EXTRA QUESTIONS OF AS

Q. 1. Mention six areas in which different accounting policies are followed by Companies.

Q. 2. Define briefly the classification of activities, as suggested in Accounting Standard 3, to be used for preparing a cash flow statement. Give two examples of each such class of activities.

Q. 3. Taking the info. from the above sum, assume that the company was following SLM from the time of purchase of the asset. After 3 yrs., the company realized that the useful life of the asset would be 8 yrs instead of the previously assessed 10 yrs. Comment.

Q. 4. Hiranandani Ltd. follows the percentage completion method for recognizing the revenue on construction contracts. From the following particulars, you are required to determine the results of contracts X, Y & Z to be included in the P & L A/c of the company for the year ended 31/03/04.

	In ₹ crores		
Particulars	**X**	**Y**	**Z**
Date of commencement	15/04/03	01/10/03	05/08/02
Expected date of completion	15/05/04	01/07/06	30/04/04
Contract Value	313	1247	80
Costs incurred till 31/03/04	239	75	72
Estimated costs to complete	17		9
Profits recognized till 31/03/03			1.50

Q. 5. What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1? Briefly describe each one of them.

Q. 6. Induga Ltd. manufactures computers. During the year ended 31/03/08 the company manufactured 550 computers. It has a policy of valuing finished stock of goods at a standard cost of ₹ 1.80 lacs per computer. The details of cost are as follows :

Particulars	Amt.(₹ Lacs)
Raw material cost	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (incl. Interest of ₹ 100 lacs)	290

Compute the value per computer for the purpose of closing stock valuation.

Q. 7. From the following data, show. Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard - 7:

	(₹ in lakhs)
Contract Price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

Q. 8. A Ltd. incurs fixed production overheads of ₹ 10 lacs every year. Its normal capacity of production is 1 lac units / year. In year 2007, 80000 units were produced & in 2008, 120000 units were produced. Calculate the fixed production overheads allocated to each unit in each of these years.

Q. 9. How will you value the inventory per kg. of finished goods consisted of :

Material cost	₹100 per kg.
Direct labour cost	₹ 20 per kg.
Direct variable production overhead	₹10 per kg.

Fixed production charges for the year on normal capacity of one lakh kgs. Is Rs. 10 lakhs. 2000 kgs .of finished goods are on stock at the year-end

Q. 10. From the info. given below you are required to estimate the cost of inventory of a retailer as on 31/03/08.

Inventory on 01/04/07 : 400 items @ ₹ 19.50 cost ; Retail price = ₹ 30

Purchases for the year. : 1,200 items @ ₹ 25 cost ; Retail price = ₹ 35

Net sales for the year : ₹ 45,000

Q. 11. A Company deals in 3 products - A, B & C. At the year-end, the following info. is available:

Category Historical	Cost(₹ Lacs)	NRV(₹ Lacs)
A	40	28
B	32	32
C	16	24

Calculate the value of inventory to be shown in the B/S as per AS-2.

Q. 12. Raw materials inventory of a company includes certain material purchased at ₹ 100 per kg. The price of the material is on decline and replacement cost of the inventory at the year end is ₹ 75 per kg. It is possible to convert the material into finished product at conversion cost of ₹ 125.

Decide whether to make the product or not to make the product, if selling price is (i) ₹ 175 and (ii) ₹ 225. Also find out the value of inventory in each case.

Q. 13. (i) List the items of "inflows" of cash receipts from operating activities.

(ii) List the items of "outflows" of investing activities.

Q. 14. What are the main features of the cash flow statement? Explain with special reference to AS 3?

Q. 15. L & T construction company Ltd. was awarded a contract for construction of a bridge for ₹ 100 crores on 01/06/02. Total contract cost estimated was ₹ 85 crores. The position of the contract as on 31/03/03 & 31/03/04 was as under :

	In ₹ crores	
	As on 31/03/03	**As on 31/03/04**
Contract price	100	100
Contract cost incurred till date	25	95 (100% complete)
Estimated contract cost of completion	60	NIL

While closing the books of accounts as on 31/03/04 the chief accountant treated excess cost of ₹ 10 crores incurred as against an estimated cost of ₹ 85 crores (25 + 60) as on 31/03/03 as mistake in estimation of cost, hence categorized ₹10 crores as a prior period expense. Comment

Q. 16. M/s. Tiger Ltd. allotted 7500 equity shares of ₹ 100 each fully paid up to Lion Ltd. in consideration for supply of a special machinery. The shares exchanged for machinery are quoted at National Stock Exchange (NSE) at ₹ 95 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of the machinery would be recorded in the books of Tiger Ltd?

Q. 17. PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	16,00,000
Direct Expenses	3,00,000
Total Direct Labour	6,00,000
(1/15th of the total labour time was chargeable to the construction)	
Total Office & Administrative Expenses	9,00,000
(4% is chargeable to the construction)	
Depreciation on assets used for the construction of this asset	15,000

Calculate the cost of the fixed asset.

Q. 18. Raheja Ltd. procured a ₹ 5,00,000 contract that required 3 years to complete & incurred a total cost of ₹ 4,50,000. The following data pertains to the construction period. The firm seeks your advice & assistance in the presentation of accounts in accordance with AS 7. Also show relevant disclosures.

Particulars	**Year 1**	**Year 2**	**Year 3**
Cumulative costs incurred till date	1,50,000	3,60,000	4,05,000
Estimated cost yet to be incurred at year end	3,00,000	40,000	----
Progressive billing made during the year	1,00,000	3,70,000	30,000
Collections of billings	75,000	3,00,000	1,25,000

Q. 19. What are the conditions, which, according to Accounting Standard 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

Q. 20. An amount of ₹ 9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of ₹ 12,00,0000 against which ₹ 10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹ 12,50,000.

