J.K. SHAH®
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FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - XII

ACCOUNTING FOR EMPLOYEES SHARE – BASED PAYMENTS PLANS

Q.1. The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2008
Number of employees covered	525
Number options granted per employee	100
Vesting condition : Continuous employment for 3 years	
Nominal value per share (₹)	100
Exercise price per share (₹)	125
Market price per share on grant date (₹)	149
Vesting date	March 31, 2011
Exercise date	March 31, 2012
Fair value of option per share on grant date (₹)	30

Position on 31.3.2009

(a) Estimated annual rate of departure 2%

(b) Number of employees left = 15

Position on 31.3.2010

(a) Estimated annual rate of departure 3%

(b) Number of employees left = 10

Position 31.3.2011

(a) Number of employees left = 8

(b) Number of employees entitled to exercise option = 492

Position 31.3.2012

(a) Number of employees exercising the option = 480

(b) Number of employees not exercising the option = 12

Compute expenses to recognise in each year by (i) fair value method (ii) intrinsic value method and show important accounts in books of the company by both of the methods.

Q.2. The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2008
Number of employees covered	500
Number options granted per employee	100
Fair value of option per share on grant date (₹)	25

The vesting period shall be determined as follows :

(a) If the company earns ₹ 120 crores or above after taxes in 2008-09, the options will vest on 31.3.2009.

(b) If condition (a) is not satisfied but the company earns ₹ 250 crores or above after taxes in aggregate in 2008-09 and 2009-10, the options will vest on 31.3.2010.

(c) If conditions (a) and (b) are not satisfied but the company earns ₹ 400 crores or above after taxes in aggregate in 2008-09, 2009-10 and 2010-11, the options will vest on 31.3.2011.

Position on 31.3.2009

(a) The company earned ₹ 115 crore after taxes in 2008-09

(b) The company expects to earn ₹ 140 crores in 2009-10 after taxes

(c) Expected vesting date : March 31, 2010

(d) Number of employees expected to be entitled to option = 474

Position on 31.3.2010

(a) The company earned ₹ 130 crore after taxes in 2009-10

(b) The company expects to earn ₹ 160 crores in 2010-11 after taxes

(c) Expected vesting date : March 31, 2011
(d) Number of employees expected to be entitled to option = 465

Position on 31.3.2011

(a) The company earned ₹ 165 crore after taxes in 2010-11
(b) Number of employees on whom the option actually vested = 450

Compute expenses to recognise in each year & pass journal entries.

Q.3. Grant with a Performance Condition, in which number of stock options varies

An Enterprise grants stock options to each of 100 employees working in the sales Department. The stock options would vest at the end of year 3, provided the employees remain in the employment of the enterprise.

Average Volume of Sales Increase	No. of Stock options
Between 5% and 10%	100
Between 10% and 15%	200
Above 15%	300

Fair value is ₹ 20 per option. The enterprise expects that volume of sales increase would be in the second category as above. It also estimates that 20% of the employees will leave before the end of year 3.

End of year 1

Seven Employees left and the enterprise continues to estimates that a total of 20 employees will leave by the end of year 3. Product sales have increased by 12% and the enterprise expects this rate of increase to continue over the next 2 years.

End of year 2

Further 5 employees have left. The enterprise estimates that further 3 employees would leave during year 3 and : expects that a total of 15 employees will have left during the three year period. Product sales have increased by 20% and it results into an average increase of 16% over the 2 years to date. The enterprise estimates that the sales increase would be more than 15% over the 3 years vesting period.

End of year 3

Further 2 employees left & sales increase in the 3rd year was 16% p.a. \ 86 employees received 300 stock options each.

Suggest the Accounting Treatment during the Vesting Period.

Q.4. A company announced a share - based payment plan for its employees on 1.4.2009, subject to a vesting period of 3 years. By the plan, the employees can (i) either claim difference between exercise price ₹ 150 per share and market price of those shares on vesting date in respect of 10,000 shares or (ii) can subscribe to 12,000 shares at exercise price ₹ 150 per share, subject to lock in period of 5 years. On 1.4.2009, fair value of the option, without considering restrictions on transfers was ₹ 30 and that after considering restrictions on transfer were ₹ 27. The fair value estimates, without considering transfer restrictions were ₹ 31.50, ₹ 32,70 and ₹ 34 respectively, at the end of 2009-10, 2010-11 and 2011-12.

Show important accounts in books of the company if employees opt for (i) cash settlement (ii) equity settlement.

