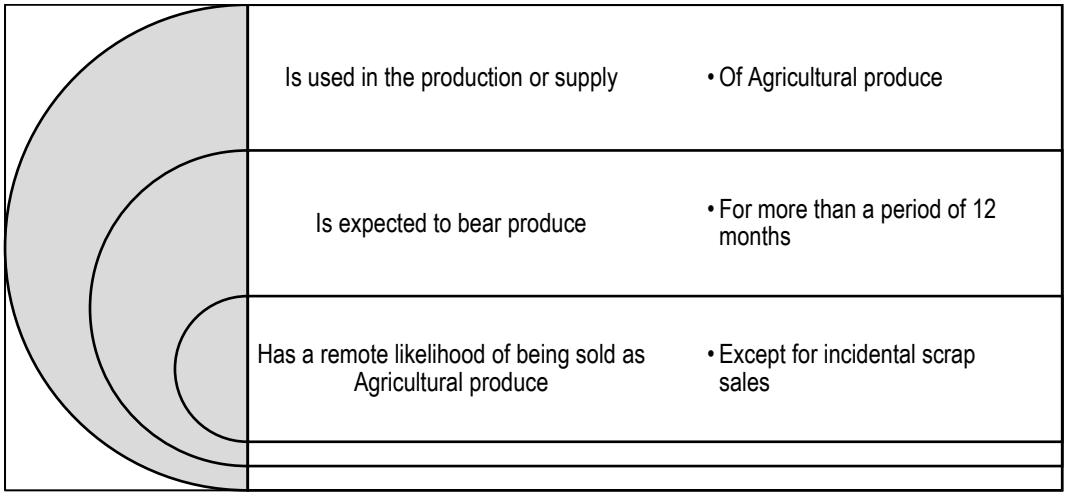
2. Bearer Plant:Is a plant that (satisfies all 3 conditions):



Note: When bearer plants are no longer used to bear produce they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant.

The following are not Bearer Plants:

(a) Plants cultivated to be ***harvested*** *as* Agricultural produce

Example: Trees grown for use as lumber

(b) Plants cultivated ***to produce*** Agricultural produce when there is more than a remote likelihood that the entity will ***also harvest and sell*** the plant as agricultural produce, other than as incidental scrap sales

Example: Trees which are cultivated both for their fruit and their lumber

(c) Annual crops

Example: Maize and wheat

Agricultural Produce is the **harvested product** of **Biological Assets** of the enterprise.

3. Agricultural Activity: Is the **management** by an Enterprise of:

- Biological transformation; and
- Harvest of Biological Assets
- For sale, Or
- For conversion into Agricultural Produce, Or
- Into additional Biological Assets

5. Recognition Criteria for PPE

The ***cost of an item of PPE*** should be recognised as an asset ***if, and only if***:

(a) It is probable that future economic benefits associated with the item will flow to the enterprise, and

(b) The cost of the item can be measured reliably.

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Notes:

1. It may be **appropriate to aggregate individually insignificant items**, such as moulds, tools and dies and to apply the criteria to the aggregate value.

2. An enterprise **may decide to expense an item** which could otherwise have been included as PPE, because the amount of the expenditure is not material.

When do we apply the above criteria for Recognition?

An enterprise evaluates under this recognition principle all its costs on **PPE at the time they are incurred.**

6. Treatment of Spare Parts, Stand by Equipment and Servicing Equipment

Case I **If they meet the definition of PPE as per AS 10:**

- Recognised as PPE as per AS 10

Case II **If they do not meet the definition of PPE as per AS 10:**

- Such items are classified as Inventory as per AS 2

7. Treatment of Subsequent Costs

Cost of day-to-day servicing

Meaning:

Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the **'Repairs and Maintenance'** of the item of PPE.

Accounting Treatment:

An enterprise does not recognise in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the Statement of Profit and Loss as incurred.

Replacement of Parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

Examples:

1. A furnace may require relining after a specified number of hours of use.
2. Aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe.
3. Major parts of conveyor system, such as, conveyor belts, wire ropes, etc., may require replacement several times during the life of the conveyor system.
4. Replacing the interior walls of a building, or to make a non-recurring replacement.

Accounting Treatment:

An enterprise recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.