Compute a conservative estimate of the profit to be taken to the e Profit and Loss Account as per AS-7.

Q.21. XYZ Ltd. purchased a machine as on 30/09/07 for ₹ 200 lacs. Sales tax on the quoted price is 8%. The following additional expenses were incurred :

Expenses	Amt. (in ₹)
Transit insurance	2,00,000
Transportation charges	5,00,000
Special foundation	1,50,000
Installation charges	2,50,000

The company borrowed a sum of ₹ 180 lacs from State Finance Corp. @ 16% interest p.a. The machinery was ready for use on 31/03/08. Ascertain the acquisition cost of the machine assuming the 6 months period is substantially long period of time.

Q. 22. An unquoted long - term investment is carried in the books at cost of ₹ 2 lacs. The published accounts of unlisted company received in May, 2009 showed that the company has incurred cash losses with decline market share and the long - term investment may not fetch more than ₹ 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009?

Q. 23. Media Advertisers Ltd. obtained advertising rights for the World Cup cricket tournament to be held in May / June 1999 for ₹ 250 lacs.

a. By 31/03/99 they paid ₹ 150 lacs to secure these advertising rights & the balance ₹ 100 lacs were paid in April 1999.

b. By 31/03/99 they processed advertisement for 70% of the available time for ₹ 350 lacs. The advertiser paid 60% of the amount by that date & balance 40% was received by April 1999.

c. The advertisement for balance 30% time was processed in April 1999 for ₹ 150 lacs.

d. The advertiser paid full amount while booking the advertisement. 25% of the advertising time is expected to be available in May 1999 & balance 75% in June 1999.

Calculate the Profit/Loss for the month of April, May & June 1999.

Q. 24. M/s. SEA Ltd. recognized ₹ 5.00 lakhs on accrual basis income from dividend during the year 2010-11, on shares of the face value of ₹ 25.00 lakhs held by it in Rock Ltd. as at 31st March, 2011. Rock Ltd. proposed dividend @ 20% on 10th April, 2011. However, dividend was declared on 30th June, 2011. Please state with reference to relevant Accounting Standard, whether the treatment accorded by SEA Ltd. is in order.

Q. 25. Manufacturers & Traders Ltd. purchased a conveyor system & the total amount capitalized on 01/01/04 was for a value of ₹ 41.37 crores. The details of the cost are as follows :

Particulars	Amt. (₹ Crores)
Civil & mechanical structure	11.72
Driving unit & planning	5.40
Rope	2.83
Belt	11.17
Safety & Electrical equipments	6.15
Other accessories	4.10
Total	**41.37**

During the year 2007-08, due to wear & tear, the rope used in the conveyor system was replaced by a new one at a cost of ₹ 8 crores. Comment on the accounting treatment that needs to be given in such a scenario.

Q. 26. Original cost of a plant = ₹ 1.50 crores, estimated useful life = 10 yrs., estimated scrap value = ₹ 10 lacs. The company followed the WDV method of depreciation (rate 23.72%) for the first 3 yrs & decided to switch over to SLM in the 4^{th} yrs. What is the effect on income as a result of change in accounting policy?

Q. 27. ABC Ltd. sold a machine on 01/04/07 for ₹ 100 lacs. The BV on the date of sale was ₹ 250 lacs. The machine sold, was revalued in the past & a reserve of ₹ 200 lacs was carried in the books as on the date of sale. What would be the correct accounting treatment for the transaction.

Q. 28. LMN Ltd. acquired a plant on 01/01/06 for ₹ 100 lacs. The company charges depreciation on SLM basis. Estimated useful life – 10 yrs., scrap value at the end of useful life – 2.5%. At the beginning of the 5^{th} yr. the asset was revalued at + 40% of the WDV & the reval. profit was transferred. to Reval. Reserve. The excess depreciation arising out of revaluation was adjusted by taking transfer from reval. reserve. While charging depreciation after revaluation, estimated useful life was assumed to be 6 yrs. & scrap realization was expected to be 2.5% of the revalued figure. At the beginning of the 8^{th} yr. the company found the asset useless & accordingly decided to retire it. On the date of retirement, the estimated realizable value of the asset is ₹ 3,80,000. Ascertain the loss on retirement of the asset.

Q. 29. A company is engaged in the manufacture of electronic products & systems. A prototype system was installed at one of the customer’s location in June 2007 for getting acceptance of the customer on the performance of the system. The Chief accountant of the company stated that as the ownership of the system installed for field trials was vested with the company for accounting & control purposes, the prototype system installed at the customer’s location in 2007 was capitalized in the accounts for the year 2007-08 at its bought-out cost.Is the accounting treatment correct?

Q. 30. A company took a construction contract for ₹ 100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of ₹ 92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of ₹ 23 lakhs for completing the contract. The expected loss would be ₹ 15 lakhs.
Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2007?

Q. 31. MY Ltd. had acquired 200 equity shares of XY Ltd. at ₹ 105 per share on 01.01.2009 any paid ₹ 200 towards brokerage, stamp duty and STT. On 31st March 2009, shares of YZ Ltd. were traded at ₹ 110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. as at 31st March, 2009.

Q. 32. A company offers product warranty. Past experience shows that the company had to expend 5% of the sales value of the last accounting year during the current accounting period to fulfill the warranty obligation. Should the company recognize any provision for warranty against sales of the current accounting year?

Q. 33. Total sales of XYZ Ltd. include a sum of ₹ 50 lacs representing royalty receivable for supply of know-how to a company in Iraq. As per the agreement, the amount is to be received in USDs.. However, exchange permission was denied to the Iraqi company for remitting the same. How should this be treated in the books as per AS 9?