FINANCIAL REPORTING FOR FINANCIAL INSTITUTIONS

Q.1. Mutual Fund raised funds on 1.4.2011 by issuing 10 lakhs units @ ₹ 17.50 per unit. Out of this Fund, ₹ 160 lakhs invested in several capital market instruments. The initial expenses amounts to ₹ 9 lakhs. During June 2011, the Fund sold certain Securities worth ₹ 100 lakhs for ₹ 125 lakhs and it bought certain securities for ₹ 90 lakhs. The Fund Management expenses amounting to ₹ 5 lakhs per month. The dividend earned was ₹ 3 lakhs. 80% of realized earnings were distributed among the unit holders. The market value of the portfolio was ₹ 175 lakhs. Determine Net Asset Value (NAV) per unit as on 30.6.2011.

Q.2. On 1.4.2011, a mutual fund scheme had 18 lakhs of unit of face value of ₹ 10 each was outstanding. The scheme earned ₹ 162 lakhs in 2011-12, out of which ₹ 90 lakhs was earned in the first half of the year. On 30.9.2011, 2 lakhs of unit were sold at a "NAV" of ₹ 70. Pass journal entries for sale of units and distribution of dividend at the end of 2011-12.

Q.3. A Mutual Fund raised 100 lakh on April 1, 2012 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 7 lakh. During April, 2012, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.25 lakh was in arrears. The dividend earned was ₹ 1.20 lakhs. 75% of the realised earnings were distributed. The market value of the portfolio on 30.4.2012 was ₹ 101.90 lakh. Determine NAV per unit.

Q.4. Shrewd Mutual Funds have introduced a scheme "Primo - Fund". Its major details are :

(a) Scheme Size = 100 Crores
(b) Face Value per unit : ₹ 20
(c) Investments in Quoted Shares having Market Value ₹ 150 Crore

Compute the NAV per unit of the Fund. Is there an appreciation of the value invested in Units of the Fund?

Q.5. From the following details compute NAV of each unit of the Mutual Fund :

(a) Scheme Size = ₹ 10,00,00,000
(b) Face value per unit : ₹ 10
(c) Investments in Quoted Shares having Market Value ₹ 25,00,00,000.

Q.6. Calculate the NAV of a Mutual Fund scheme from the information given below :

Beginning of the year :

Number of Units outstanding	1.8 Crores of ₹ 10 each
Investments at Cost	₹ 20 Crores (Market Value ₹ 37 Crores)
Outstanding Liabilities	₹ 1 Crore

Other Information :

1. Another 15 Lakh units were sold during the year at ₹ 24.
2. 35 Lakh units were repurchased during the year and 10% of the opening investments were sold for ₹ 3.50 Crores to finance the repurchase.
3. No additional investments were made during the year as at the year - end, 50% of the Investments at year beginning were quoted at 80% above the book value.
4. 10% of the Investments had witnessed a permanent fall of 20% below cost.
5. The balance investments were quoted at ₹ 20 Crores.
6. Outstanding liabilities towards Custodian Charges, Salaries, Commission etc. applicable to the Scheme were ₹ 1.6 Crores.
7. There are no other assets and liabilities of the fund.

Q.7. Anischit Finance Ltd., is a non - banking finance company. It makes available to you the costs and market price of various investments held by it. (Figures in Lakhs) as on 31.3.2012.

Scrips		Cost	Market Price	Scrips		Cost	Market Price
Equity Shares	A	60.00	61.20	Mutual Fund	MF 1	39.00	24.00
	B	31.50	24.00		MF 2	30.00	21.00
	C	60.00	36.00		MF 3	6.00	9.00
	D	60.00	120.00				
	E	90.00	105.00				
	F	75.00	90.00	Government Securities	GV 1	60.00	66.00
	G	30.00	6.00		GV 2	75.00	72.00

1. Can the company adjust depreciation of a particular item of investment within a category?
2. What should be the value of investments as on 31.3.2012?
3. It is possible to set - off depreciation in investment in mutual funds against appreciation of the value investment in Equity Shares and Government Securities?

Q.8. While closing its books of account on 31st March, a NBFC has its advances classified as follows:

Particulars	₹ Lakhs	Particulars	₹ Lakhs
Standard Assets	8,400	Unsecured Portion of Doubtful Debts	87
Sub - Standard Assets	910	Loss Assets	24
Secured Portions of Doubtful Debts : upto one year	160		
one year to three years	70		
more than three years	20		

Calculate the amount of provision which must be made against the advances.