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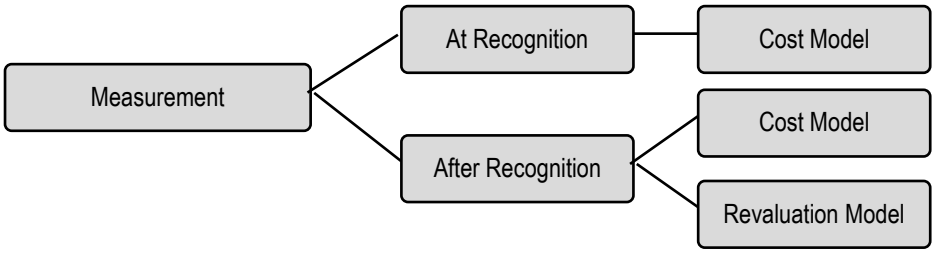
Note: The carrying amount of those parts that are **replaced is derecognised** in accordance with the de-recognition provisions of this Standard.

Regular Major Inspections - Accounting Treatment

When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

8. Measurement of PPE

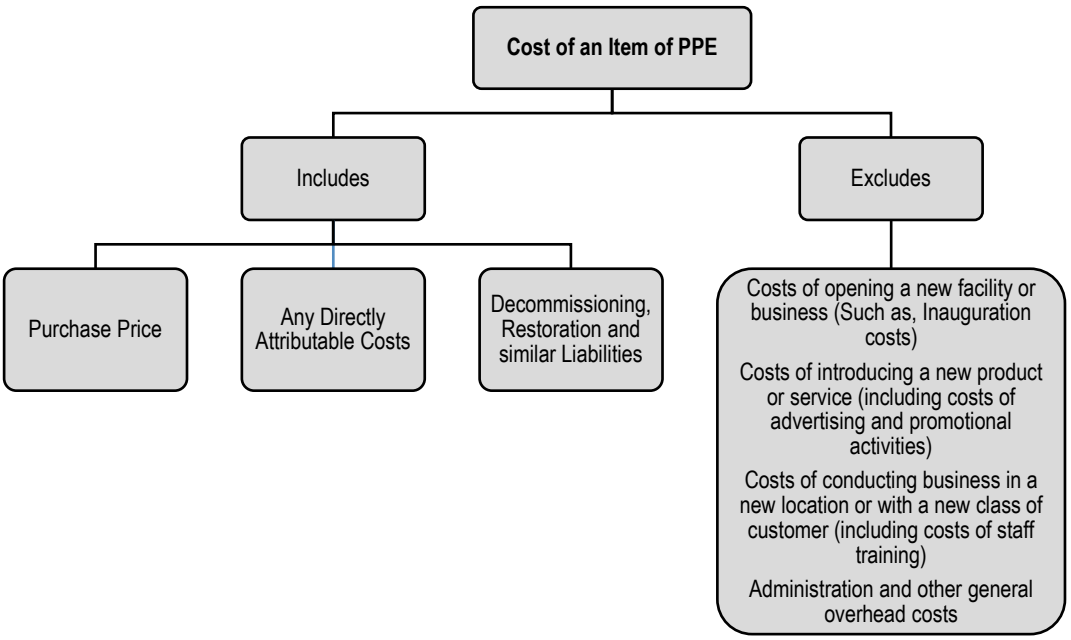


9. Measurement at Recognition

An item of PPE that qualifies for recognition as an asset should be measured **at its cost**.

What are the elements of Cost?

Cost of an item of PPE comprises:



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Examples of directly attributable costs are:

1. Costs of employee benefits (as defined in AS 15) arising directly from the construction or acquisition of the item of PPE
2. Costs of site preparation
3. Initial delivery and handling costs
4. Installation and assembly costs
5. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)
6. Professional fees

The following costs are not included in the carrying amount of an item of PPE:

1. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
2. Initial operating losses, such as those incurred while demand for the output of an item builds up. And
3. Costs of relocating or reorganising part or all of the operations of an enterprise.

Example: Income may be earned through using a building site as a car park until construction starts because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the Statement of Profit and Loss and included in their respective classifications of income and expense.

C. Decommissioning, Restoration and similar Liabilities:

Initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'Decommissioning, Restoration and similar Liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes **other than** to produce inventories during that period.

Exception: An enterprise applies AS 2 "Valuation of Inventories", to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.