Q. 34. AB Ltd. acquired 2,000 shares in CD Ltd. at a cum-right price of ₹ 300 per share. CD Ltd. offered right shares of one for every two held by the equity shareholder at ₹ 150 per share. The rights were sold by AB Ltd. at ₹ 80 per share. After the right issue the share price fell from ₹ 300 to ₹ 240 per share. What would be the carrying cost of investment in CD Ltd. after the sale of "rights"?

Q. 35. Suggest a suitable method for recognition of revenue in the following situations :

Sale of Goods :

a. Goods sold subject to installation & inspection
b. Sale on approval
c. Guaranteed sales
d. Consignment sale
e. Cash on delivery
f. Sale & re-purchase agreements

Rendering of services :

a. Insurance agency commission
b. Admission ticket fees for some performance

Q. 36. A Company has invested a substantial amount in the shares of another company under the same management. The market price of the shares of the aforesaid company is about half of that at which these shares were acquired by the company. The management is not prepared to provide for the fall in the value of shares on the ground that the loss is only notional till the time the share are actually sold?

Q. 37. A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

Q. 38. Explain the treatment of the following events occurring after the B/S date in the financial statements:

a. A major fire has damaged the assets in the factory on April 2, two days after the closure of the accounts. The loss is estimated at ₹ 20 crores out of which ₹12 crores would be recoverable from the insurers. **(CA Inter. – May'95 & PE II – May'03)**

b. The directors have agreed to increase the retirement benefits & this may involve a future annual increase of provision by ₹ 2 lacs.

c. The dispute for bonus to employees was before the arbitrator & he gave the award in favour of workmen for ₹ 3 lacs.

d. A contract for civil construction was performed during the accounting year. The client has gone on appeal for damages for low quality works & was awarded an amount of ₹ 1.5 lacs.

e. Dividend proposed @ 20% on share capital of ₹ 100 lacs. **(PE II – May'03)**

Q. 39. There is a sales tax demand of ₹ 2.50 crores against a company relating to prior years against which the company has gone on appeal to the appellate authority in the department. The grounds of appeal deal with points covering ₹ 2 crores of the demand. State how the matter will have to be dealt with in the final accounts for the year.

Q. 40. Hi Ltd. (the Lessee) acquired a machinery on lease from Fi Ltd. (Lessor) for a period of 3 years beginning from April 1, 2005. The lease term covers the entire economic life of the machinery. The fair value of the machinery on April 1, 2005 is ₹3,50,000. The lease agreement requires the lessee to pay an amount of ₹1,50,000 per year beginning March 31, 2006.

The lessee has guaranteed a residual value of ₹11,400 on March 31, 2008 to the lessor. The lessor however estimates that the machinery will have a salvage value of only ₹10,000 on March 31, 2009. The implicit rate of interest is 15% p.a. The lessee has classified the lease as a finance lease in accordance with the provisions of AS-19 and accordingly requires you to.

(i) Compute the value of machinery to be recognised by the lessee.

(ii) Compute the finance charges for each year of the lease term.

Q.41. Give two examples on each of the following items:

(i) Change in Accounting Policy Method of Depreciation / Change in cost formula.

(ii) Change in Accounting Estimate change in useful life of FA / Provision for BD.

(iii) Extra Ordinary items loss due to earthquake / Refund of GG

(iv) Prior Period Items error in calculation in providing inclusive non-provision for salary already due in earlier years.

Q. 42. Operating Lease

An asset is leased out for a period of 5 years out of its useful life of 10 years on 01/04/2009, the date on which the asset was purchase by the lessor. The lease arrangement has been classified as operating lease. The agreed annual lease rental is ₹ 20 lacs. Following information has been provided :

Annual Lease Rent	₹ 20,00,000
Fair Value of the asset at the inception of lease	₹ 1,00,00,000
Initial direct cost incurred by the lessor	₹ 1,00,000
Method of depreciation followed by the lessor	SLM
Annual Depreciation charge	₹ 10,00,000

You are required to account for the operating lease in accordance with the provisions of AS 19:

(i) In the books of the Lessor (ii) In the books of the Lessee

Q. 43. XYZ Ltd. received a specific grant of ₹ 300 lacs for acquiring a plant of ₹ 1500 lacs during on 01/04/01 having useful life of 10 years. The grant received was credited to deferred income in the B/S. On 01/04/04, due to non-compliance of conditions laid down for the grant, XYZ Ltd. had to refund the grant to the government. Balance in the Deferred Government Grant A/c on that date was ₹ 210 lacs & WDV of plant was ₹ 1050 lacs.

Required :

a. What should be the treatment of the refund of the grant & impact on cost of the FA & depreciation for 2004-05.

b. What should be the treatment of the refund & other accounting implications if grant was deducted from the cost of the plant in 2001-02. **(PE II – May'04)**

Q. 44. Classify the following, into either operating or finance leases.

(a) Ownership of an asset gets vested in the lessee at the end of lease term

(b) Lessee has option to purchase the asset at lower than fair value, at the end of lease term.

(c) Economic life of the asset 5 Years, lease term $4^{1}/_{2}$ years, but asset is not acquired at the end of lease term.

(d) PV of MLP = "X", Fair value of the asset is Y.

(e) Economic life = 5 Years, lease term 2 years, but the asset is of a special nature, and has been procured only for use of lessee.

Q. 45. XYZ Ltd. imported goods from ABC Ltd. worth USD 1 lac as on 15/03/08 when the exchange rate was USD 1 = INR 44. The payment for the imports was to be made on 15/04/08. The exchange rates as on 31/03/08 & 15/04/08 are INR 46 & INR 41 respectively. How will XYZ Ltd. account for this transaction.