Q.9. While closing its books of account on 31st March, 2012 a Non - banking Finance Company has its advances classified as follows :

Particulars	₹ in Lakhs
Standard Assets	16,800
Sub - standard assets	1,340
Secured positions of doubtful debts : upto one year	320
one year to three years	90
more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances.

Q.10. Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2011. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 as against the cash price of ₹ 80 lakhs. The amount was payable as ₹ 20 lakhs down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31-03-2012, but could not collect the second instalment which was due on 31-03-2013. The company was finalizing accounts for the year ending 31-03-2013. Till 15-05-2013, the date 'on which the' Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.

Required:

i. What should be the principal outstanding on 1-4-2012? Should the company recognize finance charge for the year 2012-13 as income?

ii. What should be the net book value of assets as on 31-03-2013 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?

iii. What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

AS – 7 : CONSTRUCTION CONTRACTS

1) AS - 7 addresses the issue of allocation of revenue and costs attributable to contract activity to the accounting period in which construction work is performed.

2) A Construction Contracts is defined as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter-dependent, in terms of their design, technology and function or their ultimate purpose or use e.g. contract for construction of a bridge, building, dam, pipeline, road, etc. Contract Contracts also include contracts for rendering of services relating to construction of assets (e.g. service of architect) and contracts for destruction or restoration of asset and restoration of environment following demolition of asset.

3) **Construction Contracts are of following 2 types:**
   a) Fixed price construction are those in which parties agree to a fixed price or fixed rate per unit and in some cases is subject to escalation clause.
   b) Cost plus contracts are those which involves reimbursement of defined costs plus a percentage of such cost or a fixed fee.
   Cost plus contracts involving a maximum ceiling would bear the characteristics of both the above types.

4) Profit or loss is to be calculated for each contract separately but when a group of contracts have been negotiated as a single package with an overall profit margin then all contracts put together will be treated as a single contract.

5) Contract may provide for construction of additional asset at the option of the customers. The construction of additional asset should be treated as a separate contract if the asset differs significantly from the asset covered by the original contract and price of the additional asset is independent of original contract price.

6) **To calculate contract profit or loss we must calculate.**
   Contracts revenue and contracts costs.
   Contracts revenue consists of the following :
   - Agreed price.
   - Claims arising due to escalation clause.
   - Claims for reimbursement of cost not included in contract price.
   - Increase or decrease in revenue due to change or variation in scope of work to be performed.
   - Incentives - are additional amounts payable, if performance exceeds agreed targets.

7) **Contract costs consist of the following:**
   Direct or specific costs: Direct Materials, Direct Labour & Direct Expensive.
   Allocable costs: Insurance, Design & technical assistance expenditure & construction overhead costs specifically chargeable under the contract.
   Following costs are excluded from contract costs.
   - General administration cost (unless specifically chargeable under the terms of contracts).
   - Selling cost.
   - Research & Development costs.
   - Depreciation of idle plant & equipment.

8) Costs incurred in securing contracts and pre-contract costs are included in contract costs if it is probable that contract will be obtained, otherwise they will be charged to profit and loss account.

9) Interest costs can be included in contract costs as per AS - 16.

10) Recognition of contract costs & revenue: When the outcome of the contract can be estimated reliably then contract revenue and related costs are recognition as revenue & cost by reference to the stage of completion of the contract activity at the Balance Sheet date. This is also called Percentage Completion Method (PCM). The stage of completion can be determined in a variety of ways:

a) Cost to Cost Method: Compare total cost incurred to date with total estimated cost for the entire contract.

$$\% \text{ of completion} = \frac{\text{Cost incurred to date}}{\text{Cost incurred \& cost}} \times 100$$

Cost to incurred to complete.

b) Survey of work performed.

c) Completion of a physical proportion of the contract work.

11) Contract Revenue Recognition

= Contract Price x % of Completion - Revenue Recognised earlier.

12) Costs incurred to date should exclude material sent but not consumed i.e. material lying at site and any advances paid to sub-contractors.

13) When it is probable that total contract costs will exceed total contract revenue expected loss should be recognition as an expense immediately irrespective of:

- Whether or not work has commenced
- The stage of completion
- The amount of profit on other contracts which are not treated as a single contracts.

14) When the outcome of the contract cannot be reliably estimated then revenue should be recognized only to the extent of costs incurred and of which recovery is possible.