Note: The obligations for costs accounted for in accordance with AS 2 or AS 10 are recognised and measured in accordance with AS 29* "Provisions, Contingent Liabilities and Contingent Assets".

** AS 29 is not covered in syllabus of paper-1*

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10. Cost of a Self-constructed Asset

Cost of a self-constructed asset is determined using the same principles as for an acquired asset.

1. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AS 2). Therefore, any **internal profits are eliminated** in arriving at such costs.

2. Cost of **abnormal amounts** of wasted material, labour, or other resources incurred in self constructing an asset is **not included** in the cost of the asset.

3. AS 16* on Borrowing Costs, establishes criteria for the **recognition of interest** as a component of the carrying amount of a self-constructed item of PPE.

4. Bearer plants are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by management.

11. Measurement of Cost

Cost of an item of PPE is the **cash price equivalent** at the recognition date.

A. If payment is deferred beyond normal credit terms:

Total payment - Cash price equivalent

- Is recognised as Interest over the period of credit
- unless such interest is capitalised in accordance with AS 16*

B. PPE acquired in Exchange for a Non-monetary Asset or Assets Or A combination of Monetary and Non-monetary Assets:

Cost of such an item of PPE is **measured at fair value unless:**

(a) Exchange transaction lacks commercial substance; Or

(b) Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

Note:

1. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up.
2. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

C. PPE purchased for a Consolidated Price:

Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition.

Note: In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

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* *AS 16 is not covered in syllabus of paper-1*

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12. Measurement after Recognition

An enterprise should choose

- **Either** Cost model,
- **Or** Revaluation model

as its accounting policy and should apply that policy to an entire **class of PPE**.

Class of PPE: A class of PPE is a grouping of assets of a **similar nature and use** in operations of an enterprise.

Examples of separate classes:

(a) Land

(b) Land and Buildings

(c) Machinery

(d) Ships

(e) Aircraft

(f) Motor Vehicles

(g) Furniture and Fixtures

(h) Office Equipment

(i) Bearer plants

Cost Model

After recognition as an asset, an item of PPE should be carried at:

Cost **-** Any Accumulated Depreciation **-** Any Accumulated Impairment losses

Revaluation Model

After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount.

Fair value at the date of the revaluation	-
Less: Any subsequent accumulated depreciation	(-)
Less: Any subsequent accumulated impairment losses	(-)
Carrying value	=

Revaluation for entire class of PPE

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

Frequency of Revaluations

Revaluations should be made with **sufficient regularity** to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date.

The frequency of revaluations depends upon the changes in fair values of the items of PPE being revalued.

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When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

A. Items of PPE experience significant and volatile changes in Fair value

Annual revaluation shall be done.

B. Items of PPE with only insignificant changes in Fair value

Revaluation shall be done at an interval of 3 or 5 years.

Determination of Fair Value

Fair value of items of PPE is usually determined from **market-based evidence** by appraisal that is normally undertaken by professionally qualified valuers.

If there is **no market-based evidence** of fair value because of the specialised nature of the item of PPE and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an income approach.

Example:

Based on

- Discounted cash flow projections, Or
- A depreciated replacement cost approach

Which aims at making a **realistic estimate of the current cost** of acquiring or constructing an item that has the same service potential as the existing item.

13. Accounting Treatment of Revaluations

When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount.

At the date of the revaluation, the asset is treated in one of the following ways:

A. Technique 1: Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

Gross carrying amount

- May be restated by reference to observable market data, or
- May be restated proportionately to the change in the carrying amount.