Q.46. Explain "monetary item" as per Accounting Standard 11. How are foreign currency monetary items to be recognized at each Balance Sheet date? Classify the following as monetary or non-monetary item:

(i) Share Capital (ii) Trade Receivables

(iii) Investments (iv) Fixed Assets

Q.47. ABC Ltd. purchased a FA worth ₹ 64 lacs, expected useful life – 10 yrs., scrap value – ₹ 10 lacs, WDV rate of depreciation – 16.94%. The purchased asset was supported by Government Grant to the extent of ₹ 25 lacs. The company follows income approach in accounting for Government Grants. Required :

a. The amount of GG brought over to P & L A/c for each of the 5 yrs. Assume that asset was purchased & GG was recd. on the 1st day of the accounting year.

b. The company changes method of depreciation from the 6th year from WDV to SLM. Explain the accounting implications thereof.

Q. 48. On 20/04/03 JLC Ltd. obtained a loan from the bank for ₹ 50 lacs to be used as under :

Particulars	**Amt. (₹ Lacs)**
Construction of a shed	20
Purchase of machinery	15
Working Capital	10
Advance for purchase of truck	5

In March 2004, the construction of the shed was completed & machinery installed. Delivery of truck was not received. Total interest charged by the bank for the y.e. 31/03/04 was ₹ 9 lacs. Show the treatment of interest under AS 16. **(PE II – Nov'04)**

Q. 49. Advice XYZ Ltd. on the weighted average borrowing cost to be capitalized based on the following;

a. Total borrowing & interest costs of XYZ Ltd. for he year ending 31/03/04 are as follows:

Borrowings	**Date of Borrowing**	**Amt. of loan in ₹ '000**
18% Bank loan	01/04/03	3,000
14% Debentures	01/10/03	2,000
16% Term Loan	01/07/03	1,000
Total		**6,000**

b. QAs in which these borrowed funds are used are :

Assets	**₹ in '000**	**Period in months**
Factory Shed	2,500	12
Plant 1	1,500	9
Plant 2	1,000	7

Q. 50. A Single Guarantee

During 2007-08, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2008-09, the financial condition of Enterprise B deteriorates and at 30 September, 2008 Enterprise B goes into liquidation.

Q.51. Can interest on loan taken to pay license fees for a telecom circle to the central government be capitalized as per AS 16?

Q.52. XYZ Ltd. prepares its accounts for the year ending March 31 every year. On 31/08/08 there was an agreement with the union, which created an additional liability of ₹ 6 lacs p.a. The revision was w.e.f. 01/01/08. How would you deal with this in the accounts for the year ending 31/03/09?

Q. 53. Amro Ltd. is considering the replacement of its outdated mainframe computer on 1st October 2008. The replacement computer has a cost of ₹ 21 lakhs and its useful economic life is estimated to be seven years. After negotiations the directors of Amro Ltd. decide to enter into a four-year lease with Scottish Ltd. for total lease payments of ₹ 20 lakhs payable in four equal instalments - the first instalment being due on day one of the leasing period.

Under this arrangement, Scottish Ltd. would have responsibility for up keep and maintenance, and has negotiated a guaranteed repurchase by the manufacturer at the end of the lease term. The interest rate implicit in the lease is 10%. Analyse whether this transaction should be treated as a Finance Lease / Operating Lease with reference to AS 19 in the books of Amro Ltd.

Q. 54. During the financial year 2007-08 goods costing ₹ 1 lac were sent by LMN Ltd. to its consignee at a sale value of ₹ 1.50 lacs. Consignee sold all the good during the financial year 2007-08, but sent the sales invoice & statement of sales of ₹ 75000. LMN Ltd. showed sales of ₹ 75000 for the year 2007-08 & the balance ₹ 75000 was shown at cost as stock with consignee. In 2008-09, LMN Ltd. booked the balance sale of ₹ 75000 as PPI. Is the accounting treatment of 2008-09 correct?

Q. 55. An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year : 2% provision

More than 1 year : 3% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19th January, 2011	40,000
29th January, 2012	25,000
15th October, 2012	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2012 and 31st March, 2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2013.

Q. 56. Amro Ltd. leased out a machinery for a period of 10 years. The lease term covers a substantial part of the economic life of the machinery. The lessee ABN Ltd. has agreed to pay lease rentals @ ₹12 lacs p.a. for seven years. ABN Ltd. has the option to continue the lease paying @ ₹3 lacs p.a. for another three years.

ABN Ltd. does not provide any guarantee for residual value. But a Group company gives guarantee for a residual value at the end of 7 years and 10 years at ₹ 6 lacs and ₹1 lac respectively.

Required :

(i) What should be taken as minimum lease payment from the standpoint of the lessor and the lessee?

(ii) Also advice the Gross investment in lease.

Q. 57. On 01/01/08 XYZ Ltd. had 1800 equity shares outstanding. On 31/05/08, it issued 600 equity shares for cash. On 01/11/08, it bought back 300 equity shares. Calculate WANES as on 31/12/08.

Q. 58. LMN Ltd. had 1800 fully paid up equity shares of ₹10 each outstanding as on 01/01/08. On 31/10/08, it issued 600 shares of ₹10 each, ₹ 5 paid up. Calculate WANES as on 31/12/08.

Q. 59. Warranties

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (i.e. more likely than not) that there will be some claims under the warranties.

Q.60. Samsung Ltd. has taken the asset on lease from Trintron Ltd. on 01/04/2009. The following information is given below :

Lease term	4 years
Fair value at inception of lease	₹16,00,000
Annual Lease Rent payable at the end of the year	₹5,00,000
Guaranteed Residual Value	₹1,00,000
Expected Residual Value	₹3,00,000
Implicit Interest Rate	14.97%

The lease has been classified as finance lease.

You are required to :

Account for the above transactions in the books of Samsung Ltd. for the lease term.

Q. 61. The difference between actual expense or income & estimated expense or income as accounted for in the earlier accounts does not necessarily constitute the item to be a prior period item. Comment.