15) Recognition revenue & expenditure in construction contracts is based on estimates. Changes in estimates from year to year are accounted as a change in accounting estimate as per AS - 5. The change is not a prior period item nor an extraordinary item.

16) **Disclosure:** An enterprise should disclose the method used to determine stage of completion and method used to determine contract revenue. In addition to policy disclosure, the following disclosures are also required:

- The amount of contract revenue recognition in the period.
- Contract cost incurred & recognition profit.
- Advance received.
- Gross amounts due from customers should be shown as an asset (costs incurred + recognised profit - recognised loss - progress billing)
- Gross amounts due to customers should be shown as liability (progress billing - costs incurred - recognised profit + recognised loss).

AS – 9 : REVENUE RECOGNITION

1) **AS - 9 is not applicable to :**
   - Construction Contracts (AS - 7)
   - Hire Purchase (AS - 19)
   - Government Grants (As - 12)
   - Insurance Contracts of Insurance Companies (covered by separate statute).

2) Revenue means the gross cash inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from sale of goods, from the rendering of services and from the use by others of the resources of the enterprise yielding interest, royalties and dividends.

3) Revenue does not include certain unrealised & realised gains such as Profit on sale of Fixed Assets, changes in foreign exchange rates, changes in the amount of an obligation & natural increases in herds and agricultural or forest products.

4) For an item to be recognised as revenue it should be measurable and there should be reasonable certainty about its collectibility. It the consideration is not measurable or there is uncertainty about the collectibility even at the time when the claim is raised (e.g. escalation of price, interest, etc.) then revenue recognition is to be postponed to the extent of uncertainty. If uncertainty arises later i.e. after sale has been made or service rendered then a provision should be made to reflect the uncertainty rather than adjust the original revenue itself.

5) **Revenue from sale of goods is recognised when the following conditions are satisfied:**
   1) The sales has transferred the ownership of the goods to the buyer for a consideration OR All significant risks and rewards of the ownership has been transferred to the buyer and the seller does not retain any effective control of ownership of the transferred goods.
   2) There is no significant uncertainty regarding collectibility of the consideration.

6) **Revenue recognition in case of rendering of services is by following 2 methods.**
   1) Completed Service Contract Method (CSCM) : When rendering of a service consists of a single act or more than one act where services not performed are significant then revenue is recognition only when the sole or final act takes place and there is no significant uncertainty about collection of service charge (e.g. installation fees).
   2) Proportionate Completion Method : Revenue is recognition proportionately by reference to each act. Recognition is based on contract values, associated costs, nos. of acts or other suitable basis (e.g. tuition fees).

7) Interest, royalties & dividends are revenue generated due to use of resources of the enterprise by others. Interest is recognised on time basis Royalties are on accrual basis as per terms of the agreement. Dividends are recognition when they are declared in the AGM.
   However, if the above are receivable from other countries which require exchange permission or there is uncertainty regarding the remittance, then revenue recognition has to be on cash basis.

8) **Disclosure :**
   When revenue recognition is postponed the circumstances leading to postpondment should be disclosed.

AS – 18 : RELATED PARTY DISCLOSURES

1) This standard deals only with related party relationships described in (a) to (e) below :

(a) Enterprises that directly, or indirectly through one or more intermediates, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries) ;

(b) Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture ;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual ;

(d) Key management personnel and relatives of such personnel ; and

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member key management in common with the reporting enterprise.

2) In the context of this statement, the following are deemed not to be related parties:

(a) Two companies simply because they have a director in common, notwithstanding paragraph 3(d) or (e) above (unless the director is able to affect the policies of both companies in their manual dealings);

(b) A single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence ; and

(c) The parties listed below, in the course of their normal dealings with an enterprise by virtue of those dealings (although they may circumscribe the freedom of action of the enterprise or participate in its decision - making process) :

- (i) Providers of finance ;
- (ii) Trade unions ;
- (iii) Public utilities ;
- (iv) Government departments and government agencies including government sponsored bodies.

3) Exemptions

(a) Related party disclosure requirements as laid down in this Statement do no apply in circumstances where providing such disclosures would conflict with the reporting enterprises duties of confidentiality as specifically required in terms of statute or by any regulator or similar competent authority.

For example, banks are obliged by law to maintain confidentiality in respect of their customer's transactions and this Statement would not override the obligation to preserve the confidentiality of customer's dealings.

(b) Disclosure of transactions between members of group is unnecessary is consolidated financial statement because consolidated financial statements present information about the holding and its subsidiaries as a single reporting enterprise.