Accumulated depreciation at the date of the revaluation is

- Adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses

B. Technique 2: Accumulated depreciation Is eliminated against the Gross Carrying amount of the asset

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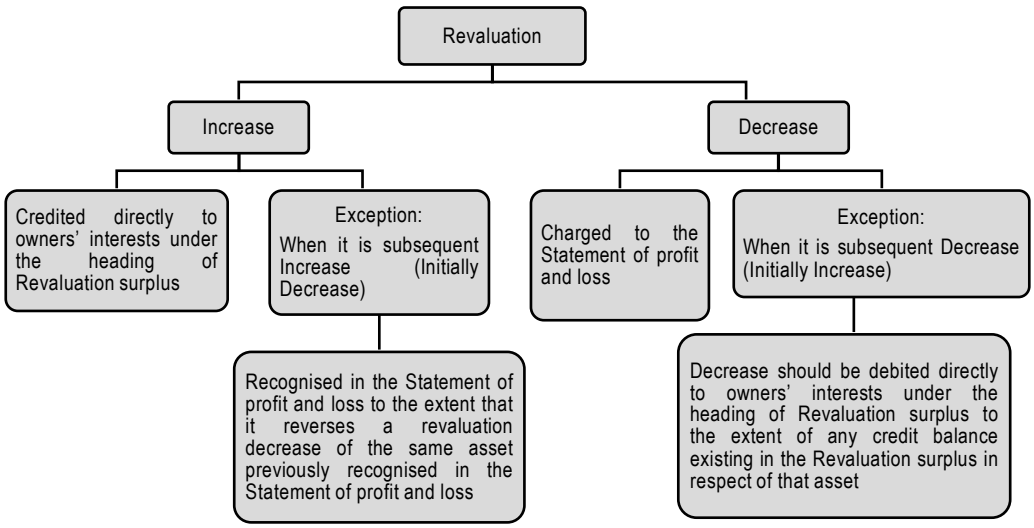
Revaluation - Increase or Decrease



Treatment of Revaluation Surplus

The revaluation surplus included in owners' interests in respect of an item of PPE may be transferred to the **Revenue Reserves when the asset is derecognised.**

Case I : When whole surplus is transferred:

When the asset is:

- Retired; Or
- Disposed of

Case II : Some of the surplus may be transferred as the asset is used by an enterprise:

In such a case, the amount of the surplus transferred would be:

Depreciation (based on Revalued Carrying amount) – Depreciation (based on Original Cost)

Transfers from Revaluation Surplus to the Revenue Reserves are **not made** through the Statement of Profit and Loss.

14. Depreciation

Component Method of Depreciation:

Each part of an item of PPE with a cost that is **significant in relation to the total cost** of the item should be depreciated separately.

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Depreciable Amount and Depreciation Period

What is "Depreciable Amount"?

Depreciable amount is:

Cost of an asset (or other amount substituted for cost i.e. revalued amount) - Residual value

The depreciable amount of an asset should be **allocated on a systematic basis** over its useful life.

Review of Residual Value and Useful Life of an Asset

Residual value and the useful life of an asset should be reviewed **at least at each financial year-end** and, if expectations differ from previous estimates, the change(s) should be accounted for as a **change in an accounting estimate**.

Note: Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

Commencement of period for charging Depreciation

Depreciation of an asset begins when it is **available for use**, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Cessesation of Depreciation

I. Depreciation ceases to be charged when asset's residual value exceeds its carrying amount

The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, depreciation charge of the asset is zero **unless and until** its residual value subsequently decreases to an amount below its carrying amount.

II. Depreciation of an asset ceases at the earlier of:

- The date that the asset is retired from active use and is held for disposal, and
- The date that the asset is derecognised

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated.

However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Land and Buildings

Land and buildings are separable assets and are accounted for separately, **even when they are acquired together.**

A. Land: Land has an unlimited useful life and therefore is not depreciated.

Exceptions: Quarries and sites used for landfill.

Depreciation on Land:

I. If land itself has a limited useful life:

It is depreciated in a manner that reflects the benefits to be derived from it.

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II. If the cost of land includes the costs of site dismantlement, removal and restoration:

That **portion of the land asset** is depreciated over the period of benefits obtained by incurring those costs.

B. Buildings:

Buildings have a limited useful life and therefore are depreciable assets.