Q. 62. Samsung Ltd. has taken the asset on lease from Trintron Ltd. on 01/04/2009. The following information is given below :

Lease term	4 years
Fair value at inception of lease	₹ 16,00,000
Annual Lease Rent payable at the end of the year	₹ 5,00,000
Guaranteed Residual Value	₹ 1,00,000
Expected Residual Value	₹ 3,00,000
Implicit Interest Rate	14.97%
Initial direct cost incurred by the lessor	₹ 40,000

The lease has been classified as finance lease.

You are required to :

Account for the above transactions in the books of Trinitron Ltd.

Q.63. ABC Ltd. had 2 lac equity shares outstanding as on 01/01/08. On 01/10/08, it issued bonus shares in the ratio of 2 : 1. Net profit for 2007 was ₹18 lacs & 2008 was ₹60 lacs. Calculate Basic EPS for 2007 & 2008.

Q. 64. On 01/01/08 D Ltd. had 5 lac shares outstanding. On 01/03/08, it issued 1 new share for every 5 shares held @ ₹ 15. FV of 1 equity share immediately before the rights issue was ₹ 21. Net profit for the year 2007 was ₹ 11 lacs & 2008 was ₹ 15 lacs. Calculate Basic EPS for 2007 & 2008.

Q. 65. E Ltd. has 50 lac outstanding shares as on 01/01/08. Net profit for the year is ₹ 1 crore. E Ltd. has 1 lac 12% convertible debentures outstanding of ₹ 100 each to be converted into 10 equity shares per debenture. Tax rate = 30%. Calculate Basic & Diluted EPS.

Q. 66. F Ltd. has 5 lac equity shares outstanding as on 01/01/08. Net profit for 2008 was ₹12 lacs, average FV per share during 2008 was ₹ 20. F Ltd. has given share option to its employees of 1 lac shares at option price of ₹ 15. Calculate Basic & Diluted EPS.

Q. 67. Refund Policy

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Q. 68. XYZ Ltd. acquired a patent right for ₹ 200 lacs. The product life cycle has been initially estimated to be 5 years. The estimated cash flows over the useful life of the patent are (₹ in lacs) Yr. 1 – 300, Yr. 2 – 300, Yr. 3 – 300, Yr. 4 – 200 & Yr. 5 – 200. Initially a 5 year amortisation period has been decided in the ratio of estimated future cash flows. After 3rd year it was ascertained that the patent will continue to maintain the market share for another 6 years but the estimated cash flow p.a. after the 5th year is expected to be ₹150 lacs. What would be the change in amortisation.

Q.69.(i) Explain the concept of 'Weighted average number of equity shares outstanding during the period'.

State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

1st April 2011	Balance of Equity Shares	4,80,000
31st August 2011	Equity Shares issued for cash	3,60,000
1st February 2012	Equity shares bought back	1,80,000
31st March 2012	Balance of equity shares	6,60,000

(ii) Compute adjusted earning per share and basic earning per share based on the following information :

Net Profit 2010-11	₹ 11,40,000
Net Profit 2011-12	₹ 22,50,000
No. of equity shares outstanding	₹ 5,00,000

Until 31st December 2011

Bonus issue on 1st January 2012

1 equity share for each equity share

Outstanding as at 31st December 2011

Q. 70. The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

Net profit for	₹
Year 2009-10	25,00,00
Year 2010-11	0 40,00,000

No. of shares outstanding prior to right issue 12,00,000 shares.

Right issue : One new share for each three outstanding i.e. 4,00,000 shares

: Right issue price ₹ 22

: Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28.

You are required to compute the basic earnings per share for the years 2009-10 and 2010-11.

Q.71. A company had deferred research and development cost of ₹ 450 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in Lakhs)
1	1200
2	900
3	600
4	300

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of ₹ 450 Lakhs is development cost. If at the end of 3rd year, it is felt that no further benefit will accrue in the year, how the unamortized expenditure would be dealt with in the accounts of the Company?

Q. 72. Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

Q. 73. NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹ a 530 lakhs on research upto 31st March, 2011

The development of the process began on 1st April, 2011 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 2012 which meets assets recognition criteria.

From 1st April, 2012, the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years.

The cost of capital of company is 10%.

Explain:

(1) Accounting treatment for research expenses.

(2) The cost of internally generated intangible asset as per AS 26.

(3) The amount of amortization of the assets. (The present value of annuity factor of ₹ 1 for 5 years @ 10% = 3.7908)

Q. 74. Contaminated Land Legislation Virtually Certain to be Enacted

An enterprise in the oil industry causes contamination but does not clean up because there is no legislation requiring cleaning up, and the enterprise has been contaminating land for several years. At 31 March 2005 it is virtually certain that a law requiring a clean - up of land already contaminated will be enacted shortly after the year end.

Q.75. Staff Retraining as a Result of Changes in the Income - Tax System.

The government introduces a number of changes to the income tax system. As a result of these changes, an enterprise in the financial services sector will need to retrain a large proportion of its administrative and sales work force in order to ensure continued compliance with financial services regulation. At the balance sheet date, not retraining of staff has taken place.

Q. 76. A Court Case

After a wedding in 2007-08, ten people died, possibly as a result of food poisoning from products sold by the enterprise. Legal proceedings are started seeking damages from the enterprise but it disputes liability. Up to the date of approval of the financial statements for the year 31 March 2008, the enterprise's lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year 31 March 2009, its lawyers advise that, owing to developments in the case, it is probable that the enterprise will be found liable.

Q.77. On 1sl April 2009 Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:

(i)	Construction of sea link across two cities: (work was held up totally for a month during the year due to high water levels)	:	₹ 25 crores
(ii)	Purchase of equipments and machineries	:	₹ 3 crores
(iii)	Working capital	:	₹ 2 crores
(iv)	Purchase of vehicles	:	₹ 50,00,000
(v)	Advance for tools / cranes etc.	:	₹ 50,00,000
(vi)	Purchase of technical know-how	:	₹ 1 crores
(vii)	Total interest charged by the bank for the year ending 31st March 2010	:	₹ 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

Q. 78. X Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 10 lacs to another company for ₹ 15 lacs. The agreement to sell was concluded on 28th February, 2006 and the deed was registered on 1st May, 2006. Comment with reference to AS-4.