(c) No disclosure is required in the financial statements of state - controlled enterprises as regards related party relationships with other state - controlled enterprises and transactions with such enterprises.

4) Definitions

For the purpose of this standard, the following terms are used with the meanings specified:

Related Party - parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.

Related Party Transactions - a transfer of resources or obligations between related parties regardless of whether or not a price is charged.

Control - (a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or (b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or (c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and / or operating policies of the enterprise.

Significant Influence - participation in the financial and / or operating policy decisions of an enterprise, but not control of those policies.

An Associate - an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party.

A Joint Venture - a contractual arrangement whereby two ore more parties undertake an economic activity which is subject to joint control.

Joint Control - the contractually agreed sharing of power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

Key Management Personnel - those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

Relative - in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his / her dealings with the reporting enterprise.

Holding Company - a company having one ore more subsidiaries.

Subsidiary - a company :

(a) In which another company (the holding company) holds, either by itself and / or through one ore more subsidiaries, more than one - half in nominal value of its equity share capital ; or

(b) Of which another company (the holding company) controls, either by itself and / or through one or more subsidiaries, the composition of its board of directors.

Fellow subsidiary - a company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

State - Controlled Enterprise - an enterprise which is under the control of the Central Government and / or any State Government(s).

5) **For the purpose of this standard, an enterprise is considered to control the composition of-**

(i) The board of directors of a company, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors of that company. An enterprise is deemed to have the power to appoint a director if any of the following conditions is satisfied:

(a) A person cannot be appointed as director without the exercise in his favour by that enterprise of such a power as aforesaid ; or

(b) A person's appointment as director follows necessarily from his appointment to a position held by him in that enterprise ; or

(c) The director is nominated by thast enterprise; in case that enterprise is a company, the director is nominated by the company / subsidiary thereof.

(ii) The governing body of an enterprise that is not a company, if it has the power, without the consent or the concurrence of any other person, to appoint or remove all or a majority of members of the governing body of that other enterprise. An enterprise is deemed to have the power to appoint a member if any of the following conditions is satisfied : Similar to (a), (b) & (c) above.

6) An enterprise is considered to have a substantial interest in another enterprise if that enterprise owns, directly or indirectly, 20 per cent or more interest in the voting power of the other enterprise. Similarly, an individual is considered to have a substantial interest in an enterprise, if that individual owns, directly or indirectly, 20 per cent or more interest in the voting power of the enterprise.

7) Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material intercompany transactions, interchange of managerial personnel, or dependence on technical information.

8) Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

9) Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's - length basis between independent parties. However, that presumption may not be valid when related party relationships exist because related parties may enter into transactions which unrelated parties would not enter into.

10) **Disclosure:** Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.
If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following :

(i) The name of the transacting related party ;
(ii) A description of the relationship between the parties ;
(iii) A description of the nature of transactions ;
(iv) Volume of the transactions either as an amount or as an appropriate proportion ;
(v) Any other elements of the related party transactions necessary for an understanding of the financial statements ;

(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date ; and

(vii) Amount written off or written back in the period in respect of debts due from or to related parties.

The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise :

(i) Purchases or sales of goods (finished or unfinished) ;
(ii) Purchases or sales of fixed assets;
(iii) Rendering or receiving of services;
(iv) Agency arrangements;
(v) Leasing or hire purchase arrangements;
(vi) Transfer of research and development;
(vii) Licences agreements;
(viii) Finance (including loans and equity contributions in cash or in kind) ;
(ix) Guarantees and collaterals; and
(x) Management contracts including for deputation of employees.

Items of a similar nature may be disclosed in aggregate by type of related party.

AS – 7 : CONSTRUCTION CONTRACTS

Q.1. MN Ltd. follows the 'Percentage of completion' method for recognising revenue on construction contracts. From the following particulars made available to you, you are required to determine the results of contracts X,Y and Z to be included in the profit and loss account of the company for the year ended 31st March 2009.