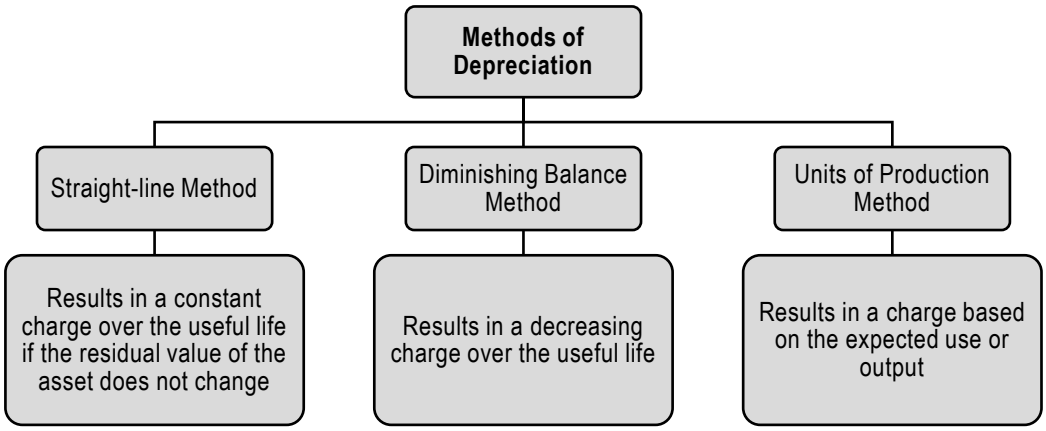
An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

15. Depreciation Method

The depreciation method used should **reflect the pattern in which the future economic benefits** of the asset are expected to be consumed by the enterprise.

The method selected is applied **consistently from period to period** unless:

- There is a change in the expected pattern of consumption of those future economic benefits; Or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.



Review of Depreciation Method:

The depreciation method applied to an asset should be reviewed at **least at each financial year-end** and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Such a change should be accounted for as a **change in an accounting estimate** .

Depreciation Method based on Revenue:

A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is **not appropriate.**

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16. Changes in Existing Decommissioning, Restoration and other Liabilities

The cost of PPE may undergo changes subsequent to its acquisition or construction on account of:

- Changes in Liabilities
- Price Adjustments
- Changes in Duties
- Changes in initial estimates of amounts provided for Dismantling, Removing, Restoration, and
- Similar factors

The above are **included in the cost of the asset.**

17. Retirements

Items of PPE retired from active use and held for disposal should be stated at the lower of:

- Carrying Amount, and
- Net Realisable Value

Note: Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss.

18. De-recognition

The carrying amount of an item of PPE should be derecognised:

- On disposal
  - By sale
  - By entering into a finance lease, or
  - By donation, Or
- When no future economic benefits are expected from its use or disposal

19. Disclosure

General Disclosures:

The financial statements should disclose, for each class of PPE:

(a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;

(b) The depreciation methods used;

(c) The useful lives or the depreciation rates used.

In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;

(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

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Additional Disclosures:

The financial statements should also disclose:

(a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) The amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) The amount of contractual commitments for the acquisition of property, plant and equipment;

(d) If it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and

(e) The amount of assets retired from active use and held for disposal.

Disclosures related to Revalued Assets:

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

(a) The effective date of the revaluation;

(b) Whether an independent valuer was involved;

(c) The methods and significant assumptions applied in estimating fair values of the items;

(d) The extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and

(e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

20. Transitional Provisions

Previously Recognised Revenue Expenditure

Where an entity has in past recognized an expenditure in the Statement of Profit and Loss which is eligible to be included as a part of the cost of a project for construction of PPE in accordance with the requirements of this standard:

- It may do so **retrospectively** for such a project.

Note: The effect of such retrospective application, should be recognised **net-of-tax in Revenue reserves**.

PPE acquired in Exchange of Assets

The requirements of AS 10 regarding the initial measurement of an item of PPE acquired in an exchange of assets transaction should be **applied prospectively** only to transactions entered into after this Standard becomes mandatory.

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Spare parts

On the date of this Standard becoming mandatory, the spare parts, which hitherto were being treated as inventory under AS 2, and are **now required to be capitalised** in accordance with the requirements of this Standard, should be capitalised at their respective carrying amounts.

Note: The spare parts so capitalised should be depreciated over their remaining useful lives prospectively as per the requirements of this Standard.

Revaluations

The requirements of AS 10 regarding the revaluation model should be **applied prospectively.**

In case, on the date of this Standard becoming mandatory, an enterprise **does not adopt** the revaluation model as its accounting policy but the carrying amount of item(s) of PPE reflects any previous revaluation it should adjust the amount outstanding in the Revaluation reserve against the carrying amount of that item.

Note: The carrying amount of that item should never be less than residual value. Any excess of the amount outstanding as Revaluation reserve over the carrying amount of that item **should be adjusted** in Revenue reserves.

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