Q. 79. A company has to pay delayed cotton clearing charges over & above the purchase price for taking delayed delivery of cotton from the supplier's godown. Till 2007-08 the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest, the company has decided to exclude it from closing stock valuation from the year 2008-09. This would result into decrease in profit of ₹ 5 lacs. Comment.

Q.80. During 2016-17, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?

Q.81. Alpha Ltd. has entered into a sale contract of ₹ 7 crores with Gamma Ltd. during 2015-16 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2016-17 financial year. In case of failureof Alpha Ltd. to deliver within the schedule, a compensation of ₹ 2 crores is to be paid to Gamma Ltd. Alpha Ltd. planned to manufacture the goods during the last month of 2015-16 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Alpha Ltd. will be in a position to meet the contractual obligation. You are required to advise Alpha Ltd. on requirement of provision for contingency in the financial statements for the year ended 31st March, 2016, in line with provisions of AS 29?

Q.82. The Company finds that the inventory sheets of 31.3.2016 did not include two pages containing details of inventory worth ₹14.5 lakhs. State, how you will deal with the following matters in the accounts of Pure Ltd. for the year ended 31st March, 2017.

Q.83. X Oil Ltd. closed the books of accounts on March 31, 2016 for which financial statement was finalized by the Board of Directors on September 04, 2016. During the month of December 2015, company undertook the project of laying a pipeline across the country and during May 2016 engineers realized that due to unexpected heavy rain, the total cost of the project will be inflated by ₹ 50 lakhs. How this should be provided for in the balance sheet of 2015-16 in accordance to AS 4?

Q.84. P Limited belongs to the engineering industry. The Chief Accountant has prepared the draft accounts for the year ended 31.03.2016. You are required to advise the company on the following item from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards:
The company purchased on 01.04.2015 special purpose machinery for ₹ 25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years.

Q.85. Omega Ltd. purchased fixed assets costing ₹ 3,000 lakhs on 1.4.2016 and the same were fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 1.4.2016 and 31.3.2017 respectively. First instalment was paid on 31.12.2016.
You are required to state, how these transactions would be accounted for.

Q.86. A Pharma Company spent ₹ 33 lakhs during the accounting year ended 31st March, 2016 on a research project to develop a drug to treat “AIDS”. Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment.

Q.87. Sun Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Star Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise. (Use annuity factor at @ 15% for 3 years as 3.36)

Q.88. Calculate Weighted Number of Shares.

Date	Particulars	No. of Shares	Face Value	Paid up Value
1st April	Balance at beginning of year	1,800	₹ 10	₹ 10
31st Jan.	Issue of Shares	600	₹ 10	₹ 5

Q.89. Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2016 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2017. Due to surplus fund out of ₹ 150 crores, income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

Q.90. K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.
You are required to advise the Company as per the applicable Accounting Standard.

Q.91. WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment's costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipment's leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.
You are required to calculate the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

Q.92. Is remuneration paid to Board of Directors a related party transaction? Explain.

Q.93. Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are· given the following information for the year ended 31.03.2016:
Cost incurred upto 31.03.2016 ₹ 4 crores
Cost estimated to complete the contract ₹ 6 crores
Escalation in cost by 5% and accordingly the contract price· is increased by 5%.
You are required to identify the state of completion and calculate the revenue and profit to be recognized for the year as per AS 7.

Q.94. A manufacturing company has the following stages of production and sale in manufacturing fine paper rolls:

Date	Activity	Cost to date (₹)	Net Realizable Value (₹)
15.1.16	Raw Material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and calculate how much would be net profit for year ending 31.3.16 on this product as per AS 9.

Q.95. The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax: ₹ 75,00,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹ 100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

Q.96. A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.

You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

Q.97. The Company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. You are required to examine in line with the provisions of AS 29.

Q.98. A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account.

Comment on the accounting treatment done by the company in context of the relevant AS.

Q.99. Annual lease rent = ₹ 80,000 at the end of each year Lease period = 5 years Guaranteed residual value = ₹ 28,000 Fair value at the inception (beginning) of lease = ₹ 3,00,000 Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively. Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

Q.100. The Company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Comment.

Q.101. Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2017 was ₹ 11,00,000. During the year 2016-17, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.
Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

Q.102. "The Company had an engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 2015, and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of ₹ 40 crores could not be released by the Foreign Government because of temporary foreign exchange crisis in that country. This ₹ 40 crores unrealized at the end, if converted at the year-end rate would amount to ₹ 40.50 croes. The Company has adopted and follows the following accounting policy:
"In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is a net loss, due to exchange difference, the same is charged off to the P&L account, but if there is a net gain, the same is ignored in view of the prudent accounting policies of not recording unrealized gains due to exchange rate fluctuations".
Comment on the appropriateness of the above.

Q.103. K Ltd. launched a project for producing product X in October, 2015. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2016. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.
Advise the Company as per the applicable Accounting Standard.

Q.104. Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. There was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

Q.105. A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2017, when the exchange rate was ₹ 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2017 when the exchange rate was ₹ 47 per US Dollar. However, on 31st March, 2017, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31st March, 2017 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar.
In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Q.106. A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

Q.107. S Ltd. received a grant of ₹ 5,000 lakhs during the last accounting year (2015-16) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2016-17, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the correct accounting treatment, with reference to the provisions of AS 12.