₹ in crores

Contract	X	V	Z
Date of commencement	15.4.06	1.10.06	5.8.05
Expected date of completion	15.5.07	1.7.09	30.4.07
Contract value	₹ 313.00	1,247.00	8000
Advance received and outstanding	20.60	12000	300
Value of work certified	250.00	47.00	75.00
Value of work done but not certified	16.50	20.00	1.00
Progress of payments received (net of advance recovery)	168.00	42.30	52.00
Costs incurred till 31.3.2009	239.00	75.00	72.00
Estimate of costs to complete	17.00	-	9.00
Profits recognised till 31.3.2008	-	-	1.50

Q.2. Rahejas procured a ₹ 5,00,000 contract that required 3 years to complete and incurred a total cost of ₹ 4,05,000. The following data pertain to the construction period:

	Year I	Year II	Year III
Cumulative costs incurred to 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 year	1,00,000	3,70,000	3,00,000
Collections of billings	75,000	3,00,000	1,25,000

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS-7 (using percentage completion basis).

Q.3. Strong Construction Company Ltd. was awarded a contract of construction of a bridge for ₹ 100 crores on 01.06.2007. Total contract cost estimated was ₹ 85 crores. The position of the contract on 31.03.2008 and 31.03.2009 was under :

	As on 31.03.2008	(₹ in crores) As on 31 .03.2009
Contract Price	100	100
Contract Cost incurred up to date	25	95 (100% complete)
Estimated contract cost of Completion	60	NIL

While closing books of account on 31.03.2009, the chief accountant treated excess cost of ₹ 10 crores incurred as against estimated of ₹ (25 + 60) = 85 crores as on 31.03.2008 as mistakes in estimation of cost, hence categorized ₹ 10 crores (95-85) as prior period expense. Comment.

AS – 9 : REVENUE RECOGNITION

Q.1. Suggest a suitable method for recognition of Revenue in following situations:

Group I - Sale of Goods

Situations:

1) Buyer requests delayed delivery, but takes title and accepts billing.
2) Goods sold subject to installation and inspection.
3) Sale of approval .
4) Guaranteed sales (unlimited warranty).
5) General warranties.
6) Consignment sale.
7) Cash on delivery.
8) Series of instalment payments by buyer, leading to delivery only when final instalment is paid.
9) Special order shipments.
10) Sale and repurchase agreements.
11) Sale to intermediate parties.
12) Instalment sales.
13) Subscriptions for publications.
14) Trade discounts and rebates.

Group II - Rendering of Services

14) Advertising agency
    a) Media commission
    b) Production commission
16) Insurance agency commission.
17) Financial services commission.
18) Commission for granting loans.
19) Loan syndication fees.
20) Admission fees.

Q.2. Product warranty: A company offers product warranty. Past experience shows that the company had to expend 6% of sales value of the last accounting year during the current accounting period to fulfil the warranty obligation. Should the company recognise any provision for warranty against sales of the current accounting year?

Q.3. 'A company manufacturing equipment against customers' orders has, at the close of the year, some finished equipment in stock. The company is of the view that as these equipment were made for a particular customer, these should be treated as sales. The Chief Accountant has verified the stock on the last date and found that tag were put on some of the items of the finished stock mentioning that these have been sold to a particular party. In most of the cases, the company is also collecting advances against these orders. Whether by putting tags of sale, can the company treat it as sales for the year though the equipment is not shipped?

Q.4. Media advertising obtained advertisement right for one day world cup cricket tournament to be held in May / June 2009 for Rs.250 lakhs.

- By 31st March, 2009, they paid ₹ 150 lakhs to secure these advertisement rights. The balance ₹ 100 lakhs was paid in April 2007.
- By 31st March, 2009, they processed advertisement for 70% of the available time for ₹ 350 lakhs. The advertiser paid 60% of amount by that date. The balance 40% was received in April 2009.

- The advertisement for balance 30% time was processed in April 2009 for ₹ 150 lakhs.
- The advertiser paid the full amount while booking the advertisement. 25% of the advertisement time is expected to be available in May 2009 and balance 75% in June 2009.
- Calculate the profit / loss for the month of April, May, June 2009.

Q.5. Total sales of a company included a sum of Rs.183 lakhs representing royalty receivable for supply of know-how to a company in South-East Asia. As per agreement the amount is to be received in US Dollars. However, exchange permission was denied to the company in South-east Asia for remitting the same. How should this be treated in the books?

AS – 18 : RELATED PARTY RELATIONSHIP

Q.1. A Ltd. sold to B Ltd. goods having a sales value of ₹ 50 lakhs during the financial year ended 31.3.2009. Mr. X, the Managing Director and Chief Executive of A Ltd. owns nearly 100% of the capital of B Ltd. The sales were made to B Ltd. at the normal selling price of A Ltd. The chief accountant of A Ltd. does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and that too, at arm's length prices. Discuss the above issue from the view point AS - 18.