Q.108. Compute Basic and Adjusted Earnings per share from the following information:

Net Profit for 2015-16	₹ 22 lakhs
Net Profit for 2016-17	₹ 33 lakhs
No. of shares before Rights Issue	1,10,000
Rights issue Ratio	One for Every Four Held
Rights Issue Price	₹ 180
Date of exercising Rights option	31.7.2016 (fully subscribed on this date)
Fair value of share before Rights Issue	₹ 270

All workings may be rounded off to two decimals.

Q.109. D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	**₹**
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

How should the company deal with this asset in its accounts for 2015-16? Can it charge depreciation or negative depreciation for 2015-16? Can it credit ₹ 8,00,000 to Capital Reserve?

Q.110. A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss in line with provisions of AS 4.

Q.111. Explain whether the following will constitute a change in accounting policy or not as per AS 5.

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

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

Q.112. An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

Q.113. Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. There was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

Q.114. A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account.

Comment on the accounting treatment done by the company in context of the relevant AS.

Q.115. "The Company had an engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 2015, and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of ₹ 40 crores could not be released by the Foreign Government because of temporary foreign exchange crisis in that country. This ₹ 40 crores unrealized at the end, if converted at the year-end rate would amount to ₹ 40.50 croes. The Company has adopted and follows the following accounting policy:

"In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is a net loss, due to exchange difference, the same is charged off to the P&L account, but if there is a net gain, the same is ignored in view of the prudent accounting policies of not recording unrealized gains due to exchange rate fluctuations".

Comment on the appropriateness of the above.

Q.116. K Ltd. launched a project for producing product X in October, 2015. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2016. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

Q.117. D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	**₹**
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

How should the company deal with this asset in its accounts for 2015-16? Can it charge depreciation or negative depreciation for 2015-16? Can it credit ₹ 8,00,000 to Capital Reserve?

Q.118. The Company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Comment.

Q.119. Annual lease rent = ₹ 80,000 at the end of each year Lease period = 5 years Guaranteed residual value = ₹ 28,000 Fair value at the inception (beginning) of lease = ₹ 3,00,000 Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively. Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

Q.120. A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

Q.121. Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

Q.122. 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?

Q.123. Suraj Stores is a departmental store, which sells 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.

Q.124. 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.

Q.125. 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?

Q.126. 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.

Q.127. 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?

Q.128. A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.
You are required to advise the company on the valuation of the inventories in line with the provisions of AS 2.

Q.129. 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?

Q.130. With reference to AS 4 "Contingencies and events occurring after the balance sheet date", identify whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

Q.131. In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

You are required to calculate depreciation for the year 2016-17 as per componentization method.

Q.132. A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The
market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

Q.133. Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to calculate the amount of the profit or loss on forward contract to be recognized in the books of the company for the year ended 31st March, 2017.

Q.134. D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2015-16?

Q.135. Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13?

Q.136. Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹ 10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets.

You are required to examine the treatment and disclosure done by the company and advise the company in line with AS 5.

Q.137. In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to ₹ 25 lakhs.

Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

Q.138. Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Q.139. Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%.

Q.140. X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time.

Comment whether X Ltd., will treat it as a single contract or four separate contracts.

Q.141. Meena Ltd. has an equipment purchased 2 year ago for ₹ 1,90,000. The residual value of the asset was estimated to be ₹ 10,000. The total useful life of the asset when purchased was 12 years. The company charges Depreciation as per Straight Line Method. Due to price adjustment, the cost of the asset is now increased by ₹ 15,000. What is the treatment for the increase in historical cost? Comment and calculate the revised depreciation for the current year.

Q.142. Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment.

Q.143. Om Ltd. purchases goods on behalf of its customers for execution of work under a works contract against which it receives full payment and necessary declaration form under Central Sales Tax Act to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

Q.144. On 1st December, 2016, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for ₹ 85 lakhs. On 31st March, 2017, the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2017 as per provisions of Accounting Standard 7 (Revised)?

Q.145. Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

Q.146. 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 ₹ 9,00,000. You are required to compute the amount of depreciation charged for the year 2016.

Q.147. X Limited sold goods worth ₹ 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹ 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹ 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹ 10,60,000. The Accountant of X Limited booked the sale for ₹ 10,60,000. Discuss the contention of the Accountant with reference to relevant Accounting Standard.

Q.148. Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities (iv) Cash Equivalents.

a. Purchase of Machinery.
b. Proceeds from issuance of equity share capital
c. Cash Sales.
d. Proceeds from long-term borrowings.

e. Proceeds from Trade receivables.
f. Cash receipts from Trade receivables.
g. Trading Commission received.
h. Purchase of investment.
i. Redemption of Preference Shares.
j. Cash Purchases.
k. Proceeds from sale of investment
l. Purchase of fixed asset.
m. Cash paid to suppliers.
n. Interim Dividend paid on equity shares.
o. Wages and salaries paid.
p. Proceed from sale of patents.
q. Interest received on debentures held as investment.
r. Interest paid on Long-term borrowings.
s. Office and Administration Expenses paid
t. Manufacturing Overheads paid.
u. Dividend received on shares held as investments.
v. Rent received on property held as investment.
w. Selling and distribution expense paid.
x. Income tax paid
y. Dividend paid on Preference shares.
z. Underwritings Commission paid.
aa. Rent paid.
bb. Brokerage paid on purchase of investments.
cc. Bank Overdraft
dd. Cash Credit ee. Short-term Deposits
ff. Marketable Securities
gg. Refund of Income Tax received.

Q.149. Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Q.150. ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
Initial delivery and handling costs	₹ 2,00,000
Cost of site preparation	₹ 6,00,000
Consultants used for advice on the acquisition of the plant	₹ 7,00,000
Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

Q.151. A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?
What accounting treatment should the buyer give in its financial statements?

Q.152. Alex Ltd. intends to set up a sollar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

Q.153. A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to advise the company on the valuation of the inventories in line with the provisions of AS 2.

Q.154. With reference to AS 4 "Contingencies and events occurring after the balance sheet date", identify whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

Q.155. In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

You are required to calculate depreciation for the year 2016-17 as per componentization method.

Q.156. Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to calculate the amount of the profit or loss on forward contract to be recognized in the books of the company for the year ended 31st March, 2017.

Q.157. A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

Q.158. Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹ 10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets.

You are required to examine the treatment and disclosure done by the company and advise the company in line with AS 5.

Q.159. D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2015-16?

Q.160. Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13?

Q.161. In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to ₹ 25 lakhs.

Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

Q.162. Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%.

Q.163. Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities (iv) Cash Equivalents.

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital

c. Cash Sales.
d. Proceeds from long-term borrowings.
e. Proceeds from Trade receivables.
f. Cash receipts from Trade receivables.
g. Trading Commission received.
h. Purchase of investment.
i. Redemption of Preference Shares.
j. Cash Purchases.
k. Proceeds from sale of investment
l. Purchase of fixed asset.
m. Cash paid to suppliers.
n. Interim Dividend paid on equity shares.
o. Wages and salaries paid.
p. Proceed from sale of patents.
q. Interest received on debentures held as investment.
r. Interest paid on Long-term borrowings.
s. Office and Administration Expenses paid
t. Manufacturing Overheads paid.
u. Dividend received on shares held as investments.
v. Rent received on property held as investment.
w. Selling and distribution expense paid.
x. Income tax paid
y. Dividend paid on Preference shares.
z. Underwritings Commission paid.
aa. Rent paid.
bb. Brokerage paid on purchase of investments.
cc. Bank Overdraft
dd. Cash Credit ee. Short-term Deposits
ff. Marketable Securities
gg. Refund of Income Tax received.

Q.164. On 1st December, 2016, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for ₹ 85 lakhs. On 31st March, 2017, the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2017 as per provisions of Accounting Standard 7 (Revised)?

Q.165. 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 ₹ 9,00,000. You are required to compute the amount of depreciation charged for the year 2016.

Q.166. Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Q.167. X Limited sold goods worth ₹ 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹ 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹ 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹ 10,60,000. The Accountant of X Limited booked the sale for ₹ 10,60,000. Discuss the contention of the Accountant with reference to relevant Accounting Standard.

Q.168. ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
Initial delivery and handling costs	₹ 2,00,000
Cost of site preparation	₹ 6,00,000
Consultants used for advice on the acquisition of the plant	₹ 7,00,000
Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

Q.169. A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements?

Q.170. Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

Q.171. Meena Ltd. has an equipment purchased 2 year ago for ₹ 1,90,000. The residual value of the asset was estimated to be ₹ 10,000. The total useful life of the asset when purchased was 12 years. The company charges Depreciation as per Straight Line Method. Due to price adjustment, the cost of the asset is now increased by ₹ 15,000. What is the treatment for the increase in historical cost? Comment and calculate the revised depreciation for the current year.

Q.172. Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Q.173. X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time.

Comment whether X Ltd., will treat it as a single contract or four separate contracts.

Q.174. Alex Ltd. intends to set up a sollar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

Q.175. Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment.

Q.176. Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

Q.177. Om Ltd. purchases goods on behalf of its customers for execution of work under a works contract against which it receives full payment and necessary declaration form under Central Sales Tax Act to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

Q.178. Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. There was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

Q.179. A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account.

Comment on the accounting treatment done by the company in context of the relevant AS.

Q.180. "The Company had an engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 2015, and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of ₹ 40 crores could not be released by the Foreign Government because of temporary foreign exchange crisis in that country. This

₹ 40 crores unrealized at the end, if converted at the year-end rate would amount to ₹ 40.50 croes. The Company has adopted and follows the following accounting policy:
"In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is a net loss, due to exchange difference, the same is charged off to the P&L account, but if there is a net gain, the same is ignored in view of the prudent accounting policies of not recording unrealized gains due to exchange rate fluctuations".
Comment on the appropriateness of the above.

Q.181. K Ltd. launched a project for producing product X in October, 2015. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2016. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.
Advise the Company as per the applicable Accounting Standard.

Q.182. D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	**₹**
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

How should the company deal with this asset in its accounts for 2015-16? Can it charge depreciation or negative depreciation for 2015-16? Can it credit ₹ 8,00,000 to Capital Reserve?

Q.183. The Company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Comment.

Q.184. Annual lease rent = ₹ 80,000 at the end of each year Lease period = 5 years Guaranteed residual value = ₹ 28,000 Fair value at the inception (beginning) of lease = ₹ 3,00,000 Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively. Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

Q.185. A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

Q.186. Compute Basic and Adjusted Earnings per share from the following information:

Net Profit for 2015-16	₹ 22 lakhs
Net Profit for 2016-17	₹ 33 lakhs
No. of shares before Rights Issue	1,10,000
Rights issue Ratio	One for Every Four Held
Rights Issue Price	₹ 180
Date of exercising Rights option	31.7.2016 (fully subscribed on this date)
Fair value of share before Rights Issue	₹ 270

All workings may be rounded off to two decimals.

Q.187. A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss in line with provisions of AS 4.

Q.188. S Ltd. received a grant of ₹ 5,000 lakhs during the last accounting year (2015-16) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2016-17, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the correct accounting treatment, with reference to the provisions of AS 12.

Q.189. Explain whether the following will constitute a change in accounting policy or not as per AS 5.

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

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

Q.190. Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	**Amount (₹ in lakhs)**
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2017 was ₹ 11,00,000. During the year 2016-17, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

Q.191. An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

Q.192. A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2017, when the exchange rate was ₹ 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2017 when the exchange rate was ₹ 47 per US Dollar. However, on 31st March, 2017, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31st March, 2017 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Q.193. During 2016-17, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?